Hiscox plc Report and Accounts 2004

HISCOX

About the artist

John Virtue (pictured above) went to the top of Somerset House overlooking the Thames every morning while working on his exhibition at the National Gallery. He sketched the landscape into small sketchbooks. Later he would translate those quick drawings into huge wonderful panoramas of London.

We feature the work of John Virtue in this year's Report and Accounts as we have been closely involved with his work over the years culminating in his current exhibition at the National Gallery. I had admired and bought his work before first meeting him during his exhibition at Tate St Ives in Cornwall in 1999. He became a good friend and I had the privilege of being a small part of his journey from his studio in Exeter to the incredible challenge of being Associate Artist at the National Gallery.

I cannot imagine a greater test than being given studio space in such an awe inspiring building and having to make new art for public display amongst the work of world masters in London's greatest Gallery.

John responded with amazing bravery, energy, creativity, discipline and talent. The result was a triumph and we are proud to have been his sponsor. I hope that we can mirror his response to his challenge in our pursuit of excellence at Hiscox.

Robert Hiscox
Chairman

Cover and page 5
Detail of Landscape No. 705, 2003-4
acrylic, black ink and shellac on canvas
244 x 244cm

Facing image
Detail of Landscape No. 706, 2003-4
acrylic, black ink and shellac on canvas
244 x 244cm
Hiscox plc, London

Pages 12-13
Detail of Landscape No. 759, 2003-4
acrylic, black ink and shellac on canvas
305 x 244cm

Photo The National Gallery, London

Page 1
Detail of Landscape No. 663, 2003
acrylic, black ink and shellac on canvas
183 x 183cm
Hiscox plc, London

Page 8
Detail of Landscape No. 658, 2003
acrylic, black ink and shellac on canvas
183 x 183cm
Hiscox plc, London

Photo Ed Reeve

John Virtue: London Paintings is on show at the National Gallery, London (9 March–5 June 2005) sponsored by Hiscox plc.

Photograph of John Virtue courtesy of the National Gallery.

Re-evaluating the landscape

We believe there are parallels between John Virtue's paintings and business behaviour and philosophy at Hiscox. An innovative approach within traditional discipline.

John looks at the landscape more deeply than most. He relentlessly gathers information in his sketchbooks and interprets it in a distinctive view of the world. He has the same information in front of him as others but re-evaluates it to create a new vision.

Hiscox similarly researches deeply the same facts as are available to all, but we aim to bring original thought to the assessment of risk.

John's studies of London (the location of our head office) contain the visceral movement, vitality and excitement of the great City. But there is far more than random sweeps of the brush and spontaneous marks. Underneath is a solid framework of the City landscape giving a hidden structure. He is a painter of instinct and intellect – but also a draftsman with every stroke considered.

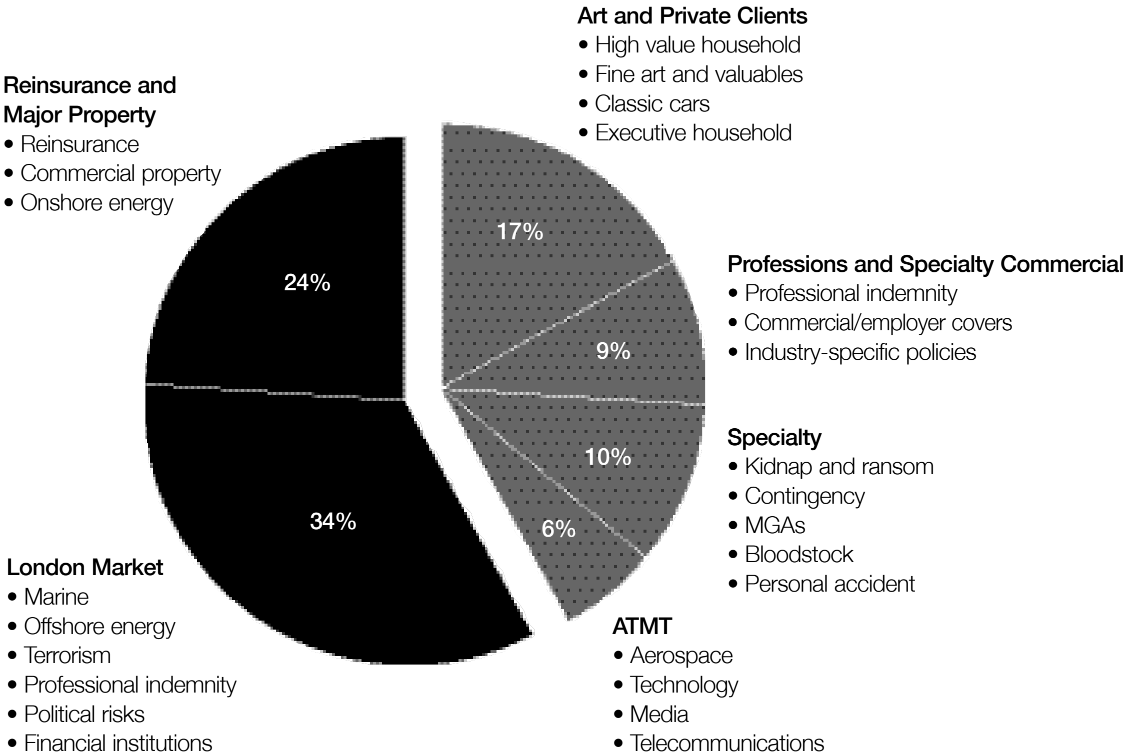
His paintings have been described by a leading art critic as presenting "a complicated negotiation between chance and calculation". We recognise ourselves in that, and like John will strive to emulate his disciplined creativity.

Corporate Highlights

- Record operating profit of **£86.3 million**, after £70 million impact of 2004 hurricane season.
- Final dividend increased **21 per cent**, making a total dividend of **5.0p per share** for the year (2003: 4.2p per share).
- **A strong performance across the Group:**
  - London Market business increased operating profit to **£63.5 million** (2003: £61.5 million) with a combined ratio of **92.9 per cent** (2003: 85.8 per cent)
  - UK Retail increased operating profit to **£18.8 million** (2003: £15.0 million) with a combined ratio of **89.8 per cent** (2003: 90.3 per cent)
  - International Retail increased operating profit to **£4.0 million** (2003: £0.6 million) with a combined ratio of **97.9 per cent** (2003: 98.2 per cent).
- Market conditions in 2005 are more competitive but still **attractive in aggregate**.
- The **growth of retail businesses** to complement the more volatile London Market business has **continued successfully**, and will show real value in the next stage of the underwriting cycle.

	2004	2003
Gross written premiums	£778.9m	£797.4m
Net earned premiums	£642.4m	£547.5m
Operating profit (based on longer term investment return)	£86.3m	£77.1m
Profit before tax	£77.0m	£83.4m
Earnings per share	18.7p	20.9p
Dividend per share	5.0p	4.2p
Net asset value per share (before equalisation provision)	132.8p	119.1p
Group combined ratio	93.0%	87.2%
Post-tax return on capital	16.5%	21.7%

Breakdown of Hiscox plc total controlled GWP by Retail/London Market and product lines:
100% = £1,051 million



Chairman's Statement

"It is pleasing to report another solid profit (in fact a record operating profit) despite an unusually turbulent year of natural catastrophes. It increases the net assets behind the shares and enables us to increase the dividend. We remain on course in our determination to build a highly respected, pre-eminent specialist insurance group."

Results

The results for the year ending 31 December 2004 are a pre-tax profit of £77.0 million (2003: £83.4 million) and an operating profit of £86.3 million (2003: £77.1 million). The net assets per share have increased to 132.8p per share (2003: 119.1p per share) and the earnings per share on profit after tax were 18.7p per share (2003: 20.9p).

The gross premium income underwritten by the Group was £1,051.1 million (2003: £1,083.2 million), and the gross premium income applicable to Hiscox plc was £778.9 million (2003: £797.4 million).

It is pleasing to report another solid profit (in fact a record operating profit) despite an unusually turbulent year of natural catastrophes. It increases the net assets behind the shares and enables us to increase the dividend. We remain on course in our determination to build a highly respected, pre-eminent specialist insurance group, but the upward path of profits and top line growth will not always be smooth given the nature of the insurance business. We can, however, hope to increase the dividend steadily to reward long-term holders of our shares.

Dividend

The Board recommends a final dividend of 3.5p (net) per share (2003: 2.9p per share), making a total distribution of 5.0p per share for the year, an increase of 19 per cent on 2003. This will be paid on 27 June 2005 to shareholders on the register on 15 April 2005. We remain committed to a progressive dividend policy. A policy of total distribution would be very harmful as the Group has an obvious need of capital, and any dividend policy geared to a percentage of profits would be destabilising for long-term shareholders and encourage volatility in the shares.

Current business

The Group has grown in strength and depth over the year. Our strategy of building a strong regional book of retail business to balance the more volatile Lloyd's business continues to succeed. We are also growing our direct account to supplement brokered business. We are not in competition with brokers as we are concentrating on smaller accounts which are uneconomic for brokers, and dealing with clients who wish to place their insurances direct with an insurer.

Our Lloyd's Syndicate 33 absorbed substantial losses from the four hurricanes which hit Florida during the year but still made a similar profit to last year, an unthinkable result a few years ago. This was achieved by good underwriting, but also indicates the strength of rates last year in the international market. There is obviously pressure on some of the best rated business as there always will be, but the renewal season went well. We are back in a normal insurance market after a short period of extraordinary shortage of capacity which enabled very high prices to be charged. Underwriting discipline is the key, backed by a constant search for profitable business and control of expenses. We continue to adhere to the old truth that turnover is vanity, profit sanity. If Lloyd's business gets too competitive we are able to concentrate our resources on the retail business.

Our retail businesses are concentrating on growth in our existing offices outside London (five in the UK and six overseas). They are now well established and we expect them to be an important part of our future. The only regional expansion during the year was the transfer of a member of staff to Madrid to develop our Spanish business, and we are working towards opening an office in the USA. 40 per cent of our business comes from the USA, and a considerable proportion of it is retail business written by Managing General Agents. Our underwriters travel extensively to the USA and it seems sensible to have staff established there to service existing clients and find new ones.

Business conditions are good. There is no doubt that rates have been high and many deserved to be reduced. The problem is that momentum gathers, and brokers get used to reducing rates and underwriters get used to cutting them. I will state, as all Chairmen and Chief Executives will, that we will exercise discipline and refuse to reduce rates to uneconomic levels. No sensible leader could say anything different. Most then demand growth from their staff, seeming to ignore that the only way you can grow is by winning business off the competition, and virtually the only way to do that is to quote a reduced premium. Many underwriting businesses monitor changes in rates at renewal, and announce small reduction percentages so the Chief Executive is happy that discipline reigns and that it is the others who are cutting rates. But do they monitor the amount they cut the existing rates of other insurers to win new business?

> "We continue to adhere to the old truth that turnover is vanity, profit sanity."

This Chairman and our Chief Executive and Chief Underwriter are acutely aware of all the tricks and traps in the cycle. We have a team at the top who have been up and down and up the cycle a few times, and we know that remaining up when others are down is deeply satisfying and good for the shareholders. Discipline is the key. The difference with this cycle and others is that reinsurance, which normally leads and encourages the downward spiral of rates, is remaining firm and hard to buy. This should keep direct underwriters realistic as they will not be able to pass the results of bad underwriting on to their reinsurers.

Regulation

I am devoted to rigorous and sensible regulation aimed at maintaining the solvency of general insurers. We lose business to suicidal rate cutters and then have to help pay for their abandoned policyholders after their inevitable insolvency. So I accept a rigorous analysis of our underwriting and reserving by those who understand the business.

On the rest of our commercial activities, my view is that there should be draconian penalties for dishonesty or gross negligence

Chairman's Statement continued

> "We have a talented group of people with stable senior management, all of whom are committed to growing a top quality insurance business."

in running a business, but far fewer petty rules for all. I am not surprised that removing road signs reduces accidents. If businesses were forced to use their own instinct, moral sense and common sense in managing their enterprises instead of ticking boxes in obedience to 'one size fits all' corporate governance rules, I am sure that fewer mishaps would occur and honest profits would be higher.

Our business is heavily scrutinised by the FSA, with an added layer of Lloyd's regulation on top and another of corporate governance rules from various bodies. The Lloyd's rules are packed with prescriptive little directives. On the other hand, the FSA's rulebook is very principles-based which leaves us crying out occasionally for a prescriptive rule, rather than trying to guess what will satisfy them. The occasional road-sign is very useful. As an example, despite all the instructions on how to run our business from all those entities, it has taken Mr Spitzer from New York to put the spotlight on the inappropriate manner in which the whole insurance industry handles remuneration, with brokers negotiating their remuneration from underwriters instead of their clients, with the obvious pressures and conflicts. A golden opportunity has arisen to change the structure of our industry for the benefit of all, but the FSA stands back.

We will continue to work with our insurance brokers to bring transparency and commercial common sense to how we do business together, but we are dealing with a very disparate group of businesses and it would be of enormous benefit if the FSA joined in to bring some common standards. When you think of all the time and money spent on regulation and corporate governance, it is amazing that reform has to come from New York, and that all the brains in the FSA and the ABI do not immediately take up the challenge. But it is much easier for them to fuss about increasing the size of our Report and Accounts with pages of information that bear little relation to our capability to make sensible business decisions.

People

Despite the burden of regulation and a year of extraordinary losses, everyone at Hiscox has worked with cheerful, vibrant efficiency and made a substantial profit. The atmosphere and spirit throughout the Group is a credit to all who work in it, as is the profit, and I would like to thank them sincerely.

The future

I offer six good reasons why I believe we have a strong future.

Insurance is a great business. Everybody has to have it, there is never a shortage of demand, and as the world prospers, as life becomes more complicated and as litigation sadly grows, so does the need for insurance.

We have a talented group of people with stable senior management, all of whom are committed to growing a top quality insurance business.

We have the wonderful advantage of being able to use Lloyd's for internationally traded business and our regional offices and companies for local retail business. We focus on our specialist areas (both of business and geographically) which have substantial growth potential and we stick to our knitting.

We are developing a strong brand to increase demand for our products both through brokers and through our growing direct business.

We have no legacy problems whereas the need to bolster reserves is eating away at the established insurance industry.

The management is aligned with shareholders and is determined to achieve long-term growth in profitability leading to steadily increasing dividends, growth in net assets and earnings per share, and a higher share price.

Robert Hiscox

Robert Hiscox
Chairman
14 March 2005

Chief Executive's Report

"2004 was another good year for Hiscox. Our Lloyd's business produced another strong result, despite the severity of natural catastrophes. Our UK business has also performed well, with an improved underlying combined ratio, and our International business, particularly mainland Europe, has made good progress."

Market conditions are changing. The ability to make profit easily in all classes will disappear over the next 24 months. Risk selection and underwriting focus will be the key to continued success. Our ability to move our focus from big ticket international business, to smaller retail business, distributed through our 11 offices gives us an edge. Our talented and experienced team have seen cycles before, so we are confident we can adapt to this market. Our underlying profitability will allow us to build our balance sheet, reduce gearing, acquire the balance of Syndicate 33 on a gradual basis and fund incremental expansion without recourse to shareholders.

Group strategy

Our Group strategy remains unchanged. Our goal is to build a profitable specialty insurer, focused on specific product lines and geographic markets. With this specialist focus, we ensure that we can meet and exceed clients' needs and expectations. We continue to focus on markets where our flexibility and agility gives us a distinct advantage over larger competitors whose scale works against them. Within this strategy our long-term focus has been to build our smaller ticket retail business – in the UK, Europe, and globally through Syndicate 33 – to balance the more volatile bigger ticket business we write solely through Syndicate 33 at Lloyd's.

We are succeeding in this goal. Retail business now represents over 40 per cent of the Group's controlled premium income, an increase from 25 per cent in 1994, and is now larger than the entire Group was in 1994. To extend this strategy during the year, we opened our business centre in Colchester and allocated additional resources to our UK Regional offices. We expect to continue this retail focus in 2005. In line with our desire to grow as a specialty insurer and to find new opportunities, we are planning to open an office in the USA in the near future. Hiscox already receives 40 per cent of its business from this market. By having a local presence we should be able to identify new demands and brokers, and to complement our business through the traditional London brokers.

Trading conditions

Market conditions remained favourable in 2004. Prices were reasonable in all areas of our business with softening most prevalent in those areas where rates had risen to exceptionally high levels. 2005 has started well. Rates on renewal business remain acceptable but there is more pressure with new business where, in some areas, we are seeing competitors offer rates close to breakeven levels.

The trends in each of our divisions are reviewed below:

Art and Private Clients

We created this division last year, bringing the underwriting of this important area under common management. The benefits of this have been to unify and simplify the interface with brokers, and to ensure that we are able to underwrite large fine art and household risks through all of our European offices as well as our Lloyd's operation. There has been increasing competition in the market in London as some of the international giants appear to be underwriting in this area as a hobby without proper oversight and discipline. In the face of increasing competition in London, we have intensified our efforts in the UK Regions and are developing our European business. In addition, we launched a reinvigorated 'Fine Art by Hiscox' product, which will help us grow our stand-alone fine art book on a pan-European basis. We had a limited involvement in the fire at the Momart storage facility, the industry's largest insured art loss since 1991.

Our Executive Household team provides high value household and contents insurance for customers direct or through partnerships with professional associations and commercial organisations. It has had a good year, growing through both channels.

We are embarking on higher profile marketing activities in 2005 to stimulate new business for both our broker and direct channels.

Specialty

This team focuses on contingency, kidnap and ransom, personal accident, bloodstock and American managing general agents servicing homeowners and small commercial businesses. Rates have remained stable. Our kidnap and ransom team continues to lead the world, benefiting from their long-term partnership with the Control Risks Group. Our homeowners and small commercial book was impacted by the windstorms in Florida. We expect to obtain rating increases on these risks as they come up for renewal in the early part of 2005.

In early 2005 we purchased Insurex Expo-Sure, a UK-based underwriting agency which provides insurance for events, conferences and exhibitions. The acquisition builds upon an existing long-term relationship with Insurex, and has much potential for future growth. We plan to use our regional and European offices as a distribution network for smaller risks, and our large business team in London with their extensive experience of insuring international events to underwrite larger risks.

"Our Group strategy remains unchanged. Our goal is to build a profitable specialty insurer, focused on specific product lines and geographic markets."

Professions and Specialty Commercial

This division continues to focus on professional firms and emerging advisory and service-led businesses in the UK. We provide coverage for errors and omissions and are expanding our portfolio to cover associated commercial risks relating to both property and liability exposures. Our primary target is the small and smallest firms in this target market. We have market-leading expertise in providing these insurances, both in terms of underwriting knowledge and in processing skills and efficiency.

Whilst we have the expertise to underwrite larger traditional risks, there has been significant pricing pressure in this area and we have deliberately avoided this market segment over the last 12 months. Instead,

our renewed focus on smaller business risks has achieved growth both in London and in the UK Regions. We are also developing our capacity in this area in Europe and I expect it to become a strong contributor to the business in the years ahead.

In the UK we will be launching a new professional indemnity product targeting the smallest firms and individual freelance consultants. This will be a no-frills version of our existing professional indemnity product and will be available through a number of distribution channels.

> "The reinsurance market is seeing the benefits from the introduction of improved natural perils statistical modeling over the last decade."

Aerospace, Technology, Media and Telecommunications

The trading environment in these segments remains reasonable. During 2004 we successfully expanded our technology, media and telecommunication client base outside London to the UK Regions, the USA and France. This growth has been achieved by a combination of local deployment of underwriters, more global travel by the team and the introduction of a new e-commerce system which is encouraging greater business flow from the USA. Despite competition in the UK from the international players, our worldwide reputation in these sectors continues to grow. This is based upon our focus on risk management and a pro-active claims team which draws upon a huge wealth of experience in this sector when assisting our clients with their claims.

London Market

This division underwrites marine hull and liability, offshore energy, terrorism, international professional indemnity and political risks. The teams within this division continue to adapt to market changes in their individual areas. Our terrorism team is a market leader, with the ability to underwrite significant risks from around the world, and an e-commerce platform which allows us to underwrite smaller risks on a distributed basis. In the marine hull and liability area, rates remain reasonable, although we are seeing some evidence of irrational behaviour in some international markets. The marine account benefited from the acquisition of renewal rights for business placed with Marlborough Underwriting Agency. This allowed us to renew £11 million of business on good terms. The offshore energy and energy liability team has performed well in 2004. Despite the impact of Hurricane Ivan which caused one of the biggest losses in the sector on record, they have delivered a small overall profit. This result reflects skill in creating a balanced book and discipline in the face of pricing pressure.

The professional indemnity team delivered controlled growth in 2004, taking advantage of our position in this market. Our intention in 2005 is to focus on smaller less competitive risks where we see continued opportunity.

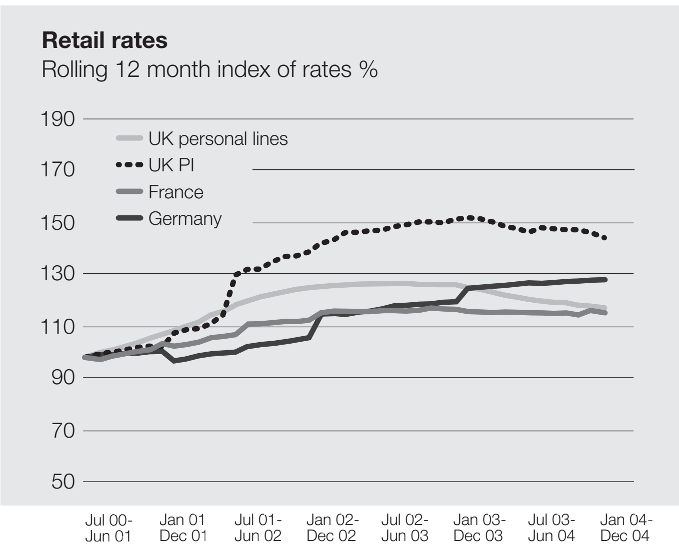
Reinsurance and Major Property

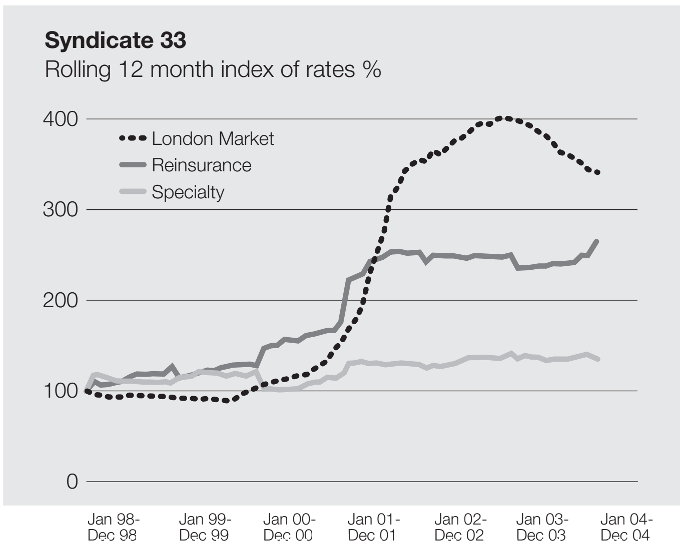
This team focuses on various classes of reinsurance on both an excess of loss and pro-rata basis, and the insurance of major industrial and commercial property. Rates in reinsurance continue to offer good margins. The four hurricanes which made landfall in the USA tested the nerve of the industry, and reminded us all that risk should only be assumed at the right price. During the December renewal season, reinsurance rates in the US were stable overall, with prices for risks in Florida increasing, with reductions occurring elsewhere. International catastrophe reinsurance rates have been under pressure as a result of over-capacity. Unfortunately, this is driven as much by older professional firms as by new entrants. We are now reducing the large pro-rata reinsurance account created between 2001 and 2003 as some of the underlying rates are beginning to ease.

The reinsurance market is now seeing the benefits from the introduction of improved natural perils statistical modeling over the last decade. This is bringing greater discipline and transparency to the market. Hiscox combined the major property team with the reinsurance team this year in order to embed and apply this modeling and statistical expertise consistently over the two areas. As stated last year, big ticket property rates are under significant pressure as the market is showing insufficient discipline in applying technical knowledge to pricing. In 2005 we will be reducing our property line size to ensure that we are not over exposed in a softer market. We intend continuing with our selective approach to risks, shedding business as necessary, motivated by the conviction that discipline will pay off over time.

Group financial performance

In 2004 the Group achieved an operating profit of £86.3 million (2003: £77.1 million). This is a good performance especially as it has been achieved in one of the worst years ever for insured natural catastrophes. The net cost of the four hurricanes to Hiscox plc was £70 million.





Pre-tax profits were £77.0 million (2003: £83.4 million). The lower pre-tax profit reflects the fact that in 2004 the actual investment return was less than the assumed longer term rate of return. In 2003 it was higher. Hiscox plc had an after-tax return on opening equity of 16.5 per cent (2003: 21.7 per cent). Earnings per share on the basis of profit after tax were 18.7p (2003: 20.9p). Our net asset value before equalisation provisions at the year end was 132.8p per share (2003: 119.1p). These results all reflect a credible performance.

Hiscox Insurance Company which comprises the UK and European retail businesses, achieved gross written premium of £231.4 million (2003: £218.7 million) and an operating profit of £19.6 million (2003: £14.5 million). Its combined ratio was 92.6 per cent (2003: 93.6 per cent).

London Market

This business consists of our share of the profits of Syndicate 33, fees and profit commission from third party capital and the return on the capital which supports the business. Operating profits of £63.5 million were achieved (2003: £61.5 million). This business performed exceptionally well considering it bore the brunt of the weather-related catastrophes which impacted our business. The combined ratio was 92.9 per cent (2003: 85.8 per cent).

We do not expect our Lloyd's business to grow in aggregate over the short-term and, as announced, we have planned for a capacity of £775 million in 2005 (2004: £846 million). However, Hiscox plc will benefit from the sustained strong rating environment and from its increased ownership of Syndicate 33. During the auction season we increased our ownership of Syndicate 33's 2005 capacity to 71 per cent (2004: 65 per cent). In the medium-term, we expect our Lloyd's business to benefit once we have established the US office, as we plan initially to use Lloyd's security for this operation.

UK Retail

Our UK Retail Business achieved an increase in operating profit to £18.8 million (2003: £15.0 million). Gross written premium grew to £175.7 million (2003: £174.6 million), despite the loss of a £20 million book of commodity business. The combined ratio was an excellent 89.8 per cent (2003: 90.3 per cent) better than our target of 95-98 per cent. We see continued potential to expand this business. We have opened a business centre in Colchester and expect to open a branch office there during the course of 2005. Our direct business continues to grow and during the year hit the 10,000 customer mark. It has been particularly successful in building a customer base from partnership relationships with major financial institutions and membership organisations.

International Retail

This area includes the business written in our mainland European offices and through our insurance company in Guernsey. In aggregate they had a significantly better year. Hiscox Guernsey has continued to sustain its excellent performance achieving an operating profit of £2.8 million (2003: £2.3 million). This continued performance reflects our leading position in the worldwide kidnap and ransom market. Our offices in mainland Europe delivered a much improved performance, achieving an operating profit of £1.2 million (2003: £1.7 million loss) and an improved combined ratio of 102.1 per cent (2003: 107.4 per cent). We are not yet satisfied with this level of performance, but the trend is in the right direction. Our strategy is to build on the footholds we have created in our existing markets and to gain economies of scale. During 2005, we will be seeking to broaden our product range drawing on the lessons that we have learnt in the UK.

Investment Management

Hiscox plc's invested assets grew by £236 million to £1,062 million during the year and produced a return of £32 million (2003: £39 million). The increase in cashflows from the strong underwriting market meant that there was more money invested but 2004 presented a difficult investment market. This was particularly so in US fixed interest where a substantial proportion of our assets are invested. Interest rates in the US continued at their low level and rather than take on more risk in search of higher yield, we adopted a conservative strategy, investing with a short duration. As a result our investment returns were below our assumed long-term

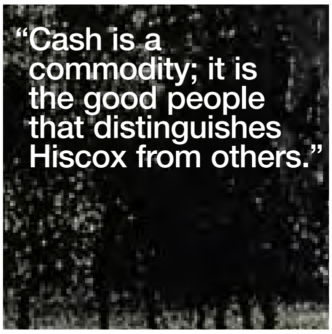
London Market result	2004 £m	2003 £m
Gross written premium (100%)	**784.1**	827.3
Hiscox plc share of gross written premium	**511.9**	541.4
Trading result	**69.0**	69.3
Other income less expenses	**(2.1)**	(4.4)
Loan interest, goodwill and capacity amortisation	**(3.4)**	(3.4)
Operating profit	**63.5**	61.5
Combined ratio (100% basis)	**92.9%**	85.8%

Retail business results	UK 2004 £m	Europe 2004 £m	Guernsey* 2004 £m	UK 2003 £m	Europe 2003 £m	Guernsey 2003 £m
Gross written premium	**175.7**	**55.7**	**35.6**	174.6	44.2	37.2
Net premiums earned	**137.9**	**42.5**	**17.6**	132.2	29.6	18.9
Operating profit/(loss)	**18.8**	**1.2**	**2.8**	15.0	(1.7)	2.3
Combined ratio	**89.8%**	**102.1%**	**91.1%**	90.3%	107.4%	90.6%

*2004 GWP $68.4m: 2003 GWP $66.2m.

rate of return, producing an overall return for the year of 3.3 per cent. We increased our exposure to equities at the beginning of the year, having sold the majority of the high yield debt portfolio. The strong rally in equities at the end of the year produced a return on equities for the year of 10.2 per cent.

Through our Hiscox Investment Management subsidiary we now manage the investment of £1.6 billion against £1.2 billion a year ago. We supervise fund managers, both in the UK and USA, who invest our Group assets. Our specialist Financial Funds, which we manage ourselves, produced positive returns for all four funds in the year. The US Financial Fund had its tenth anniversary in November, which over the decade produced a compound return of 14.7 per cent p.a.



Balance sheet

Shareholders' funds have grown from £330 million to £372 million. Net assets per share before equalisation provisions at the end of year were at 132.8p (2003: 119.1p). This performance is key to driving shareholder value as this underlying asset value provides strong support to our share price. Cash and financial assets within our controlled group grew to £1.4 billion (2003: £1.1 billion), demonstrating the overall financial health of the Group. We have continued with our stand by Letter of Credit of £137.5 million. We plan to re-finance this during the course of 2005. We expect to use our retained earnings over the next several years to decrease our balance sheet leverage, to provide us with the financial flexibility to acquire the balance of Syndicate 33 and to fund incremental expansion.

International Financial Reporting Standards

In common with all listed companies within the European Union, the Hiscox plc consolidated accounts will be prepared in accordance with International Financial Reporting Standards (IFRS), with effect from the 2005 financial year. 2004 results will be restated for IFRS in the summer of 2005 and results for the first half of 2005 will be under IFRS.

People

An insurance company can be described as no more than a pile of cash and a bunch of good people. Cash is a commodity; it is the good people that distinguishes Hiscox from others. These results reflect the hard work and endeavours of the 500 people who work within our organisation. We were pleased to again be rated as one of the Top 100 Companies To Work For, in the annual Sunday Times survey.

Insurance can sometimes be a cruel business, with actual results not always reflecting the hard work or the skill of the people in the business. Despite the inevitable disappointments arising from the hurricanes and other large losses, our staff remain positive and driven. We will never be complacent about what we have achieved and the challenge for all of us is to keep developing the business and finding new pockets of opportunity despite a softening market. We also realise that there will be moments when winning will be saying no to a piece of business. Turning business away is always difficult, but it is a challenge to which we will rise.

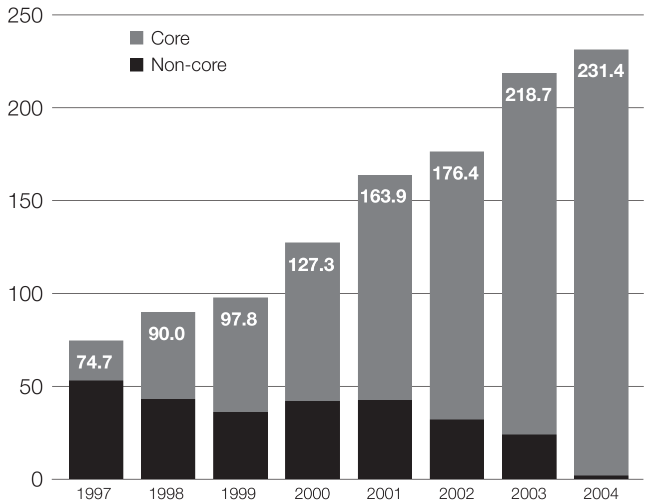
Outlook

In the short-term, we expect our Lloyd's business to reduce as we retain a focus on disciplined and profitable underwriting. Growth will be achieved through developing our retail businesses where there is strong appetite for our specialist products and through increased ownership of the syndicate's capacity.

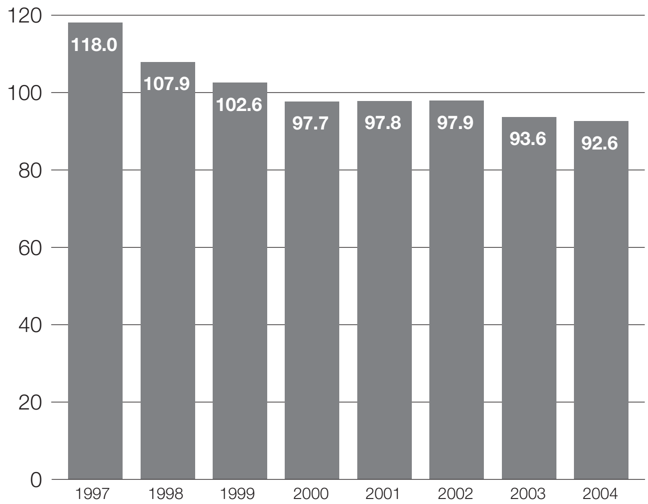
The insurance world is returning to normal. Price increases driven by fear are a thing of the past. Prices remain at attractive levels in aggregate, but clearly as the cycle develops certain areas will be less attractive than others. Hiscox is well placed to continue to deliver in this environment through the quality of our products and people and our consistent strategic focus. The Hiscox management team has been stable and has worked together through more than one cycle. We have not forgotten the lessons of the past, but are not bound by them. We will continue to strive to deliver a continuous growth in the value of the business over the time that lies ahead.

Bronek Masojada
Chief Executive
14 March 2005

Hiscox Insurance Company
Gross written premium
£m



Hiscox Insurance Company
Combined ratio
%



Directors and Advisors

1 2 3 4

5 6 7

Executive directors

Robert Ralph Scrymgeour Hiscox[2]
Chairman (Aged 62)
Robert Hiscox joined the Group in 1965. He was Deputy Chairman of Lloyd's between 1993 and 1995.

Bronislaw Edmund Masojada[1]
Chief Executive (Aged 43)
Bronek Masojada joined the Group in 1993. From 1989 to 1993 he was employed by McKinsey and Co. He was Chairman of the Lloyd's Underwriting Agents Association from 1998 to 2001. He is currently Deputy Chairman of Lloyd's and President of The Insurance Institute of London.

Stuart John Bridges[3]
Group Finance Director (Aged 44)
Stuart Bridges is a qualified chartered accountant, who joined the Group at the start of 1999. He has held posts in various financial service companies including Henderson Investors plc.

Robert Simon Childs[4]
Director of Underwriting (Aged 53)
Chairman of the Lloyd's Market Association, Robert Childs has been Underwriter of Syndicate 33 since 1993. He joined the Group in 1986.

Independent non-executive directors

Stephen Hargreaves Hall[7]
Senior Independent Director Chairman of Audit Committee (Aged 71)
Stephen Hall was a partner in Ernst & Young from 1962 to 1993 and acted as Director of Finance at Lloyd's from 1993 to 1994. He joined the Group on 24 August 1995.

Derek Nigel Donald Netherton*
Chairman of Investment Committee (Aged 60)
Derek Netherton was previously a Director of J. Henry Schroder & Co. Limited and is currently Chairman of Greggs plc and a non-executive director of Next plc and St James's Place Capital plc. He was also a member of the Supervisory Board of the Schroder Exempt Property Unit Trust until 12 February 2004 and a non-executive director of Plantation & General Investments plc until June 2004. He joined the Group on 6 August 1999.

*Derek ND Netherton was unavailable at the time of the photo shoot.

Anthony Howland Jackson[5]
Chairman of Remuneration and Conflicts Committees (Aged 63)
Anthony Howland Jackson was previously Chairman of Bain Hogg plc and Deputy Chairman of Aon UK Holdings Limited. He was Chairman of The General Insurance Standards Council until 3 January 2005. He joined the Group on 8 May 1997.

Carol Franklin Engler[6]
Chairman of Nominations Committee (Aged 53)
Carol Franklin Engler is the Ombudsman for the Swiss telecommunication industry and an executive director of the Swiss National Museum. She was the Chief Executive Officer of the World Wide Fund for Nature in Switzerland until the end of 2001. From 1979 to 1999 she was employed by Swiss Re in a variety of roles including Head of the Aviation Department and Head of Human Resources. She is currently a non-executive director of Citron plc and Prime Forestry Switzerland AG. She joined the Group on 12 August 1999.

Secretary
Stuart John Bridges

Registered Office
1 Great St Helen's
London EC3A 6HX

Registered Number
2837811

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Tax Advisors
PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

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

Stockbrokers
UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Committee membership

	Audit Committee	Attendance	Remuneration Committee	Attendance	Nominations Committee	Attendance
Stephen Hargreaves Hall	3	100%	3	100%	3	100%
Anthony Howland Jackson	3	75%	3	100%	3	100%
Derek Nigel Donald Netherton	3	100%	3	100%	3	100%
Carol Franklin Engler	3	75%	3	100%	3	100%
Robert Ralph Scrymgeour Hiscox	–	–	–	–	3	100%

There have been four main Hiscox plc Board meetings during the year. There has been a 100% attendance by all directors at these meetings.
3 = member of committee.

Corporate Governance

The Combined Code
Hiscox is committed to high standards of corporate governance, and for the year ended 31 December 2004, and the period up to the date of approving the accounts, the Group has applied the principles and complied with the provisions of the revised Combined Code published in July 2003.

The Board of directors
The Board comprises four executive directors and four independent non-executive directors, including a senior independent director. Brief biographical details for each member of the Board are provided on page 15.

The roles and activities of Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board and overall strategy, and the Chief Executive has executive responsibility for running the Group's business.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election by the shareholders at least every three years.

The Board believes that SH Hall's character and objectivity makes him an independent director.

Any director may seek independent professional advice at the Company's expense. A copy of the advice is provided to the Company Secretary who will circulate to all directors. No such advice was sought during the year.

The Board meets at least four times a year and operates within established terms of reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities.

The Board delegates operational management of the trading entities and divisions to their own boards but reserves certain matters for itself, including: setting group strategy, approving significant mergers or acquisitions, approving the financial statements, approving Group business plans and budgets, approving major new areas of business, approving capital raising, setting Group investment guidelines, approving the directors' remuneration, approving significant expenditure or projects, and approving the issue of share options.

The Board's committees
The Board has appointed and authorised a number of committees to manage aspects of the Group's affairs. Each committee operates within established written terms of reference and each chairman reports directly to the Board.

The Audit Committee
The Audit Committee comprises four independent non-executive directors. It meets at least four times a year to assist the Board on matters of financial reporting, risk management and internal control. The internal and external auditors have unrestricted access to the Audit Committee, which monitors the scope, results and cost effectiveness of the external audit, the independence and objectivity of the auditors, and the nature and extent of non-audit work together with the level of related fees. All non-audit work with fees greater than £50,000 must be pre-approved by the Audit Committee. KPMG Audit Plc has confirmed to the Audit Committee that in its opinion it remains independent. The Committee is satisfied that this is the case.

The Risk Committee
The Risk Committee comprises the Chief Executive, the Group Finance Director, the Head of Compliance & Internal Audit, and a senior manager from each of the Global Markets and Retail arms of the Group. It meets monthly to monitor the risk management framework and reports directly to the Board and the Audit Committee.

The Remuneration Committee
The Remuneration Committee comprises four independent non-executive directors and meets at least twice a year. The Committee recommends to the Board a framework of executive remuneration and its cost. The Committee will also determine on the Board's behalf the specific remuneration packages for each of the executive directors, including pension rights and any compensation payments. The Board's remuneration report is presented on pages 18 to 20.

The Conflicts Committee
The Conflicts Committee comprises all the independent non-executive directors. It meets as and when required. Should a conflict of interest arise between Group entities, there is a formal procedure to refer the matter to this Committee.

The Nominations Committee
The Nominations Committee comprises the Chairman and all the non-executive directors. It meets as and when required to deal with appointments to the Board. The Committee met once during the year.

The Executive Group and the Group Management Team
Two key management committees, the Executive Group and the Group Management Team, head the Group's organisational structure. These committees meet weekly and manage the Group's business operations in order to achieve the Board's strategic business objectives.

Performance evaluation
During the year the performance of the Board and its main committees, and of the ten individuals who serve on them, has been formally evaluated. This evaluation comprised a number of reviews, internal and external, to form an overall and dispassionate view of the performance of the individuals and the groups.

The main elements in the evaluation process were:

– For executives, excluding the Chairman, a formal annual appraisal and a formal annual development review;
– For the non-executive directors a formal one-on-one meeting with the Chairman;
– An evaluation questionnaire completed by all Board members;
– Meetings of the non-executive directors without the presence of any executives;
– Meetings of the non-executive directors with the Chairman present;
– A full review of the workings and interactions of this group of individuals by external consultants People in Business (PiB) which included interviews with the ten individuals and a significant number of other senior individuals in the Group. This resulted in a number of feedback sessions from PiB including one with the non-executive directors;
– In addition to this there has been significant and frank debate in Board meetings about the operation of the Board.

The evaluation process concluded that the Board and its main committees had functioned well during the year and that the individuals had also performed well, with each making a significant contribution to the Company. The mix of skills on the Board was felt to be appropriate and worked well. The issues identified during the evaluation, such as whether additional time needs to be devoted to the Company in 2005, have been thoroughly discussed and action plans have been put in place.

Shareholder communications
Ongoing communication with private and institutional investors is a top priority for the Board.

The executive directors communicate and meet directly with shareholders and analysts throughout the year, and do not limit this to the period following the release of financial results or other significant announcements.

All directors attend the AGM and a non-executive director attends the six-monthly analysts meeting. The Company also commissions independent research on feedback from shareholders and analysts on a regular basis following the Company's results announcements. This research together with the analyst's research notes are copied to the non-executive directors in full. The Chairman attends a number of shareholder meetings as well as speaking at the analysts presentations. In addition any specific items covered in letters received from major shareholders are reported to the Board.

Major shareholders are invited to request meetings with the senior non-executive director and/or the other non-executive directors, and they have been given the contact details of the senior non-executive director.

In addition to this direct communication, information is continually provided to shareholders via stock exchange announcements and the Hiscox website.

The annual report and accounts are sent to all shareholders, and further copies are available directly from Hiscox, via the FT report and accounts service, or through the Hiscox website, www.hiscox.com.

Embedded risk management framework

The directors are responsible for operating the system of risk management and internal control and for reviewing its effectiveness. This covers all aspects of risk including insurance risk, market risk, credit risk, operational risk and liquidity risk. This management system includes a variety of processes to identify, assess and manage the different classes of risk in the manner most appropriate to each class. The Board has conducted a review of the effectiveness of internal controls during 2004.

Hiscox acknowledges that it is neither possible, nor desirable, to eliminate risk completely and the system can only provide reasonable and not absolute assurance against material misstatement or loss. The constant aim is to be fully aware of the risks to which the business is exposed and to manage these risks to acceptable levels.

Key senior management responsibilities are clearly identified together with their reporting lines to the relevant executive directors. Terms of reference and reporting lines are in place for all key decision-making and monitoring committees including the committees mentioned above.

The execution of each delegated responsibility, by individuals and committees, is closely monitored by regular reporting to, and challenge by, the Board and its committees. This monitoring, supported by financial and non-financial management information, covers performance against agreed targets and objectives, as well as the risks to achieving these objectives and the effectiveness of the measures in place to manage these risks. Feedback and discussion within this reporting structure allows the Board to determine, communicate and enforce its appetite for the various risks to which the business is exposed.

Hiscox's culture of open communication and delegated responsibility allows this framework of embedded risk management to function well throughout the organisation.

Risk areas

Insurance risk:
The Group's insurance portfolios are managed in accordance with the Board's appetite by the Director of Underwriting using a wide range of analytical, monitoring and review tools. Delegation of underwriting authority internally and externally is linked to competence and regularly monitored. Reinsurance purchase is controlled centrally. The insurance and reinsurance portfolios are modelled extensively using a range of realistic disaster scenarios and statistical modelling processes.

Market risk:
Managing the risk of price fluctuations in the insurance market is the responsibility of the Director of Underwriting, supported by a range of forecasting processes using hard and soft internal and external data.

The Board's appetite for investment risk is expressed in the investment strategy which is implemented by a number of external investment managers who are monitored and controlled by the in-house investment function. Currency exposure is managed by the Group Finance Director through hedging where appropriate.

Credit risk:
Management of credit risk is the responsibility of the Group Finance Director. The Board's appetite for credit risk from clients, distributors and reinsurers is expressed in terms of limits and thresholds which drive the risk acceptance and credit control processes.

Operational risk:
The different types of operational risk are managed by different specialist senior managers. A wide variety of metrics and processes are used to monitor and control key operational risk matters such as projects, systems, compliance, distribution, outsourcing, competence and continuity. The Board, its subsidiary boards and committees receive regular reports on relevant operational risk areas.

Liquidity risk:
This is managed by the Group Finance Director through extensive cash flow planning and forecasting. This is closely linked to the management of investment risk to ensure opportunities are maximised within the parameters of the Board's risk appetite.

Indirect assurance over risk management

In parallel with its direct monitoring processes described above, the Board has internal audit and the Risk Committee as additional indirect means to monitor and review the effectiveness of risk management throughout the organisation.

Internal audit

The internal audit function is responsible for providing independent assurance directly to the Audit Committee on the adequacy and effectiveness of the Board's system of risk management and internal control. This assurance is provided by means of an agreed programme of review, responsive work and direct reporting of significant issues.

Internal audit is also responsible for making recommendations at all levels where risk management may be usefully improved and for reporting the acceptance and implementation of significant recommendations to the Audit Committee.

This function also independently tracks and reports to the Audit Committee on the implementation of its own recommendations and those of the external auditors.

Risk Committee

This high-level committee, chaired by the Chief Executive, is responsible for monitoring all the risk management activities operating within the organisation and reporting significant issues to the Board and the Audit Committee.

It also plays an important role in promoting and developing good risk management practice as well as identifying emerging risks and recommending appropriate risk management strategies.

The Committee receives information from internal audit as well as conducting its own reviews at strategic, tactical and operational levels.

Directors' Remuneration Report

This report sets out the remuneration policies for the Group's senior executives, including the executive directors, for the next and future financial years. It should be read in conjunction with the details of directors' remuneration on pages 47 to 51 which form the audited part of this Remuneration Report. The members of the Remuneration Committee are identified on page 15.

None of the Committee has any personal financial interest (other than as shareholders) or conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No director plays a part in any discussion about his or her own remuneration.

Remuneration policy

The Remuneration Committee recommends to the Board a framework of executive remuneration and its cost. The Committee will also determine on the Board's behalf the specific remuneration packages for each of the executive directors, including pension rights and any compensation payments.

The general philosophy underlying the Group's remuneration policy for its senior executives, including executive directors, is the same as that applied to all employees, i.e. to attract and retain quality staff and to encourage and reward superior performance.

Remuneration elsewhere in the Group is considered in determining directors' remuneration.

Remuneration elements

There are four components to the remuneration package: base salary and benefits, annual cash bonuses, long term incentive arrangements and pensions.

Base salary and benefits

The Remuneration Committee utilises reports provided by Watson Wyatt as independent consultants, and other publicly available reports, in its consideration of what comparable companies are paying and in setting annual salaries and other benefits. Using this information as a benchmark, and taking into account current economic and operational conditions, salary levels are determined for each individual which take into account experience, skills, development and performance.

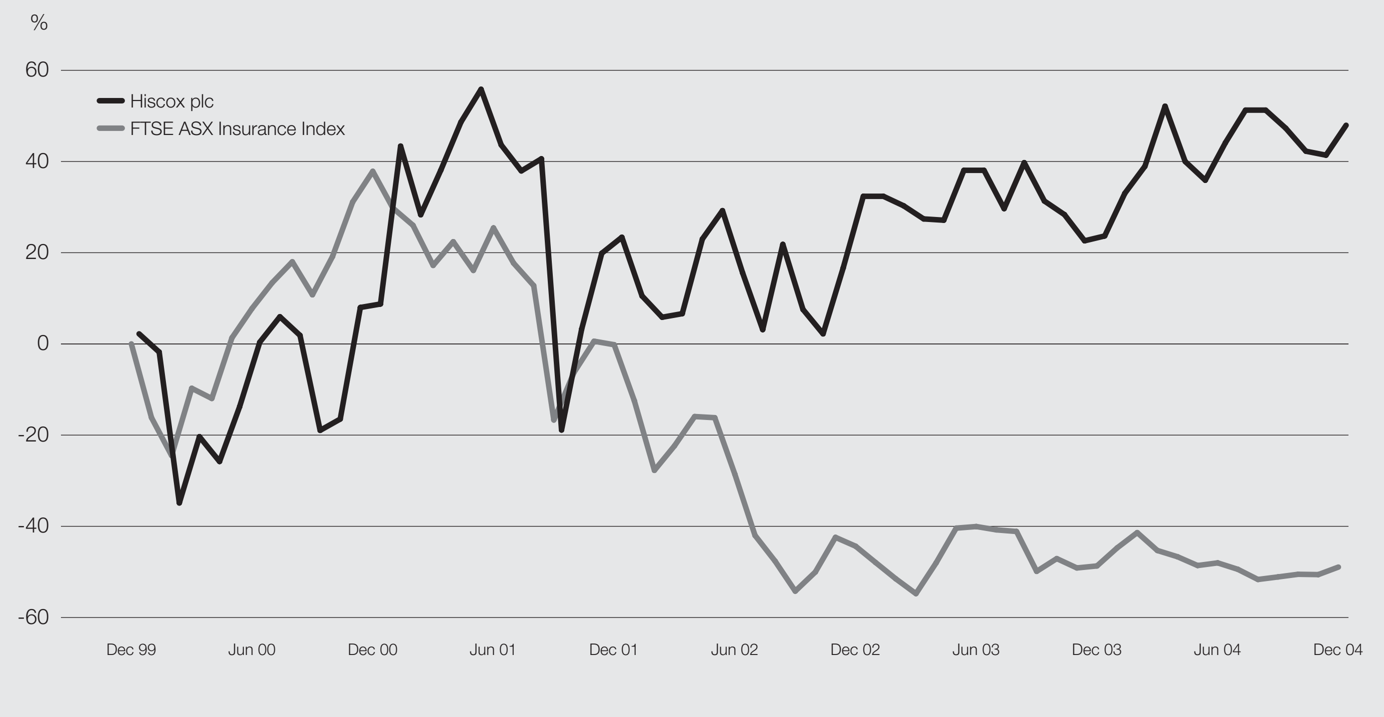
Base salary ranges remain competitive, with salaries assessed in accordance with the size of the role and market data.

Bonuses

The Remuneration Committee believes that a significant portion of the total remuneration should be attained through an incentive bonus which links rewards directly with performance. A bonus pool is created when the business profits of the Group, based on the year's accounting pre-tax operating result, exceed a return on equity linked to the longer term rate of return ('Hurdle Return'). The bonus pool is limited to a percentage of profits above the Hurdle Return. Similarly the bonus pools allocated to each major business division are calculated based on the business profits generated by that division above the Hurdle Return. This pool is utilised to award annual bonuses to all staff including executive directors based upon the performance of their business area and upon their individual performance. In this way, the bonus scheme aligns the interests of employees with shareholders. The actual amount to be paid to executive directors is determined by the Remuneration Committee based on the performance of the Group and an assessment of individual performance.

The Remuneration Committee also reviews and confirms the recommendations of management regarding the award of bonuses to senior managers and staff.

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All-Share Insurance Index also measured by total shareholder return. The FTSE All-Share Insurance Index has been selected for this comparison because it is the most representative index for measuring the performance of the insurance market in which Hiscox participates.



Source: Bloomberg

Long term awards

The Remuneration Committee believes strongly in the value of employee participation in long term award schemes so that their interests may be aligned with those of shareholders.

The Group has three share option schemes which were set up for this purpose.

Awards were made during the year to executive directors, senior executives and other staff under the Approved and Unapproved share option schemes. The exercise of options under these schemes depends upon achieving certain performance targets over a period of three years. These options are not offered at a discount and conform with institutional investor dilution guidelines. All directors entitled to share options are subject to these same performance criteria.

Awards were also made during the year under the Sharesave Scheme and the International Sharesave Scheme. These schemes provide a medium term incentive available to all staff. Awards depend upon the amount employees are prepared to save out of their salary subject to the maximum figure under the rules. There are no performance criteria for these schemes. The Remuneration Committee is very pleased with the commitment shown by employees in the future of the Group.

The Group has also implemented a performance share plan for senior executives to complement the existing long term incentive arrangements. No awards were made during the year under this plan. The exercise of options under this plan depends upon achieving certain performance targets over a three year period. All directors entitled to these awards are subject to these same performance criteria.

In order to ensure that the objective of aligning employee interests with shareholders is met, the Remuneration Committee regularly reviews the terms and conditions of share incentive grants made to employees. The 2003 review resulted in the Remuneration Committee proposing changes to the terms and conditions applying to future grants of options under the Hiscox Approved Share Option Scheme and the Hiscox Unapproved Share Option Scheme (the 'Option Schemes') and awards under the Hiscox Performance Share Plan (the 'Performance Share Plan'), and these amendments were approved and adopted on 22 June 2004. Consequently awards earned under these schemes are currently running with two different sets of terms and conditions.

Exercise of awards issued prior to 22 June 2004 under the Approved and Unapproved Share Option Schemes is dependent upon the basic earnings per share of the Group increasing at 2% more than the rate of inflation over a period of three years.

Exercise of awards issued prior to 22 June 2004 under the Performance Share Plan is subject to the following terms:

(a) The participants will receive 100% of the award if the Group's operating EPS (note 12) over a fixed three year period has increased by 35% ('the maximum target');
(b) No award will vest unless the increase in the Group's operating EPS over the period equals or exceeds 15% ('the base target') at which point 40% of the award will vest; and;
(c) An award will vest on a straight-line basis if the operating EPS growth is between the base target and the maximum target.

All options granted under the Approved and Unapproved Share Options Schemes as well as the Performance Share Plan since 22 June 2004 are to be granted in accordance with the revised terms and conditions as follows:

(i) There will be no facility for the re-testing of performance conditions;
(ii) The targets for these grants under both the Option Schemes and Performance Share Plan are as follows:
   (a) the participants will receive 100% of their share grants if the Group's Return on Equity ('ROE') average is 10% over the three year performance period (the 'maximum target');
   (b) no grants will vest unless the Group's ROE average over the period equals or exceeds 8% at which point 40% of the grant will vest (the 'minimum target'); and
   (c) a grant will vest on a straight-line basis if the Group's ROE average is between the base target and the maximum target.

The Remuneration Committee believes that using ROE as the long-term performance condition better aligns the interests of employees with shareholders because:

(i) ROE captures the efficiency with which the Company is using shareholder funds to generate earnings, whereas EPS growth gives no indication of the level of return on the investment required to generate those additional earnings;
(ii) the Company operates in a highly cyclical business where earnings can fluctuate considerably, which can have a distorting effect on EPS growth. Where EPS is used as a performance condition this can introduce an element of luck as to when in the cycle share grants are made which can operate to the disadvantage of both employees and shareholders. The Remuneration Committee believes that an average ROE performance requirement over the three year period smooths out the cyclical fluctuations in earnings and ensures that over any given period shareholders will receive a minimum return on equity before share grants to employees will vest.

The ROE will be calculated as profit before tax and goodwill amortisation divided by shareholders' funds at the beginning of each year. The ROE will be calculated for each of the three financial years constituting the performance period and then averaged.

The Remuneration Committee will review the ROE target attaching to grants on an annual basis in light of the prevailing bond yields and make adjustments to the target, provided that in the opinion of the Remuneration Committee the adjusted target shall be no easier to satisfy than the original target when imposed and provided that shareholders will be consulted in advance in respect of any material change.

The Board proposes to amend the Hiscox Unapproved Share Option Scheme (the 'Unapproved Scheme') so as to allow for the grant of options to French employees that will qualify for favourable tax treatment in France ('Approved Options in France'). The proposed amendment has arisen as a result of a recent review undertaken to ensure that all of our overseas employees are able, where possible, to qualify for any available favourable tax treatments on their share options as UK employees are able to do under the Hiscox Approved Share Option Scheme. The proposed amendment would add a new Schedule 2 to the Unapproved Scheme ('Schedule 2') under which Approved Options in France would be granted. The main provisions applying to Approved Options in France (in addition to the general provisions of the Unapproved Scheme) are that:

(i) they may only be granted to employees who do not own more than 10% of the ordinary share capital of the Company;
(ii) they may not be granted less than 20 dealing days after the date of declaration of a dividend (the date on which the dividend is approved) or an increase in share capital;
(iii) they cannot be granted within ten dealing days of the announcement of the Company's results and cannot be granted while, or for ten days after, management become aware of any price sensitive information;
(iv) they may not be granted at an exercise price that is less than the higher of the middle-

market quotation of the Company's shares (as derived from the London Stock Exchange Daily Official List) on the dealing day immediately preceding the grant date and the average middle market quotation for each of the 20 dealing days immediately preceding the grant date;
(v) they may only be granted within the period of 38 months from the date of the shareholder resolution approving the adoption of Schedule 2;
(vi) no cash-equivalent payments may be made on the exercise of Approved Options in France and such options are not transferable; and
(vii) Approved Options in France may normally only be exercised four years or more after the grant date, except where the Unapproved Scheme allows for earlier exercise.

The Company will be seeking formal shareholder approval at the Annual General Meeting for the amendment of the Unapproved Scheme through an ordinary resolution, number 11.

The directors believe that the amendment to the Unapproved Scheme is in the best interests of shareholders and the Company and recommend that you vote in favour of the resolution.

Copies of the amended rules of the Unapproved Scheme, including Schedule 2, will be available for inspection at the offices of the Company at 1 Great St Helen's, London EC3A 6HX, during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of dispatch of the Report and Accounts up to and including the date of the Annual General Meeting and at the meeting itself.

Exchanged options
Under the terms of the offers to purchase Hiscox Holdings Ltd and Economic Insurance Holdings Ltd in July 1996, the Company offered to exchange existing options held in the shares of those companies for options on Hiscox plc shares. As a result of this offer, exchanged options were issued to 38 employees and former employees of those companies. The interests of executive directors in such exchanged options are shown in note 25 to the accounts.

Pensions
The Hiscox Pension Scheme is an Inland Revenue approved occupational pension arrangement. This is a defined benefit arrangement and is non-contributory. There are two sections: the first section provides for benefits accruing at the rate of one-sixtieth for each year of service up to retirement age of 60 for employees, including former members of the Economic Insurance Holdings Limited Scheme who retain the right to a retirement age of 63. The second section provides for a pension at retirement age of up to two-thirds of final pensionable salary, accruing at the rate of the lower of:
(a) one-thirtieth for each year of service up to retirement age of 60; or
(b) an amount for each year of service up to retirement age of 60 based on a proportional accrual of years service to retirement age.

On 1 January 2001, Hiscox introduced a non-contributory defined contribution arrangement for all employees joining after that date, with contributions based on basic salary. All members are provided with death in service cover of up to four times basic salary.

Service contracts
Other than in the case of RRS Hiscox, the contracts of employment of the directors provide for termination on six months' notice by either side. Since the termination notice period is only six months, no statement of mitigation policy is deemed necessary. The service contract with RRS Hiscox, dated 20 December 2002, provides for 12 months' notice period by either side. BE Masojada's contract is dated 6 March 1998, effective from 1 January 1998; RS Childs' contract is dated 26 March 1998, effective from 1 January 1998; and SJ Bridges' contract is dated 20 September 1998, effective from 1 January 1999.

None of the contracts include any provision for compensation payments on early termination.

The Remuneration Committee believes that these notice periods provide an appropriate balance having regard to prevailing market conditions and current practice amongst public companies.
No external appointment may be accepted by an executive director where it may give rise to a conflict of interest. The consent of the Chairman is required in any event.

Non-executive directors
Non-executive directors receive an annual fee in respect of their Board and Board committee duties. The fees are reviewed, but not necessarily increased, annually and are set by the Board to attract individuals with a broad range of relevant skills and experience. The non-executive directors receive no other benefits.

Contracts were sent to the non-executive directors on 14 December 2004 setting out their updated terms of appointment. The allocation of their fees is shown in note 25.

Non-executive directorships
During the year RRS Hiscox has been a non-executive director of Grainger Trust plc and is paid £25,000 for his services.
BE Masojada is a non-executive director of Ins-sure Holding Limited and its subsidiaries. The fees for his services are remitted to the Group, as disclosed in note 29. Neither SJ Bridges nor RS Childs held non-executive director positions during the year.

By order of the Board
SJ Bridges
Secretary
1 Great St Helen's
London EC3A 6HX
14 March 2005

Directors' Report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 2004.

Principal activity and business review
The Company is a holding company for subsidiaries involved in the business of insurance in the UK and overseas.

The review of the year and likely future developments are described further in the Chairman's Statement and the Chief Executive's Report.

Financial results
The results for the year are shown in the profit and loss account on pages 26 and 27.

Dividends
An interim dividend of 1.5p (net) per share (2003: 1.3p (net)) was paid on 25 October 2004 in respect of the year ended 31 December 2004. The directors recommend the payment of a final dividend of 3.5p (net) per share (2003: 2.9p (net)). This will be paid on 27 June 2005 to shareholders on the register at the close of business on 15 April 2005.

Directors
The names and details of the directors of the Company throughout the year and at the date of this report (including those offering themselves for re-election) are set out on page 15. Details of their interests in the shares of the Company are set out in note 25 to the accounts.
In accordance with the Articles of Association and Combined Code, SJ Bridges, RS Childs, C Franklin Engler and SH Hall (aged 71) will retire at the Annual General Meeting and, being eligible, will offer themselves for re-election as directors.

The Board believes that SH Hall's character and objectivity makes him an independent director.

Going concern
After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Corporate social responsibility
Our core values:
Underpinning the Hiscox culture is a set of core values, which determine the standard of behaviour Hiscox expects from all of its employees. These core values, which include integrity, quality, efficiency and respect, are intended to guide everything Hiscox does in its business and they determine the way in which Hiscox employees deal with a range of stakeholders, both internal and external. Hiscox recognises that by conducting its business with these values firmly rooted at its core, it is more likely to achieve business success and create value for shareholders.
Employee policies:
The Company has a clearly stated aim to be an employer of choice recognised for its people excellence. This influences all of its employment policies. Our people genuinely make a difference and therefore we have to attract the best employees, enable them to perform to an excellent standard and to contribute to the development of the business, reward them on their level of contribution and provide an environment in which they can enjoy their work.

In order to facilitate this, the Group is committed to providing equal opportunities to potential and actual employees in all aspects of employment.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. Our employment policies and practices are free from discrimination on any grounds relating to selection, training and development, career progression and any other employment matters.

We are committed to training and developing all of our employees to maximise their potential. A comprehensive development programme ensures our employees are highly knowledgeable and skilled. This is supported by a Performance Management approach that ensures training and development needs are reviewed regularly, as is performance, against clearly set objectives. We actively look to leverage the talent of every employee within the Company.

Employees are kept informed of the business and its activities through formal briefings, team meetings, use of the intranet, video conferencing and informal routes. These also provide a means for the Company to listen to employees and involve them in taking the business forward.

Employees are encouraged to identify with the Company through performance-related pay and bonus schemes, savings-related share option schemes and executive share option schemes. They are also encouraged to socialise with each other and enjoy their work environment.

The Company was therefore delighted to once again appear in the 2005 Sunday Times 100 Best Companies To Work For survey, for the third year in succession. The results of this survey were derived from both the views of employees and from a review of the policies and processes of the companies surveyed.

The Group is also committed to ensuring that all employees are provided with safe working conditions. A Health and Safety Committee oversees compliance with, and the development of, the Group's health and safety policy which is available to all staff via the Group's intranet. In addition, risk assessments are completed for the buildings and for all staff, records of which are maintained for inspection by Environmental Health Officers.
Environmental policy:
The way our insureds conduct their business is of paramount importance to us, due to our core philosophy that for high-quality underwriting we need high-quality insureds. In considering underwriting, the insureds' attitudes to all aspects of their business, including their care of the environment, are considered.

Hiscox also aims to minimise the impact on the environment from its business activities. In accordance with the Group's Environmental Policy, consumables are recycled or reused wherever possible and the Group strives continuously to reduce the amount of raw materials used in its business processes and by its staff – particularly through the extensive use of computerisation and communications technology.

In 2004 we received the Platinum Award at the Clean City Awards Scheme for our continuing contribution to reducing, reusing and recycling as much waste as possible. We have also begun programmes to recycle batteries, mobile phones, lamps and CDs.

The Clean City Awards are given as part of an annual scheme run by the Corporation of London to recognise the efforts of companies in the City in reducing, recycling and reusing waste, in order to support the sustainable use of raw materials. Each company's building is judged by a panel of officers from the Corporation, public sector and private industry on the efforts it is making, its approach to recycling and its innovation in dealing with waste.

To promote wellbeing within the office and protect the environment we have undertaken further initiatives, such as installing air filters on all printers and fax machines to remove toner dust, irritants and general fumes, and using coffee in our vending machines that is purchased under the Federale Nationale de Colombia scheme. This scheme ensures that not only does the grower receive the correct price for his produce but that he farms the land in an ecofriendly way thereby sustaining the environment.

A designated Hiscox representative attends meetings organised by the Corporation of London to keep abreast of best practices with regard to the environment and to exchange ideas with other like-minded companies.

Hiscox is included in the FTSE4Good UK Index. The constituents of this index are companies from the FTSE All-Share Index which have passed the FTSE4Good selection criteria as it pertains to environmental sustainability, relationships with stakeholders and upholding and supporting human rights.

Community involvement:
The involvement of Hiscox in the local community has continued this year, thanks to the strong support of our employees.

For example, in addition to the Hiscox Foundation's charitable activities, we participated in a number of other charitable fundraising events during the year.

We have also continued with our reading partners scheme, where staff assist pupils at the Elizabeth Selby Infants School in Tower Hamlets with reading development. We also provide mentors for students at Morpeth School in Tower Hamlets.

Hiscox Art Projects has held a number of exhibitions of young artists in the year.

Political and charitable contributions

The Group made no political contributions during the year (2003: £nil). Charitable donations totalled £78,300 (2003: £36,250) of which £50,000 (2003: £25,000) was donated to the Hiscox Foundation, a UK registered charity. The policy of the Hiscox Foundation is to assist and improve education, the arts and independent living for disabled and disadvantaged members of society.

Payment of creditors

It is the policy of the Group to agree terms of payment for its business transactions with its suppliers and ensure that the supplier is aware of the terms of payment.

Payment is then made on these terms, subject to the terms and conditions being met by the supplier. The Group had 15.4 (2003: 13.6) days' purchases outstanding at 31 December 2004 based on the average daily amount invoiced by suppliers during the year ended 31 December 2004. The Company is a holding company and accordingly has no days' purchases outstanding at 31 December 2004. Therefore, the Group creditors' days are considered to be more representative.

The Group does not follow a specific code with regard to the payment of creditors.

International financial reporting standards

All European Union listed companies are required to adopt International Financial Reporting Standards ('IFRS') for accounting periods beginning on or after 1 January 2005, which will include comparative information for 2004.

The Group set up a dedicated working party in 2003, which includes representation from its external auditors, to implement the new standards and embed them

Major interests in shares

The Company has been notified of the following shareholdings of 3% or more in the ordinary shares of the Company as at 7 March 2005:

	Number of shares	% of total Hiscox plc shares
Amvescap plc	46,792,513	15.9
Fidelity International Limited	28,140,477	9.6
Barclays PLC	14,495,669	4.9
AN Foster	13,835,824	4.7
Landsdowne Partners Limited Partnership	11,465,673	3.9
RRS Hiscox	9,469,774	3.2
IN Thomson	9,315,786	3.2
Legal & General Group plc	8,782,942	3.0

11,204,825 of AN Foster's shareholding is non-beneficial, of which 5,329,391 is held by a trust and is also included in RRS Hiscox's shareholding. 557,715 of RRS Hiscox's shareholding is non-beneficial. Hiscox Trustees Ltd is the trustee of the Hiscox plc Group employee share ownership plan trust (ESOP) and is interested in 325,434 ordinary shares in the Company. IN Thomson, AN Foster and RRS Hiscox, as employees of the Group, are potential beneficiaries of the ESOP and are also deemed to have an additional interest in these shares.

fully into the Group's reporting systems and processes. The Group's IFRS conversion project is progressing to plan. Conversion of the opening balance sheet at 1 January 2004 based on the standards currently endorsed by the European Union is largely complete and work on the restatement of the 2004 consolidated accounts is at an advanced stage.

The standards are themselves evolving and undergoing improvements with amendments to existing standards being issued by the International Accounting Standards Board on a regular basis. Accordingly, the standards to be applied may change prior to publication of the Group's first IFRS results and so the consolidated accounts under IFRS have yet be finalised. However, it is possible to conclude from the work performed by the Group's working party that the material changes arising from the standards will include:

- Recognition of the defined benefit pension scheme deficit (IAS 19 'Employee Benefits');
- Recognition of the estimated fair value cost of share option schemes (IFRS 2 'Share-based payments');
- Annual impairment testing of goodwill and syndicate capacity rather than charging amortisation through the profit and loss account (IAS 38 'Intangible Assets');
- Removal of the annual movement on the equalisation provision through the profit and loss account (IFRS 4 'Insurance Contracts'); and
- Dividends are recognised on the date they are declared i.e. the final dividend for 2003 will not be included in the opening balance sheet position (IAS10 'Events after the Balance Sheet date').

The restated opening balance sheet and consolidated accounts for 2004 will be issued prior to the announcement of the Group's interim results on 12 September 2005.

Annual General Meeting

The notice of the Annual General Meeting is contained on page 59.

In addition to the ordinary business, the following items of special business will be considered at the meeting.

Resolution 9, which will be proposed as an ordinary resolution, seeks to renew the directors' authority to allot relevant securities pursuant to Section 80 of the Companies Act 1985. The authority contained in the resolution will be limited to the allotment of relevant securities to an aggregate nominal value of £4,897,001.43 representing 33.3% of the issued ordinary share capital as at 14 March 2005. This authority will terminate no later than the earlier of the conclusion of the next Annual General Meeting or a date falling fifteen months after the date of the passing of the resolution. The directors presently have no intention of exercising this authority.

Resolution 10, which will be proposed as an ordinary resolution, seeks to obtain approval for the Remuneration Report as set out on pages 18 to 20 of this Report and Accounts.

Resolution 11, which will be proposed as an ordinary resolution, seeks to amend the rules of the Hiscox Unapproved Share Option Scheme to allow for the grant of options to French employees that will qualify for favourable tax treatment in France. Full details of the amendment are set out in the Directors' Remuneration Report.

Resolution 12, which will be proposed as a special resolution, seeks to renew the authority conferred on the Board to issue equity securities of the Company for cash without application of the pre-emption rights provided by Section 89 of the Companies Act 1985. The authority contained in this resolution will be limited to an aggregate nominal value of £734,550.22, representing 5.0% of the issued ordinary share capital as at 14 March 2005. This authority will terminate no later than the earlier of the conclusion of the next Annual General Meeting or a date falling fifteen months after the date of the passing of the resolution.

Resolution 13, which will be proposed as a special resolution, seeks to obtain authority for the Company to repurchase its own shares from the market. In certain circumstances, it may be advantageous for the Company to purchase its own shares pursuant to Section 166 of the Companies Act 1985. The directors intend to exercise this authority only where they believe that a purchase would be the best use of the Company's resources, result in an increased earnings per share and is in the best interests of the Company's shareholders as a whole.

The authority contained in the resolution will be limited to a purchase of own shares up to a maximum number of 14,500,000 shares, representing 4.9% of the issued capital of the Company as at 14 March 2005, and the cost of the shares will be limited to a minimum share price of £0.50 per share and a maximum price per share that is not more than 5% above the average of the closing middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased. This authority will terminate on the earlier of the conclusion of the next Annual General Meeting or a date falling fifteen months after the date of the passing of the resolution.

The total number of options to subscribe for ordinary shares that are outstanding as at 14 March 2005 was 16,590,483 which represented 5.6% of the issued share capital as at that date (which represents 5.9% of the Company's issued share capital if the authority to purchase shares under the resolution is used in full). There are no warrants.

Save to the extent purchased pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the 'Regulations'), any shares purchased under this resolution will be cancelled. Shares purchased by the Company pursuant to the Regulations may be subsequently transferred to an employees' share scheme, and such transfers will not exceed 5% of the issued ordinary share capital of the Company (adjusted for scrip/bonus and rights issues) in any rolling 10 year period. The Company does not currently hold any treasury shares. Hiscox Holdings Limited and Hiscox Trustees Limited, subsidiaries of the Company, own 65,943 and 325,434 shares respectively in the Company at 14 March 2005.

Resolution 14, which will be proposed as a special resolution, seeks to amend the Articles of Association of the Company so that the Company may accept electronic proxy votes submitted on behalf of uncertificated shareholders by their sponsors or voting service providers through CREST.

Your directors consider that each of the resolutions described above and in the notice of Annual General Meeting will be of benefit to and is in the best interest of the Company and shareholders as a whole. Your directors unanimously recommend that you vote in favour of the resolutions. Those directors who hold ordinary shares in the Company intend to do so in respect of their own beneficial holdings, except with regard to Resolution 10 (relating to the remuneration report) on which they will not vote.

By order of the Board
SJ Bridges
Secretary
1 Great St Helen's
London EC3A 6HX
14 March 2005

Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:
(a) select suitable accounting policies and apply them consistently;
(b) make judgements and estimates that are reasonable and prudent;
(c) state whether applicable accounting standards have been followed; and
(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

Independent Auditors’ Report to the Members of Hiscox plc

We have audited the financial statements on pages 26 to 57. We have also audited the information included by cross reference within 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 are responsible for preparing the Annual Report and the directors’ remuneration report. As described on page 24 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession’s ethical guidance.

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

We review whether the corporate governance statement on pages 16 and 17 reflects the Company’s compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group’s corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2004, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 7.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group 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.

KPMG Audit Plc
London
Chartered Accountants
Registered Auditor
14 March 2005

Consolidated Profit and Loss Account

Technical Account – General Business for the year ended 31 December 2004

	Notes	**2004 £000**	2003 £000
Earned premiums, net of reinsurance			
Gross premiums written	4(c)	**778,893**	797,380
Outward reinsurance premiums		**(97,327)**	(136,414)
Net premiums written	4(c)	**681,566**	660,966
Change in the gross provision for unearned premiums		**(19,337)**	(74,902)
Change in the provision for unearned premiums, reinsurers' share		**(19,800)**	(38,613)
Change in the net provision for unearned premiums		**(39,137)**	(113,515)
Earned premiums, net of reinsurance	4(c)	**642,429**	547,451
Allocated investment income transferred from the non-technical account	8(a), 8(d)	**39,799**	30,583
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(220,274)**	(275,227)
Reinsurers' share		**39,201**	90,327
Net claims paid		**(181,073)**	(184,900)
Change in the provision for claims:			
Gross amount		**(183,540)**	(61,545)
Reinsurers' share		**8,761**	(41,876)
Change in the net provision for claims		**(174,779)**	(103,421)
Claims incurred, net of reinsurance	4(c)	**(355,852)**	(288,321)
Net operating expenses	6	**(215,328)**	(186,039)
Other technical income/(charges)	4(c)	**1,650**	(1,265)
Movement in equalisation provision	4(c), 7	**(1,503)**	(2,506)
Balance on the technical account – general business		**111,195**	99,903

All operations of the Group are continuing.

Consolidated Profit and Loss Account

Non-Technical Account for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Balance on the technical account – general business		**111,195**	99,903
Investment return	8(a)	**27,118**	32,154
Unrealised gains/(losses) on investments	8(a)	**5,968**	8,026
Investment expenses and charges	8(a)	**(1,087)**	(805)
	8(a), 8(d)	**31,999**	39,375
Allocated investment return transferred to the technical account	8(a), 8(d)	**(39,799)**	(30,583)
	8(a), 8(d)	**(7,800)**	8,792
Other income	9	**13,267**	12,582
Other charges		**(39,628)**	(37,869)
Profit on ordinary activities before tax	4(c)	**77,034**	83,408
Comprising:			
Operating profit based on longer term investment return	4(c)	**86,337**	77,122
Short term fluctuations in investment return	8(a), 8(d)	**(7,800)**	8,792
Movement in equalisation provision	4(c), 7	**(1,503)**	(2,506)
		77,034	83,408
Tax on profit on ordinary activities	13	**(22,460)**	(22,917)
Profit on ordinary activities after tax		**54,574**	60,491
Dividends – Interim paid		**(4,419)**	(3,830)
Dividends – Final payable		**(10,281)**	(8,414)
		(14,700)	(12,244)
Retained profit for the year	24(a)	**39,874**	48,247
Earnings per share:			
– Adjusted basic, based on operating profit after tax (on longer term investment return)	12	**21.0p**	19.3p
– Basic, based on profit on ordinary activities after tax	12	**18.7p**	20.9p
– Diluted, based on profit on ordinary activities after tax	12	**18.5p**	20.6p

In accordance with the amendment to Financial Reporting Standard ('FRS') 3 'Reporting financial performance' in relation to the revaluation of investments, no note of historical cost profits or losses has been prepared as the Group's only material gains and losses on assets relate to the holding and disposal of investments.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	2004 £000	2003 £000
Profit on ordinary activities after tax	**54,574**	60,491
Exchange differences taken to reserves	**(412)**	(155)
Total recognised gains and losses for the year	**54,162**	60,336

Consolidated Balance Sheet

At 31 December 2004

	Notes	2004 £000	2003 £000
Assets			
Intangible assets			
Goodwill	14(a)	**5,804**	6,240
Other intangible assets	14(b)	**17,782**	15,513
		23,586	21,753
Investments			
Land and buildings	15(a)	**2,925**	410
Other financial investments	15(b)	**1,001,225**	773,289
		1,004,150	773,699
Reinsurers' share of technical provisions			
Provision for unearned premiums	21	**42,526**	63,004
Claims outstanding	21	**195,730**	189,183
		238,256	252,187
Debtors			
Debtors arising out of direct insurance operations	16	**258,135**	251,026
Debtors arising out of reinsurance operations		**33,793**	53,878
Other debtors	19	**93,528**	71,155
		385,456	376,059
Other assets			
Tangible assets	17	**7,738**	7,332
Cash at bank and in hand	32(e)	**61,332**	52,945
		69,070	60,277
Prepayments and accrued income			
Accrued interest		**5,428**	3,079
Deferred acquisition costs		**114,803**	101,817
Other prepayments and accrued income		**8,201**	10,106
		128,432	115,002
Total assets		**1,848,950**	1,598,977

	Notes	2004 £000	2003 £000
Liabilities			
Capital and reserves			
Called up share capital	23, 24(a)	**14,685**	14,565
Share premium account	24(a)	**234,267**	232,341
Merger reserve	24(a)	**4,723**	4,723
Capital redemption reserve	24(a)	**33,244**	33,244
Reserve for own shares	24(a)	**(473)**	(686)
Profit and loss account	24(a)	**85,153**	45,650
Shareholders' funds attributable to equity interests	24(a)	**371,599**	329,837
Technical provisions			
Provision for unearned premiums	21	**442,314**	424,379
Claims outstanding	21	**830,681**	656,820
Equalisation provision	7	**17,941**	16,438
		1,290,936	1,097,637
Provisions for other risks and charges	22	**25,261**	15,503
Creditors			
Creditors arising out of direct insurance operations		**28,399**	35,229
Creditors arising out of reinsurance operations		**60,339**	62,491
Other creditors including taxation and social security	20	**43,702**	28,414
		132,440	126,134
Accruals and deferred income		**28,714**	29,866
Total liabilities		**1,848,950**	1,598,977

The financial statements were approved by the Board of directors on 14 March 2005 and were signed on its behalf by:

RRS Hiscox, Chairman

SJ Bridges, Finance Director

Company Balance Sheet
At 31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Tangible assets	18(a)	**3,543**	584
Investment in subsidiary undertakings	18(b)	**115,457**	115,457
Investments	18(c)	**139,483**	117,032
		258,483	233,073
Current assets			
Other debtors	19	**138,886**	129,648
Cash at bank and in hand		**2,222**	129
Prepayments and accrued income		**982**	453
		142,090	130,230
Creditors: Amounts falling due within one year	20	**(52,375)**	(18,443)
Net current assets		**89,715**	111,787
Total assets less current liabilities		**348,198**	344,860
Provisions for other risks and charges	22	**(670)**	–
Net assets		**347,528**	344,860
Capital and reserves			
Called up share capital	23, 24(b)	**14,685**	14,565
Share premium account	24(b)	**234,267**	232,341
Merger reserve	24(b)	**58,970**	58,970
Capital redemption reserve	24(b)	**33,244**	33,244
Capital reserve	24(b)	**1,498**	163
Profit and loss account	24(b)	**4,864**	5,577
Shareholders' funds attributable to equity interests	24(b)	**347,528**	344,860

The financial statements were approved by the Board of directors on 14 March 2005 and were signed on its behalf by:

RRS Hiscox, Chairman

SJ Bridges, Finance Director

Consolidated Cash Flow Statement
For the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Cash flow statement			
Net cash inflow from general business		**74,930**	31,300
Net shareholders' cash outflow from Lloyd's business	32(c)	**–**	(7,712)
Net cash flow from operating activities	32(a)	**74,930**	23,588
Servicing of finance	32(d)	**(1,384)**	(2,233)
Taxation recovered/(paid)		**(206)**	(59)
Capital expenditure	32(d)	**(8,851)**	(3,052)
Acquisitions and disposals	32(d)	**(1,091)**	(50)
Equity dividends paid		**(12,833)**	(10,744)
Financing	32(d)	**1,779**	2,910
		52,344	10,360
Cash flows were invested as follows:			
Increase/(decrease) in cash holding	32(e)	**393**	(25,608)
Net portfolio investment:			
Shares and units in unit trusts	32(e)	**(30,490)**	44,586
Debt securities and other fixed interest securities	32(e)	**46,070**	59,657
Deposits with credit institutions	32(e)	**36,371**	(68,275)
Other investments	32(e)	**–**	–
Net investment of cash flows		**52,344**	10,360

Notes to the Accounts

1 Basis of preparation
The financial statements of the Group and the Company have been prepared in accordance with applicable accounting standards as at 31 December 2004 and under historical cost accounting rules, modified by the revaluation of investments.

The financial statements have been prepared in accordance with the provisions set out in Section 255 of, and Schedule 9A to, the Companies Act 1985. The Group has adopted all material recommendations of the Statement of Recommended Practice 'Accounting for Insurance Business' issued by the Association of British Insurers in November 2003.

The balance sheet of the parent company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985.

As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent company is presented. The profit after taxation for the Company for the year was £13,987,000 (2003: £10,296,000) and the retained loss for the financial year for the Company was £713,000 (2003: loss of £1,955,000).

Results are determined on an annual basis.

2 Basis of consolidation
The consolidated financial statements include the assets, liabilities and results of the Company and its subsidiary undertakings up to 31 December each year. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of acquisition, where acquisition accounting was adopted.

Hiscox Dedicated Corporate Member Limited and the subsidiaries of Hiscox Select Holdings Limited underwrite as corporate members of Lloyd's on the syndicate managed by Hiscox Syndicates Limited (the 'managed syndicate'). In view of the several liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, the attributable share of the transactions, assets and liabilities of the syndicate has been included in the financial statements.

3 Accounting policies
The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

3(a) Premiums
For business written by the managed syndicate, written premiums comprise premiums on contracts incepting during the financial year. For all other business, written premiums comprise the premiums on contracts entered into during the accounting period, irrespective of whether they relate in whole or in part to a later accounting period. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums.

Premiums written include estimates for 'pipeline' premiums and adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

3(b) Unearned premiums
The provision for unearned premium comprises the proportion of gross premiums written, which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method. Where the incidence of risk varies during the period covered by the contract, the provision is calculated taking into account the risk profile of the contracts.

3(c) Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the acquisition of insurance contracts.

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which is unearned at the balance sheet date.

3(d) Claims
Claims incurred in respect of general business consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims and future claims handling expenses.

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred but unpaid up to the balance sheet date whether reported or not, together with related claims handling expenses. Anticipated reinsurance recoveries, and estimates of salvage and subrogation recoveries, are disclosed separately as assets.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

The provision for outstanding claims for the Group is actuarially calculated utilising both Chain Ladder and Bornhuetter-Ferguson methods. There is close communication between the actuaries and underwriters and allowance is made for the rating environment.

The Chain Ladder method is adopted where sufficient development data is available in order to produce estimates of the ultimate claims and premiums by actuarial reserving group and underwriting year or year of account for the managed syndicate. This methodology produces optimal estimates when a large claims development history is available and the claims development patterns throughout the earliest years are stable.

Where losses in the earliest underwriting years or years of account have yet to fully develop, a 'tail' arises on the reserving data, i.e. a gap between the current stage of development and the fully developed amount. The Chain Ladder methodology is used to calculate average development factors which, by fitting these development factors to a curve, allows an estimate to be made of the potential claims development expected between the current and the fully developed amount, known as a 'tail reserve'. This tail reserve is added to the current reserve position to calculate the total reserve required.

The Bornhuetter-Ferguson method is predominantly employed to produce ultimate loss estimates when there is little development data available, e.g. in relation to more recent underwriting years or years of account. The Bornhuetter-Ferguson method is based on the Chain Ladder approach but utilises estimated ultimate loss ratios. In exceptional cases the required provision is calculated with reference to the actual exposures.

Ultimate premium and claims amounts are projected both gross and net of reinsurance using reinsurance recovery rates based on historical experience, adjusted for the current reinsurance programme. Reinsurance recoveries from Qualifying Quota Share arrangements entered into for the 2002 and 2003 years of account have been calculated separately.

Reinsurance security is monitored continuously throughout the year involving both external sources, such as Standard & Poor's and A M Best's rating information on reinsurers, and internal sources. Reinsurer default rates are applied to the expected future reinsurance recoveries to determine a suitable level of bad debt provision.

Adjustments are made within the reserving methodology to allow for expected significant movements to the figures not actually processed by

31 December 2004 and also to remove distortions in the historical claims development patterns from large claims not expected to reoccur in the future.

The reserves determined for the managed syndicate are converted to annually accounted figures using earnings patterns that are consistent with those for the underlying syndicate business.

3(e) Unexpired risk

Provision is made for unexpired risks arising from general business where the expected value of the claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by classes of business which are managed together, after taking into account the relevant investment return.

3(f) Equalisation provision

An equalisation provision has been established and calculated in accordance with the requirements within PRU 7.5 of the Integrated Prudential Sourcebook (Insurers and other amendments) Instrument 2004 to mitigate exceptionally high loss ratios for classes of business displaying a high degree of claims volatility.

3(g) Investments

Group:

Investments are stated at their current value. Listed investments comprise those quoted on the London and other international Stock Exchanges. These investments are stated at mid-market prices on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

Company:

Investments in Group undertakings and associates are stated at cost less provisions for impairment in value.

3(h) Investment return

All investment return is recognised in the non-technical account.

Dividends on ordinary shares are recognised as income on the date the ordinary shares are marked ex-dividend. Other investment income and interest receivable are included in income on an accruals basis.

Realised gains or losses on investments represent the difference between net sales proceeds and their purchase price or their valuation at the commencement of the year.

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price or their valuation at the commencement of the year. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

3(i) Allocation of investment return

An allocation is made from the non-technical account to the general business technical account based on the longer term investment return on investments supporting the general insurance technical provisions and all the relevant shareholders' funds. The longer term investment return is an estimate of the long term trend investment return for Hiscox plc and its subsidiaries, together with the Hiscox managed syndicate, having regard to past performance, current trends and future expectations.

3(j) Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible assets on a straight-line basis over their estimated useful economic lives or length of lease, if less, as follows:

Freehold property	50 years
Short leasehold, fixtures and fittings	10-15 years
Computer hardware and software	3-5 years
Motor vehicles	3 years
All other tangible fixed assets	4 years

3(k) Goodwill

Goodwill arising on the acquisition of subsidiaries has been written off directly to reserves in the year of acquisition up to 31 December 1997.

From 1 January 1998, in accordance with FRS 10 'Goodwill and intangible assets', goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of net assets acquired, is capitalised in the balance sheet and amortised on a straight-line basis over its useful economic life, which is considered to not exceed 20 years. Provision is made for any impairment.

On disposal or termination of a business acquired up to 31 December 1997, any related goodwill previously written off directly to reserves is written back through the profit and loss account as part of the profit or loss on disposal. On the disposal or termination of a business since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

3(l) Other intangible assets

Other intangible assets are the cost of purchasing the Group's participation in Lloyd's insurance syndicates. In accordance with FRS 10, this capacity is capitalised at cost in the balance sheet and amortised over its useful economic life, which the directors consider to not exceed 20 years. Provision is made for any impairment.

3(m) Rates of exchange

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. At the balance sheet date, monetary assets and liabilities are translated at the year end rates of exchange. Any exchange profits or losses arising on the translation of foreign currency amounts relating to underwriting are taken directly to the technical account. Other exchange profits or losses are taken directly to the non-technical account.

Investments in foreign enterprises are translated using the net investment method. All exchange profits or losses arising on the translation of these investments are taken to reserves.

3(n) Pension costs

Pension contributions in respect of defined benefit schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. Differences between the amounts charged to the profit and loss account and payments made to the pension schemes are treated as assets or liabilities in the balance sheet.

Pension contributions for defined contribution schemes are charged to the profit and loss account on an accruals basis.

The Group has adopted the transitional disclosure requirements of FRS 17 'Retirement Benefits'. This has had no impact on the current year's results.

3(o) Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight-line basis over the period of the lease.

3(p) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences, except for which no provision is permissible as explained below, that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

3(q) Own shares

The Group follows the accounting treatment required by UITF 37 for the purchase and sale of own shares. For own shares held in the Employee Share Ownership Plan Trust (ESOP), the Group has adopted the accounting treatment required by UITF 38. In accordance with UITFs 37 and 38, consideration paid for own shares is deducted in arriving at shareholders' funds. No gain or loss is recognised in the profit and loss account or statement of total recognised gains and losses on the purchase, sale or cancellation of own shares. Consideration paid or received for the purchase or sale of own shares are shown as separate amounts in the reconciliation of movements in shareholders' funds.

4 Segmental information

(a) 100% level technical account by business division

The underwriting activities which are managed by the Group are shown below at the 100% level regardless of ownership of capacity:

	2004 London Market £000	2004 UK Retail £000	2004 International Business £000	2004 Total £000	2003 London Market £000	2003 UK Retail £000	2003 International Business £000	2003 Total £000
Gross premiums written	**784,097**	**175,699**	**91,320**	**1,051,116**	827,293	174,551	81,387	1,083,231
Net premiums written	**709,301**	**151,349**	**67,892**	**928,542**	702,396	145,726	56,777	904,899
Net premiums earned	**681,959**	**137,932**	**60,090**	**879,981**	571,243	132,189	48,452	751,884
Net claims incurred	**411,915**	**63,122**	**24,538**	**499,575**	316,285	65,141	18,633	400,059
Claims ratio (%)	**60.4%**	**45.8%**	**40.8%**	**56.8%**	55.4%	49.3%	38.4%	53.2%
Commission	**174,987**	**37,528**	**34,877**	**247,392**	153,221	36,755	31,384	221,360
Operating expenses	**55,541**	**29,086**	**3,902**	**88,529**	60,664	23,092	2,545	86,301
Movement in deferred acquisition costs	**(18,004)**	**(3,408)**	**(3,199)**	**(24,611)**	(32,362)	(1,525)	(2,938)	(36,825)
Net expenses	**212,524**	**63,206**	**35,580**	**311,310**	181,523	58,322	30,991	270,836
Commission ratio (%)	**24.7%**	**24.8%**	**51.4%**	**26.7%**	21.8%	25.2%	55.3%	24.5%
Operating expense ratio (%)	**7.8%**	**19.2%**	**5.7%**	**9.5%**	8.6%	15.8%	4.5%	9.5%
Expense ratio (%)	**32.5%**	**44.0%**	**57.1%**	**36.2%**	30.4%	41.0%	59.8%	34.0%
Net longer term investment return	**34,018**	**8,598**	**3,190**	**45,806**	21,779	7,281	2,631	31,691
Technical profit* (Note 4b)	**91,538**	**20,202**	**3,162**	**114,902**	95,214	16,007	1,459	112,680
Combined ratio (%)	**92.9%**	**89.8%**	**97.9%**	**93.0%**	85.8%	90.3%	98.2%	87.2%

*Before movement in equalisation provision.

The impact of a 1% change in the combined ratios of each business division on technical profit are:

	2004 London Market £000	2004 UK Retail £000	2004 International Business £000	2003 London Market £000	2003 UK Retail £000	2003 International Business £000
At 100% level						
1% change in claims ratio	**6,820**	**1,379**	**601**	5,712	1,322	485
1% change in expense ratio	**7,093**	**1,513**	**679**	7,024	1,457	568
At Group level						
1% change in claims ratio	**4,461**	**1,379**	**601**	3,513	1,322	485
1% change in expense ratio	**4,651**	**1,513**	**679**	4,631	1,457	568

London Market comprises the results of Syndicate 33 and the Hiscox Captive net of any business written between Group companies.

UK Retail comprises all of the UK retail underwriting results of Hiscox Insurance Company Limited.

International Business comprises the results of Hiscox Insurance Company (Guernsey) Limited, the results of the Hiscox overseas agencies and the underwriting results of the International retail business written by Hiscox Insurance Company Limited.

4 Segmental information continued

(b) Reconciliation of 100% level technical results to Group results

	2004 £000	2003 £000
Technical profit for 100% of continuing operations (Note 4a)	**114,902**	112,680
Notional share attributable to Group at current level of capacity ownership	**84,283**	79,718
Adjustments to reflect lower levels of capacity in prior years:		
2001 year of account	**(221)**	2,628
2002 year of account	**199**	(1,443)
2003 year of account	**30**	–
Investment return on corporate assets	**6,421**	7,162
Amounts applicable to quota share reinsurers*	**1,650**	(1,265)
Trading profit for Group share of continuing operations (Note 4c)	**92,362**	86,800

*For the 2004 year of account, the Group owned 65% (2003: 65%) of the Syndicate. For the 2002 year of account, 8% of the capacity (2001 year of account: 7%) was reinsured to three leading European reinsurers via a quota share arrangement.

(c) Profit on ordinary activities before taxation – by business division

	2004 London Market/ Group £000	2004 UK Retail £000	2004 International Business £000	2004 Total £000	2003 London Market/ Group £000	2003 UK Retail £000	2003 International Business £000	2003 Total £000
Gross premiums written	**511,874**	**175,699**	**91,320**	**778,893**	541,442	174,551	81,387	797,380
Net premiums written	**462,325**	**151,349**	**67,892**	**681,566**	458,463	145,726	56,777	660,966
Net premiums earned	**444,407**	**137,932**	**60,090**	**642,429**	366,810	132,189	48,452	547,451
Investment return, based on longer term rate of return	**28,011**	**8,598**	**3,190**	**39,799**	20,671	7,281	2,631	30,583
Net claims incurred	**(268,192)**	**(63,122)**	**(24,538)**	**(355,852)**	(204,547)	(65,141)	(18,633)	(288,321)
Acquisition costs	**(116,340)**	**(34,120)**	**(31,678)**	**(182,138)**	(94,882)	(35,230)	(28,446)	(158,558)
Administrative expenses	**(20,538)**	**(29,086)**	**(3,902)**	**(53,526)**	(17,453)	(23,092)	(2,545)	(43,090)
Other technical income/(charges)	**1,650**	**–**	**–**	**1,650**	(1,265)	–	–	(1,265)
Trading result:*	**68,998**	**20,202**	**3,162**	**92,362**	69,334	16,007	1,459	86,800
Agency and other income	**7,355**	**739**	**22,000**	**30,094**	6,752	379	15,578	22,709
Profit commission	**3,539**	**–**	**(31)**	**3,508**	5,215	–	267	5,482
Expenses	**(12,966)**	**(2,155)**	**(21,101)**	**(36,222)**	(16,400)	(1,371)	(16,702)	(34,473)
Loan interest	**(1,952)**	**–**	**–**	**(1,952)**	(1,946)	–	–	(1,946)
Goodwill and capacity amortisation	**(1,413)**	**–**	**(40)**	**(1,453)**	(1,410)	–	(40)	(1,450)
Operating profit, based on longer term investment return	**63,561**	**18,786**	**3,990**	**86,337**	61,545	15,015	562	77,122
Short term fluctuations in investment return	**(10,205)**	**2,604**	**(199)**	**(7,800)**	2,913	5,238	641	8,792
Movement in equalisation provision	**–**	**(882)**	**(621)**	**(1,503)**	–	(1,730)	(776)	(2,506)
Profit on ordinary activities before taxation	**53,356**	**20,508**	**3,170**	**77,034**	64,458	18,523	427	83,408

*Based on longer term investment return, before movement in equalisation provision and elimination of inter-company transactions.

London Market/Group comprises Hiscox plc's share of the results of Syndicate 33, the results of the Hiscox Captive and the results of the non-underwriting entities of the Group, net of any business written between Group companies.

UK Retail comprises all of the UK retail business of Hiscox Insurance Company Limited, together with the results of the online agency business (Hiscox Connect Limited).

International Business comprises the results of Hiscox Insurance Company (Guernsey) Limited, the results of the Hiscox overseas agencies and the underwriting results of the International retail business written by Hiscox Insurance Company Limited.

4 Segmental information continued

(d) (i) Net asset value per share

	2004 Net asset value £000	2004 Number of shares* 000	2004 NAV per share p	2003 Net asset value £000	2003 Number of shares* 000	2003 NAV per share p
Net asset value	**371,599**	**293,306**	**126.7**	329,837	290,630	113.5
Net asset value (before equalisation provision)	**389,540**	**293,306**	**132.8**	346,275	290,630	119.1
Net tangible asset value	**348,013**	**293,306**	**118.7**	308,084	290,630	106.0
Net tangible asset value (before equalisation provision)	**365,954**	**293,306**	**124.8**	324,522	290,630	111.7

*The number of shares is the adjusted number of shares in issue as at 31 December of the relevant financial year.

(ii) Net assets by business entity

	2004 Lloyd's Business/ Group £000	2004 Insurance Company £000	2004 International Operations £000	2004 Total £000	2003 Lloyd's Business/ Group £000	2003 Insurance Company £000	2003 International Operations £000	2003 Total £000
Tangible assets	**232,229**	**109,899**	**5,885**	**348,013**	209,852	93,722	4,510	308,084
Intangible assets	**22,952**	**634**	**–**	**23,586**	21,079	674	–	21,753
	255,181	**110,533**	**5,885**	**371,599**	230,931	94,396	4,510	329,837

5 Movement in prior years' claims provision

	Lloyd's Business £000	Insurance Company £000	International Operations £000	2004 Total £000	2003 Total £000
Net loss provision brought forward as at 1 January	313,909	115,174	7,204	**436,287**	332,126
Net payments during the year in respect of those provisions	(69,491)	(26,756)	(24)	**(96,271)**	(101,888)
Net loss provision carried forward in respect of claims provided at 1 January	(245,569)	(74,147)	–	**(319,716)**	(248,523)
(Under)/over provision in prior years	(1,151)	14,271	7,180	**20,300**	(18,285)

The business written by Harlequin Insurance PCC Ltd was commuted in December 2004, resulting in no remaining loss provisions in relation to those brought forward in International Operations.

6 Net operating expenses

	2004 £000	2003 £000
Acquisition costs	**184,631**	184,951
Change in deferred acquisition costs	**(18,216)**	(26,966)
Reinsurance commission	**(1,309)**	(12,298)
Administrative expenses	**50,222**	40,352
	215,328	186,039

7 Equalisation provision

Equalisation provisions are established for Hiscox Insurance Company Limited in accordance with the requirements within PRU 7.5 of the Integrated Prudential Sourcebook (Insurers and other amendments) Instrument 2004. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions at the balance sheet date notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £17,941,000 (2003: £16,438,000). The movement in equalisation provision during the year resulted in a decrease in the technical account and the Group profit before taxation of £1,503,000 (2003: £2,506,000).

8 Investment return

(a) The total actual investment return before taxation comprises:

	2004 £000	2003 £000
Investment return on funds at Lloyd's and other corporate funds:		
Investment income	**6,940**	8,591
Unrealised gains/(losses) on investments	**2,828**	1,778
Realised gains/(losses) on investments	**(868)**	1,026
	8,900	11,395
Investment return on syndicate funds:		
Investment income	**15,204**	12,656
Realised gains/(losses) on investments	**(4,974)**	974
	10,230	13,630
Investment return on insurance company funds:		
Investment income	**11,582**	9,955
Unrealised gains/(losses) on investments	**3,140**	6,248
Realised gains/(losses) on investments	**(766)**	(1,048)
	13,956	15,155
Investment expenses and charges	**(1,087)**	(805)
Total investment return	**31,999**	39,375
Allocation to the technical account based on the longer term rate	**(39,799)**	(30,583)
Short term fluctuations in investment return retained in the non-technical account	**(7,800)**	8,792

(b) Investment return by currency

The investment return by currency of investment, net of investment expenses and charges, was:

	2004 %	2003 %
Sterling	**5.5**	6.1
US Dollar	**1.6**	5.4
Other	**2.8**	3.1

(c) Longer term investment return

The longer term rate of investment return is based on a combination of historical experience and current expectations for each category of investments. The longer term investment return is calculated by applying the following yields to the weighted average of each category of assets.

	2004 %	2003 %
Shares and units in unit trusts	**6.0**	6.0
Debt securities and other fixed interest securities	**4.0**	4.0
Deposits with credit institutions	**4.0**	4.0

8 Investment return continued

(d) Comparison of longer term investment return with actual returns

The actual return on investments is compared below with the longer term investment return over the year ended 31 December 2004 and for the five year period from 1 January 2000 to 31 December 2004. Investment yield is calculated using the weighted average value of investments during the year.

	Funds at Lloyd's and other Corporate Assets £000	%	Share of Syndicate £000	%	Insurance Company £000	%	2004 Total £000	%
Actual investment return:								
Shares and units in unit trusts	**3,674**	**9.4**	**–**	**–**	**4,774**	**11.0**	**8,448**	**10.2**
Debt securities and other fixed interest securities	**4,333**	**4.5**	**8,433**	**1.8**	**5,306**	**4.7**	**18,072**	**2.6**
Deposits with credit institutions	**747**	**2.0**	**1,231**	**1.9**	**3,501**	**4.2**	**5,479**	**2.9**
	8,754		**9,664**		**13,581**		**31,999**	
Longer term investment return:								
Shares and units in unit trusts	**2,339**	**6.0**	**–**	**6.0**	**2,604**	**6.0**	**4,943**	**6.0**
Debt securities and other fixed interest securities	**3,888**	**4.0**	**19,013**	**4.0**	**4,480**	**4.0**	**27,381**	**4.0**
Deposits with credit institutions	**1,532**	**4.0**	**2,577**	**4.0**	**3,366**	**4.0**	**7,475**	**4.0**
	7,759		**21,590**		**10,450**		**39,799**	
Short term fluctuations in investment return	**995**		**(11,926)**		**3,131**		**(7,800)**	

	Funds at Lloyd's and other Corporate Assets £000	%	Share of Syndicate £000	%	Insurance Company £000	%	2003 Total £000	%
Actual investment return:								
Shares and units in unit trusts	7,196	16.1	–	–	9,736	19.9	16,932	18.1
Debt securities and other fixed interest securities	2,408	3.1	11,418	4.0	3,591	3.8	17,417	3.8
Deposits with credit institutions	1,496	2.8	1,863	4.0	1,667	3.3	5,026	3.2
	11,100		13,281		14,994		39,375	
Longer term investment return:								
Shares and units in unit trusts	2,674	6.0	–	6.0	2,931	6.0	5,605	6.0
Debt securities and other fixed interest securities	3,136	4.0	11,651	4.0	3,778	4.0	18,565	4.0
Deposits with credit institutions	2,527	4.0	1,858	4.0	2,028	4.0	6,413	4.0
	8,337		13,509		8,737		30,583	
Short term fluctuations in investment return	2,763		(228)		6,257		8,792	

	2000-2004 £000	1999-2003 £000
Longer term investment return credited to operating profit/(loss) and to the general business technical account	**132,809**	106,651
Actual investment return included in profit/(loss) on ordinary activities in the non-technical account	**115,330**	92,979
Effect of short term fluctuations over the period	**(17,479)**	(13,672)

8 Investment return continued

(e) Impact of a 1% change in the longer term rates of investment return on operating profit

The impact of a 1% change in the longer term rates of investment return for each category of asset by segment on operating profit is:

	Funds at Lloyd's and other Corporate Assets £000	**Share of Syndicate £000**	**Insurance Company £000**	**2004 Total £000**
Shares and units in unit trusts	**390**	**–**	**434**	**824**
Debt securities and other fixed interest securities	**972**	**4,753**	**1,120**	**6,845**
Deposits with credit institutions	**383**	**644**	**842**	**1,869**

	Funds at Lloyd's and other Corporate Assets £000	Share of Syndicate £000	Insurance Company £000	2003 Total £000
Shares and units in unit trusts	446	–	489	935
Debt securities and other fixed interest securities	784	2,913	945	4,642
Deposits with credit institutions	632	464	507	1,603

9 Other income and charges

	2004 £000	2003 £000
Agency salaries	**1,777**	1,472
Underwriting agency income	**4,548**	2,937
Profit commission	**3,508**	5,482
Other	**3,434**	2,691
Total other income	**13,267**	12,582

	2004 £000	2003 £000
Operating profit is stated after charging:		
Loan interest payable	**1,952**	1,946
Amortisation of goodwill and Lloyd's capacity costs	**1,453**	1,450
Finance lease charges	**25**	19
Operating lease charges (net of recharges to the managed syndicate)	**2,041**	1,972
Depreciation (net of recharges to the managed syndicate) on tangible fixed assets:		
– Owned assets	**1,823**	1,739
– Leased assets	**91**	74
Exchange losses/(gains)	**6,813**	3,698
Increase/(decrease) in provisions for bad and doubtful debts (including share of syndicate)	**1,932**	(221)

10 Auditors' remuneration

Fees payable to the auditors and its associates (exclusive of VAT)

(a) Group

	2004 £000	**2004 %**	2003 £000	2003 %
Audit and assurance services				
Statutory audit fee	**230**	**92%**	220	73%
Regulatory audit fee	**15**	**6%**	20	7%
Tax services in relation to 1999 and prior years	**–**	**–**	15	5%
	245	**98%**	255	85%
Other non-audit services*				
Work performed in relation to:				
– Other corporate projects	**5**	**2%**	45	15%
	5	**2%**	45	15%
Total auditors' remuneration	**250**	**100%**	300	100%

10 Auditors' remuneration continued

(b) Company

	2004 £000	**2004 %**	2003 £000	2003 %
Audit and assurance services				
Statutory audit fee	**119**	**100%**	91	89%
	119	**100%**	91	89%
Other non-audit services*				
Work performed in relation to:				
– Other corporate projects	**–**	**–**	11	11%
	–	**–**	11	11%
Total auditors' remuneration	**119**	**100%**	102	100%

*Non-audit services with fees greater than £50,000 must be pre-approved by the Audit Committee which is composed solely of independent directors.

11 Employees' remuneration

Their aggregate remuneration and associated costs were:

	2004 £000	2003 £000
Wages and salaries	**31,730**	32,011
Social security costs	**4,645**	3,915
Other pension costs	**4,219**	3,417
	40,594	39,343

The average monthly number of staff employed by the Group was 446 (2003: 412), comprising 154 underwriting and 292 administrative staff (2003: 141 and 271 respectively). Of the total remuneration shown above, an amount of £13,697,000 was recharged to the syndicate managed by Hiscox Syndicates Limited (2003: £12,206,000).

The Group operates an Inland Revenue approved SAYE employee share option scheme and has taken advantage of the exemption given in UITF Abstract 17 'Employer share schemes' from recognising a charge in the profit and loss account for the discount on the options.

12 Earnings per ordinary share

	2004 Earnings £000	**2004 Average number of shares 000**	**2004 EPS p**	2003 Earnings £000	2003 Average number of shares 000	2003 EPS p
Adjusted basic, based on operating profit after tax (on longer term investment return)	**61,165**	**291,755**	**21.0**	55,929	289,790	19.3
Basic, based on profit on ordinary activities after tax	**54,574**	**291,755**	**18.7**	60,491	289,790	20.9
Diluted, based on profit on ordinary activities after tax*	**54,574**	**295,130**	**18.5**	60,491	293,462	20.6

*In accordance with FRS 14 'Earnings per share', potential ordinary shares are only included in the calculation of diluted earnings per share to the extent that they are dilutive, i.e. those that on conversion to ordinary shares would decrease net profit per share from continuing operations.

Earnings per share has also been calculated based on the operating profit after tax as the directors believe this earnings per share figure provides a better indication of operating performance.

The reconciliation of basic earnings per share based on profit on ordinary activities after tax to adjusted basic earnings per share based on operating profit after tax is as follows:

	2004 Earnings £000	**2004 EPS p**	2003 Earnings £000	2003 EPS p
Basic, based on profit on ordinary activities after tax	**54,574**	**18.7**	60,491	20.9
Short term fluctuations in investment return	**5,526**	**1.9**	(6,378)	(2.2)
Movement in equalisation provision	**1,065**	**0.4**	1,816	0.6
Adjusted basic, based on operating profit after tax	**61,165**	**21.0**	55,929	19.3

Diluted earnings per share has been calculated taking into account 2,435,000 (2003: 2,579,000) options under employee share schemes and 940,000 (2003: 1,093,000) options under SAYE share schemes.

Notes to the Accounts continued

13 Taxation

	2004 £000	2003 £000
Current tax		
UK corporation tax on profits of the period	**11,062**	3,998
Foreign tax	**25**	3
Adjustments in respect of previous periods		
UK corporation tax	**1,539**	5,217
Foreign tax	**76**	–
Total current tax	**12,702**	9,218
Deferred tax		
Origination and reversal of timing differences	**11,494**	18,452
Adjustments in respect of previous periods	**(1,736)**	(4,753)
Total deferred tax	**9,758**	13,699
Total tax on profit on ordinary activities	**22,460**	22,917

Factors that may affect future tax charges

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows:

	2004 £000	2003 £000
Profit on ordinary activities before tax	**77,034**	83,408
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	**23,110**	25,022
Effects of:		
Expenses not deductible for tax purposes	**3,822**	(667)
Schedule 23 deduction for employee shares	**(540)**	–
Section 107 interest	**325**	–
Non taxable investment income	**(3,357)**	(2,629)
Capital allowances in excess of depreciation	**111**	272
Foreign tax, income tax and excess tax on Controlled Foreign Companies	**(536)**	(407)
Short term timing differences on Lloyd's business	**(10,943)**	(16,955)
Other short term timing differences	**(564)**	(21)
Deferred tax not provided	**(341)**	(614)
Adjustments in respect of previous periods	**1,615**	5,217
Current tax charge for period	**12,702**	9,218
Accelerated capital allowances	**899**	722
Short term timing differences	**(25,277)**	(14,823)
Underwriting losses	**–**	(1,398)
Capital gains	**(883)**	(4)
Undiscounted provision for deferred tax asset/(liability)	**(25,261)**	(15,503)

There is a deferred tax asset unprovided of £2,399,000 for the Group. £735,000 of the unprovided tax asset is in respect of the unrealised loss arising within the holdings of shares and units in unit trusts, £1,661,000 relates to losses of overseas companies and £3,000 to accelerated capital allowances.

The Company has no unprovided deferred tax asset at the year end.

14 Intangible assets

(a) Goodwill	£000
Cost	
At 1 January 2004	**8,696**
Goodwill acquired	**–**
At 31 December 2004	**8,696**
Amortisation	
At 1 January 2004	**2,456**
Charge for the year	**436**
At 31 December 2004	**2,892**
Net book value at 31 December 2004	**5,804**
Net book value at 31 December 2003	**6,240**

(b) Other intangible assets	£000
Cost	
At 1 January 2004	**20,343**
Additions	**3,286**
At 31 December 2004	**23,629**
Amortisation	
At 1 January 2004	**4,830**
Charge for the year	**1,017**
At 31 December 2004	**5,847**
Net book value at 31 December 2004	**17,782**
Net book value at 31 December 2003	**15,513**

Other intangible assets represent the cost of acquiring syndicate capacity.

15 Investments – Group

(a) Land and buildings	Freehold £000	Short Leasehold £000	**Total £000**
Valuation or cost			
At 1 January 2004	407	109	**516**
Acquisitions	2,985	–	**2,985**
Disposals	(407)	–	**(407)**
At 31 December 2004	2,985	109	**3,094**
Depreciation			
At 1 January 2004	–	106	**106**
Charge for the year	60	3	**63**
Disposals	–	–	**–**
At 31 December 2004	60	109	**169**
Net book value at 31 December 2004	2,925	–	**2,925**
Net book value at 31 December 2003	407	3	**410**

During the year the Group sold a freehold property in Guernsey, at a profit of £93,000.

15 Investments – Group continued

(b) Other financial investments

2004

	Funds at Lloyd's and other Corporate Assets		**Share of Syndicate**		**Insurance Company**		**Total**	
	Market value £000	**Cost £000**	**Market value £000**	**Cost £000**	**Market value £000**	**Cost £000**	**Market value £000**	**Cost £000**
Shares and units in unit trusts	**42,044**	**40,197**	**–**	**–**	**44,750**	**39,868**	**86,794**	**80,065**
Debt securities and other fixed interest securities	**100,604**	**100,597**	**570,106**	**572,902**	**125,687**	**127,876**	**796,397**	**801,375**
Deposits with credit institutions	**6,446**	**6,446**	**1,589**	**1,589**	**108,836**	**108,832**	**116,871**	**116,867**
Other	**1,163**	**954**	**–**	**–**	**–**	**–**	**1,163**	**954**
	150,257	**148,194**	**571,695**	**574,491**	**279,273**	**276,576**	**1,001,225**	**999,261**

2003

	Funds at Lloyd's and other Corporate Assets		Share of Syndicate		Insurance Company		Total	
	Market value £000	Cost £000	Market value £000	Cost £000	Market value £000	Cost £000	Market value £000	Cost £000
Shares and units in unit trusts	54,505	47,930	–	–	57,442	52,992	111,947	100,922
Debt securities and other fixed interest securities	82,261	84,508	397,507	394,553	99,702	100,226	579,470	579,287
Deposits with credit institutions	27,350	26,848	2,581	2,581	51,368	51,440	81,299	80,869
Other	573	304	–	–	–	–	573	304
	164,689	159,590	400,088	397,134	208,512	204,658	773,289	761,382

Of the above investments, all the shares and units in unit trusts and all the debt securities and other fixed interest securities are listed on a recognised stock exchange.

The total market value of investments purchased and disposed of in the year was £1,184,196,000 (2003: £806,002,000) and £955,665,000 (2003: £544,680,000) respectively.

(c) Other financial investments by currency

	Sterling £000	**US Dollar £000**	**Other £000**	**2004 Total £000**
Shares and units in unit trusts	**63,794**	**23,000**	**–**	**86,794**
Debt securities and other fixed interest securities	**221,343**	**441,264**	**133,790**	**796,397**
Deposits with credit institutions	**109,962**	**1,589**	**5,320**	**116,871**
Other	**1,163**	**–**	**–**	**1,163**
Total market value	**396,262**	**465,853**	**139,110**	**1,001,225**

	Sterling £000	US Dollar £000	Other £000	2003 Total £000
Shares and units in unit trusts	73,451	38,496	–	111,947
Debt securities and other fixed interest securities	192,031	305,991	81,448	579,470
Deposits with credit institutions	78,853	345	2,101	81,299
Other	573	–	–	573
Total market value	344,908	344,832	83,549	773,289

16 Debtors arising out of direct insurance operations

	2004 £000	2003 £000
Policyholders	**31,266**	27,730
Intermediaries	**226,869**	223,296
	258,135	251,026

17 Tangible assets – Group

Cost	Plant and machinery £000	Fixtures and fittings £000	**Total £000**
At 1 January 2004	12,569	5,833	**18,402**
Additions	2,924	463	**3,387**
Disposals	(859)	–	**(859)**
At 31 December 2004	14,634	6,296	**20,930**
Depreciation			
At 1 January 2004	8,544	2,526	**11,070**
Charge for the year	2,519	370	**2,889**
Disposals	(767)	–	**(767)**
At 31 December 2004	10,296	2,896	**13,192**
Net book value at 31 December 2004	4,338	3,400	**7,738**
Net book value at 31 December 2003	4,025	3,307	**7,332**

Assets held under finance leases account for £397,000 of the net book value of the assets above (2003: £266,000). The total depreciation for the period relating to these assets amounted to £86,000 (2003: £122,000).

18 Fixed assets – Company

(a) Tangible assets	Freehold property £000	Art £000	**Total £000**
Cost			
1 January 2004	–	584	**584**
Additions	2,985	34	**3,019**
At 31 December 2004	2,985	618	**3,603**
Depreciation			
At 1 January 2004	–	–	**–**
Charge for the year	60	–	**60**
At 31 December 2004	60	–	**60**
Net book value at 31 December 2004	2,925	618	**3,543**
Net book value at 31 December 2003	–	584	**584**

(b) Investment in subsidiary undertakings at cost	**2004 £000**	2003 £000
Hiscox Dedicated Corporate Member Limited	**1,500**	1,500
Hiscox Holdings Limited	**38,647**	38,647
Hiscox Insurance Holdings Limited	**29,983**	29,983
Hiscox Select Insurance Fund PLC	**45,102**	45,102
Hiscox Investment Management Limited	**225**	225
	115,457	115,457

For details of principal subsidiary undertakings, see note 31.

(c) Investments	Shares and units in unit trusts £000	Debt securities and other fixed interest securities £000	Deposits with credit institutions £000	Other £000	**Total £000**
Cost at 1 January 2004	34,728	64,454	17,548	54	**116,784**
Purchases	40,086	152,702	241,461	200	**434,449**
Sales	(36,476)	(120,589)	(256,041)	–	**(413,106)**
Cost at 31 December 2004	38,338	96,567	2,968	254	**138,127**
Market value at 31 December 2004	39,996	96,271	2,962	254	**139,483**
Market value at 31 December 2003	36,633	62,780	17,565	54	**117,032**

The Company has given a fixed and floating charge over its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiaries. Further details are given in note 27.

Notes to the Accounts continued

19 Other debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Due from Group companies	**–**	–	**138,797**	129,405
Taxation recoverable	**–**	2,739	**–**	138
Deferred tax asset	**–**	–	**–**	16
Net profit commission receivable	**11,458**	7,918	**–**	–
Other debtors	**10,628**	7,355	**89**	89
Share of syndicate's overseas deposits	**37,707**	27,679	**–**	–
Share of syndicate's other debtors balances	**33,735**	25,464	**–**	–
	93,528	71,155	**138,886**	129,648

20 Other creditors including taxation and social security

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Proposed final dividend	**10,281**	8,414	**10,281**	8,421
Due to Group companies	**–**	–	**41,419**	10,022
Corporation tax payable	**7,855**	–	**614**	–
Amounts owed to credit institutions	**57**	477	**–**	–
Obligations under finance leases	**370**	255	**–**	–
Other creditors	**8,498**	11,621	**61**	–
Share of syndicate's other creditors balances	**16,641**	7,647	**–**	–
	43,702	28,414	**52,375**	18,443

21 Technical provisions

Gross technical provisions	Provision for unearned premium £000	Claims outstanding £000	Total £000
At 1 January 2004	424,379	656,820	**1,081,199**
Exchange adjustments	(13,722)	(24,905)	**(38,627)**
Movement in the provision	31,657	207,992	**239,649**
Commutation of business	–	(9,226)	**(9,226)**
At 31 December 2004	442,314	830,681	**1,272,995**
Reinsurers' share of technical provisions			
At 1 January 2004	63,004	189,183	**252,187**
Exchange adjustments	(1,473)	(5,781)	**(7,254)**
Movement in the provision	(19,005)	14,611	**(4,394)**
Commutation of business	–	(2,283)	**(2,283)**
At 31 December 2004	42,526	195,730	**238,256**
Net technical provisions			
At 31 December 2004	399,788	634,951	**1,034,739**
At 1 January 2004	361,375	467,637	**829,012**

22 Provision for other risks and charges

	Group deferred tax £000	Company deferred tax £000
At 1 January 2004	15,503	–
Adjustment to provisions during the year	9,758	670
At 31 December 2004 (note 13)	25,261	670

There is no unprovided deferred tax liability for the Company or the Group.

23 Share capital

	Number of shares	£000
Authorised – Ordinary shares of 5p each		
At 1 January 2004	**410,000,000**	**20,500**
At 31 December 2004	**410,000,000**	**20,500**
Issued and fully paid – Ordinary shares of 5p each		
At 1 January 2004	**291,292,560**	**14,565**
Exercise of approved and unapproved share options	**1,152,309**	**57**
Exercise of SAYE share options	**1,254,067**	**63**
At 31 December 2004	**293,698,936**	**14,685**

24 Reconciliation of movement in shareholders' funds

(a) Total shareholders' funds Group	Issued share capital 2004 £000	Share premium reserve 2004 £000	Merger reserve 2004 £000	Capital redemption reserve 2004 £000	Capital reserve 2004 £000	Reserve for own shares 2004 £000	Profit and loss account 2004 £000	**Total share-holders' funds 2004 £000**	Total share-holders' funds 2003 £000
At 1 January	14,565	232,341	4,723	33,244	–	(686)	45,650	**329,837**	279,132
Exercise of share options	120	1,926	–	–	–	–	–	**2,046**	1,862
Disposal of own shares	–	–	–	–	–	322	41	**363**	751
Acquisition of own shares held in an ESOP	–	–	–	–	–	(109)	–	**(109)**	–
Exchange differences taken to reserves	–	–	–	–	–	–	(412)	**(412)**	(155)
Retained profit for the year	–	–	–	–	–	–	39,874	**39,874**	48,247
At 31 December	14,685	234,267	4,723	33,244	–	(473)	85,153	**371,599**	329,837

(b) Total shareholders' funds Company	Issued share capital 2004 £000	Share premium reserve 2004 £000	Merger reserve 2004 £000	Capital redemption reserve 2004 £000	Capital reserve 2004 £000	Reserve for own shares 2004 £000	Profit and loss account 2004 £000	**Total share-holders' funds 2004 £000**	Total share-holders' funds 2003 £000
At 1 January	14,565	232,341	58,970	33,244	163	–	5,577	**344,860**	343,521
Exercise of share options	120	1,926	–	–	–	–	–	**2,046**	1,862
Unrealised gains/(losses) net of tax	–	–	–	–	1,335	–	–	**1,335**	1,432
Retained profit/(loss) for the year	–	–	–	–	–	–	(713)	**(713)**	(1,955)
At 31 December	14,685	234,267	58,970	33,244	1,498	–	4,864	**347,528**	344,860

25 Directors' emoluments and share option schemes

(a)	**2004 Basic salary/fees £000**	**2004 Benefits £000**	**2004 Bonus £000**	**2004 Total £000**	2003 Basic salary/fees £000	2003 Benefits £000	2003 Bonus £000	2003 Total £000
Executive directors								
RRS Hiscox	**250**	**16**	**400**	**666**	250	16	450	716
BE Masojada	**286**	**15**	**475**	**776**	271	15	550	836
RS Childs	**262**	**18**	**575**	**855**	256	18	650	924
SJ Bridges	**216**	**14**	**300**	**530**	211	14	350	575

Notes to the Accounts continued

25 Directors' emoluments and share option schemes continued

(a) continued	Hiscox plc Board £	Subsidiary Board £	Committees £	**2004 Total £**	2003 Total £
Non-executive directors					
SH Hall	30,000	7,500	10,000	**47,500**	47,500
AGC Howland Jackson	27,500	7,500	10,000	**45,000**	45,000
DND Netherton	27,500	–	12,500	**40,000**	40,000
C Franklin Engler	27,500	–	7,500	**35,000**	35,000

The subsidiary board is in relation to Hiscox Syndicates Limited. The emoluments for committees are in relation to the Audit Committee, Remuneration Committee, Nominations Committee, Conflicts Committee and Investment Committee.

(b) Pension entitlements

The pension entitlements of the directors in relation to the Hiscox defined benefit scheme were as follows:

	Increase in accrued pension during the year £000	Total accrued pension at 31 December 2004 £000	Transfer value of the increase in accrued pension £000	Transfer value of accrued pension at 1 January 2004 £000	Transfer value of accrued pension at 31 December 2004 £000	Increase in transfer value of accrued benefit during the year £000
RRS Hiscox	8	169	186	3,924	4,105	181
BE Masojada	3	26	30	289	355	66
RS Childs	10	128	155	2,145	2,496	351
SJ Bridges	4	19	33	173	227	54

Notes

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year, with the exception of RRS Hiscox, whose figures above are based on his actual pension in payment. The increase in accrued pension for the year excludes any increase for inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with version 8.1 Actuarial Guidance Note GN11: Retirement Benefit Schemes – Transfer Values. No contractual contributions were due or have been paid by the directors during the year. RRS Hiscox retired from the scheme on 3 January 2003.

(c)

Total directors' remuneration of which £507,000 was recharged to the managed syndicate (2003: £547,000) was:

	2004 £000	2003 £000
Salaries, benefits and bonuses	**2,827**	3,051
Fees to non-executive directors	**168**	168
	2,995	3,219

Four directors exercised share options during the year (2003: three).

(d)

(i) Directors' share interests

	31 December 2004 5p Ordinary Shares Number of shares Beneficial	**31 December 2004 5p Ordinary Shares Number of shares Non beneficial**	31 December 2003 5p Ordinary Shares Number of shares Beneficial	31 December 2003 5p Ordinary Shares Number of shares Non beneficial
Executive directors				
RRS Hiscox	**8,912,059**	**567,715**	8,880,595	582,715
BE Masojada	**2,359,455**	**–**	2,317,808	–
RS Childs	**1,173,468**	**–**	1,152,469	–
SJ Bridges	**286,363**	**–**	205,283	–
Non-executive directors				
SH Hall	**35,500**	**–**	35,500	–
AGC Howland Jackson	**49,589**	**–**	49,589	–
DND Netherton	**15,000**	**–**	30,000	–
C Franklin Engler	**17,550**	**–**	17,550	–

Hiscox Trustees Limited is the trustee of the Hiscox plc Group Employee Share Ownership Plan Trust (ESOP) and at 31 December 2004 was interested in 325,434 (2003: 313,368) ordinary shares of the Company. The executive directors are potential beneficiaries of the ESOP and are also deemed to have an additional interest in these shares.

Subsequent to the year end, 10,000 shares were sold from RRS Hiscox' non-beneficial holding. No other transactions have taken place subsequent to the year end up to the date of this Report and Accounts.

25 Directors' emoluments and share option schemes continued

(d) continued

(ii) Share options

The share options disclosed below include replacement options in Hiscox plc relating to Hiscox Holdings Limited and Hiscox Insurance Holdings Limited share options granted prior to acquisition by Hiscox plc, plus options under the Hiscox plc Approved and Unapproved Share Options Schemes. The condition of exercise of the Approved and Unapproved share options is described on page 19.

	Number of options at 1 January 2004	Number of options granted	Number of options lapsed	Number of options exercised	**Number of options at 31 December 2004**	Adjusted exercise price £	Market price at date of exercise	Date from which exercisable	Expiry date
SJ Bridges	82,092	–	–	–	**82,092**	1.32	–	13 Oct 02	12 Oct 09
	109,457	–	–	–	**109,457**	1.05	–	15 Jun 03	14 Jun 10
	54,728	–	–	–	**54,728**	1.81	–	03 May 04	02 May 11
	136,821	–	–	–	**136,821**	0.83	–	27 Sep 04	26 Sep 11
	175,000	–	–	–	**175,000**	1.29	–	19 Nov 05	18 Nov 12
	150,000	–	–	–	**150,000**	1.51	–	02 Apr 06	01 Apr 13
	–	150,000	–	–	**150,000**	1.56	–	13 Jul 07	12 Jul 14
	708,098	150,000	–	–	**858,098**				
RS Childs	87,566	–	(87,566)	–	**–**	1.75	–	17 Dec 00	16 Dec 04
	87,566	–	–	–	**87,566**	1.62	–	20 Oct 01	19 Oct 05
	109,457	–	–	–	**109,457**	1.32	–	13 Oct 02	12 Oct 09
	164,186	–	–	–	**164,186**	1.05	–	15 Jun 03	14 Jun 10
	76,620	–	–	–	**76,620**	1.81	–	03 May 04	02 May 11
	136,821	–	–	–	**136,821**	0.83	–	27 Sep 04	26 Sep 11
	200,000	–	–	–	**200,000**	1.29	–	19 Nov 05	18 Nov 12
	200,000	–	–	–	**200,000**	1.51	–	02 Apr 06	01 Apr 13
	–	200,000	–	–	**200,000**	1.56	–	13 Jul 07	12 Jul 14
	1,062,216	200,000	(87,566)	–	**1,174,650**				
RRS Hiscox	87,566	–	(87,566)	–	**–**	1.75	–	17 Dec 00	16 Dec 04
	71,147	–	–	–	**71,147**	1.62	–	20 Oct 01	19 Oct 05
	16,418	–	–	–	**16,418**	1.62	–	20 Oct 01	19 Oct 08
	54,727	–	–	–	**54,727**	1.05	–	15 Jun 03	14 Jun 10
	54,728	–	–	–	**54,728**	1.81	–	03 May 04	02 May 11
	50,000	–	–	–	**50,000**	1.51	–	02 Apr 06	01 Apr 13
	–	50,000	–	–	**50,000**	1.56	–	13 Jul 07	12 Jul 14
	334,586	50,000	(87,566)	–	**297,020**				
BE Masojada	87,566	–	(87,566)	–	**–**	1.75	–	17 Dec 00	16 Dec 04
	71,147	–	–	–	**71,147**	1.62	–	20 Oct 01	19 Oct 05
	16,418	–	–	–	**16,418**	1.62	–	20 Oct 01	19 Oct 08
	109,457	–	–	–	**109,457**	1.32	–	13 Oct 02	12 Oct 09
	164,185	–	–	–	**164,185**	1.05	–	15 Jun 03	14 Jun 10
	76,620	–	–	–	**76,620**	1.81	–	03 May 04	02 May 11
	136,821	–	–	–	**136,821**	0.83	–	27 Sep 04	26 Sep 11
	200,000	–	–	–	**200,000**	1.29	–	19 Nov 05	18 Nov 12
	200,000	–	–	–	**200,000**	1.51	–	02 Apr 06	01 Apr 13
	–	200,000	–	–	**200,000**	1.56	–	13 Jul 07	12 Jul 14
	1,062,214	200,000	(87,566)	–	**1,174,648**				
Sub-total	3,167,114	600,000	(262,698)	–	**3,504,416**				

Notes to the Accounts continued

25 Directors' emoluments and share option schemes continued

(d) continued

(ii) Share options continued

	Number of options at 1 January 2004	Number of options granted	Number of options lapsed	Number of options exercised	**Number of options at 31 December 2004**	Adjusted exercise price £	Market price at date of exercise	Date from which exercisable	Expiry date
Sub-total brought forward	3,167,114	600,000	(262,698)	–	**3,504,416**				
Other employees	52,882	–	–	(52,882)	**–**	0.31	1.57	29 Jun 97	28 Jun 04
	421,405	–	(421,405)	–	**–**	1.75	–	17 Dec 00	16 Dec 04
	205,220	–	(10,945)	(4,378)	**189,897**	1.75	1.78	17 Dec 00	16 Dec 07
	470,658	–	–	(2,736)	**467,922**	1.62	1.71	20 Oct 01	19 Oct 05
	192,081	–	(13,681)	(10,945)	**167,455**	1.62	1.71-1.78	20 Oct 01	19 Oct 08
	814,333	–	(49,253)	(151,592)	**613,488**	1.32	1.51-1.78	13 Oct 02	12 Oct 09
	1,459,635	–	(10,944)	(317,153)	**1,131,538**	1.05	1.51-1.79	15 Jun 03	14 Jun 10
	114,929	–	–	–	**114,929**	1.03	–	09 Nov 03	08 Nov 10
	109,456	–	–	–	**109,456**	1.74	–	14 Feb 04	13 Feb 11
	873,972	–	(37,758)	–	**836,214**	1.81	–	03 May 04	02 May 11
	1,762,239	–	(10,944)	(377,623)	**1,373,672**	0.83	1.51-1.69	27 Sep 04	26 Sep 11
	2,395,000	–	(12,500)	(205,000)	**2,177,500**	1.29	1.56-1.59	19 Nov 05	18 Nov 12
	2,380,000	–	(32,500)	(30,000)	**2,317,500**	1.51	1.56	02 Apr 06	01 Apr 13
	–	2,270,000	–	–	**2,270,000**	1.56	–	13 Jul 07	12 Jul 14
	11,251,810	2,270,000	(599,930)	(1,152,309)	**11,769,571**				
Total	**14,418,924**	**2,870,000**	**(862,628)**	**(1,152,309)**	**15,273,987**				

The interests of directors and employees under the UK and International Sharesave Schemes of the Group are set out below:

	Number of options at 1 January 2004	Number of options granted	Number of options lapsed	Number of options exercised	**Number of options at 31 December 2004**	Adjusted exercise price* £/Euro	Market price at date of exercise	Date from which exercisable	Expiry date
UK Sharesave Scheme									
SJ Bridges	7,321	–	–	–	**7,321**	1.26	–	01 Dec 06	31 May 07
RS Childs	10,999	–	–	(10,999)	**–**	0.88	1.50	01 Aug 03	31 Jan 04
RS Childs	7,321	–	–	–	**7,321**	1.26	–	01 Dec 06	31 May 07
RRS Hiscox	9,282	–	–	–	**9,282**	1.02	–	01 Dec 05	31 May 06
BE Masojada	14,283	–	–	(14,283)	**–**	0.67	1.60	01 Dec 04	31 May 05
BE Masojada	–	6,956	–	–	**6,956**	1.36	–	01 Dec 07	31 May 08
Other employees	6,814	–	–	(6,814)	**–**	0.88	1.50	01 Aug 03	31 Jan 04
	1,410,965	–	(82,318)	(1,209,898)	**118,749**	0.67	1.52-1.71	01 Dec 04	31 May 05
	210,502	–	(41,493)	(10,486)	**158,523**	1.02	1.70-1.71	01 Dec 05	31 May 06
	367,340	–	(39,553)	(1,587)	**326,200**	1.26	1.73	01 Dec 06	31 May 07
	–	638,679	(10,294)	–	**628,385**	1.36	–	01 Dec 07	31 May 08
	2,044,827	645,635	(173,658)	(1,254,067)	**1,262,737**				
International Sharesave Scheme									
Other employees	89,270	–	(5,357)	–	**83,913**	1.06	–	03 Jan 05	02 Jul 05
	30,690	–	–	–	**30,690**	1.62	–	01 Dec 05	31 May 06
	19,286	–	–	–	**19,286**	1.81	–	01 Dec 06	31 May 07
	–	41,020	–	–	**41,020**	2.00	–	01 Dec 07	31 May 08
	139,246	41,020	(5,357)	–	**174,909**				
Total	**2,184,073**	**686,655**	**(179,015)**	**(1,254,067)**	**1,437,646**				

*International Sharesave Scheme exercise prices are denominated in Euros.

The Company has taken advantage of the exemptions conferred in UITF Abstract 17 'Employee share schemes' in relation to the charging of notional costs to the profit and loss account, in relation to the sharesave schemes.

The aggregate gains made by the directors on exercise of the above options (based on market price at date of exercise less the exercise price) was £20,000 (2003: £773,000). The market price of Hiscox plc shares at 31 December 2004 was 166.5p. The highest and lowest values of Hiscox shares during 2004 were 180.5p and 143.5p (2003: 170.5p and 137.0p).

25 Directors' emoluments and share option schemes continued

(d) continued

(iii) Performance share plan

	Number of shares at 1 January 2004	Number of shares awarded	Number of shares lapsed	Number of shares issued	**Number of shares at 31 December 2004**	Market price at date of grant	Market price at date of exercise	Date of award	Date from which exercisable	Expiry date
SJ Bridges	27,364	–	–	(27,364)	**–**	1.07	1.67	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	38,309	–	–	(27,364)	**10,945**					
RS Childs	27,364	–	–	–	**27,364**	1.07	–	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	38,309	–	–	–	**38,309**					
RRS Hiscox	27,364	–	–	(27,364)	**–**	1.07	1.70	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	38,309	–	–	(27,364)	**10,945**					
BE Masojada	27,364	–	–	(27,364)	**–**	1.07	1.67	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	38,309	–	–	(27,364)	**10,945**					
Other employees	279,104	–	–	(251,740)	**27,364**	1.07	1.51-1.70	15 Jun 00	1 April 04	31 Dec 10
	5,472	–	–	(5,472)	**–**	1.05	1.67	9 Nov 00	1 April 04	31 Dec 10
	172,927	–	–	–	**172,927**	1.84	–	3 May 01	1 April 05	31 Dec 11
	457,503	–	–	(257,212)	**200,291**					
Total	**610,739**	**–**	**–**	**(339,304)**	**271,435**					

26 Pension contributions

During the year, the Group contributed to the two sections of the Hiscox defined benefit pension scheme. The Group also contributed to a defined contribution scheme introduced on 1 January 2001 for all staff joining the Group. The total pension charge for Hiscox plc for the year on a SSAP 24 basis amounted to £2,809,000 (2003: £2,183,000).

Defined benefit scheme

A qualified independent actuary carried out a full actuarial valuation as at 31 December 2002 and updated that valuation on an FRS 17 basis as at 31 December 2004.

The major assumptions used by the actuary were, in nominal terms, as follows:

	2004 %pa	2003 %pa	2002 %pa	2001 %pa
Rate of increase in salaries	**3.80**	3.80	3.25	3.50
Rate of increase in RPI linked pensions in payment	**2.80**	2.80	2.25	2.50
Rate of increase of pensions in deferment	**2.80**	2.80	2.25	2.50
Discount rate	**5.30**	5.40	5.50	6.00
Inflation assumption	**2.80**	2.80	2.25	2.50

The split of assets, their expected rate of return and the funding position of the entire defined benefit scheme at 31 December 2004, measured in accordance with the requirements of FRS 17, were as follows:

	2004 %	**2004 £000**	2003 %	2003 £000	2002 %	2002 £000	2001 %	2001 £000
Equities and properties	**6.50**	**58,497**	6.75	36,831	6.50	30,935	7.00	37,262
Bonds	**4.75**	**4,750**	5.00	9,512	4.75	10,037	5.25	6,399
Cash	**4.75**	**1,773**	3.75	11,859	4.00	2,561	4.00	2,949
Total market value of assets		**65,020**		58,202		43,533		46,610
Present value of scheme liabilities		**(99,229)**		(91,536)		(77,258)		(59,800)
Deficit		**(34,209)**		(33,334)		(33,725)		(13,190)
Related deferred tax asset		**10,263**		10,000		10,118		3,957
Deficit in the scheme – pension liability		**(23,946)**		(23,334)		(23,607)		(9,233)

The impact on the net assets and retained profits of the Group at 31 December 2004 of adopting FRS 17 would be:

	Net assets £000
Current position at 31 December 2004	371,599
Pension (asset)/liability on a SSAP 24 basis	(6,868)
Pension asset/(liability) on a FRS 17 basis	(23,946)
Restated position at 31 December 2004	340,785

During the year the Group has contributed to the scheme at the rate of 22.6% of pensionable salaries and contributions will remain at this level for the next three years. An additional contribution of £7,000,000 was paid in December 2003 and £2,766,000 in January 2005 as contributions towards the deficit. The Group has agreed that further additional contributions will be made. 61% of the deficit calculated on an FRS 17 basis is recharged to Syndicate 33.

Analysis of the amount that would have been charged to operating profit under FRS 17:

	2004 £000	2003 £000
Current service cost	**2,834**	2,348
Past service cost	**–**	–
	2,834	2,348

26 Pension contributions continued

Analysis of the amount that would have been credited to net finance charges under FRS 17:

	2004 £000	2003 £000
Expected return on pension scheme assets	**3,465**	2,845
Interest on pension scheme liabilities	**(4,991)**	(4,278)
Net return	**(1,526)**	(1,433)

Analysis of the actuarial gain/(loss) that would have been included in the statement of total recognised gains and losses under FRS 17:

	2004 £000	2003 £000
Actual return less expected return on pension scheme assets	**1,352**	3,267
Experience gains and losses arising on the scheme liabilities	**916**	(2,517)
Changes in assumptions underlying the present value of the scheme liabilities	**(1,856)**	(6,418)
Actuarial gain/(loss)	**412**	(5,668)

Movement in scheme deficit during the year:

	2004 £000	2003 £000
At 1 January	**(33,334)**	(33,725)
Current service cost	**(2,834)**	(2,348)
Contributions	**3,073**	9,840
Past service costs	**–**	–
Net return	**(1,526)**	(1,433)
Actuarial gain/(loss)	**412**	(5,688)
At 31 December	**(34,209)**	(33,334)

History of experience gains and losses

	2004	2003	2002
Difference between the expected and actual return on scheme assets:			
Amount (£000)	**1,352**	3,267	(8,809)
Percentage of scheme assets	**2%**	6%	20%
Experience gains and losses on scheme liabilities:			
Amount (£000)	**916**	(2,517)	(4,868)
Percentage of the present value of scheme liabilities	**1%**	3%	6%
Total actuarial gain in the statement of total recognised gains and losses:			
Amount (£000)	**412**	(5,668)	(19,819)
Percentage of the present value of scheme liabilities	**0%**	6%	26%

27 Guarantees and contingencies

(a) The Company entered into a deed of covenant in respect of its corporate member subsidiaries, Hiscox Dedicated Corporate Member Limited, Hiscox Select A to J Limited, to meet the subsidiaries' obligations to Lloyd's. The total guarantee given by the Company under this deed of covenant (subject to limited exceptions) amounts to £117,209,120 (2003: £108,167,046). The obligations under these deeds of covenant are secured by a fixed and floating charge over certain of the investments and other assets of the Company in favour of Lloyd's. Lloyd's has a right to retain the income on the charged investments in circumstances where it considers there to be a risk that the covenant might need to be called and might not be met in full.

(b) The Company has an agreement with J P Morgan (Europe), an agent for a syndicate of banks, for a £137,500,000 irrevocable standby Letter of Credit facility. Commencing 1 January 2005, £137,500,000 was drawn down to support part of the Group's underwriting activities for the 2005 account. Hiscox plc has given a fixed and floating charge over the Group's assets as a guarantee to the group of banks led by J P Morgan Chase Bank in connection with their Letter of Credit.

(c) Hiscox Insurance Company Limited has arranged a letter of credit of £325,000 with Natwest Bank plc to support its consortium activities with Lloyd's.

(d) The managed syndicate is subject to the New Central Fund annual contribution, which is an annual fee calculated on capacity. This fee was 1.25% on capacity for 2004 and is 0.5% for 2005, with a further 0.75% being loaned to the new Central Fund. In addition to this annual fee, the Council of Lloyd's has the discretion to call a further contribution of up to 3% per annum of capacity if required.

28 Lease commitments

(a) Operating leases

The Group has the following commitments under operating leases:

	Land and buildings 2004 £000	Other 2004 £000	Total 2004 £000	Land and buildings 2003 £000	Other 2003 £000	Total 2003 £000
Operating leases which expire:						
Within one year	–	28	28	212	22	234
From two to five years inclusive	67	151	218	62	47	109
Over five years	2,831	–	2,831	2,890	70	2,960
	2,898	179	3,077	3,164	139	3,303

The Company has no operating lease commitments.

(b) Finance leases

The finance lease obligations to which the Group is committed are:

	2004 £000	2003 £000
In one year or less	142	136
Between two and five years	228	119
	370	255

29 Related parties

The operations listed below are related parties within the definition of FRS 8. Hiscox Syndicates Limited, a wholly owned subsidiary of the Company received management fees and profit commissions for providing a range of management services to Syndicate 33 in which Hiscox Dedicated Corporate Member Limited and the corporate member subsidiaries of Hiscox Select Insurance Fund PLC participated.

The value of services provided to the syndicate in the year was as follows:

	2004 £000	2003 £000
Services provided by Hiscox Syndicates Limited to the undertakings below:		
Lloyd's Syndicate 33	15,305	18,931
Balances due to the Hiscox Group at the balance sheet dates were as follows:		
Due (to)/from respective related parties as at 31 December:		
Lloyd's Syndicate 33	30	(89)

BE Masojada is a non-executive director of Ins-sure Holdings Limited and its subsidiaries, appointed in October 2002. These companies operate in a joint venture between Lloyd's, the International Underwriting Association (IUA) and Xchanging. These companies provide policy issuance, premium collection, claims settlement and clearing services to the Lloyd's and London insurance company markets. Hiscox Underwriting Group Services Limited receives a fee of £20,000 p.a. in relation to this directorship. The balance due at 31 December 2004 was £5,000 (2003: £19,858).

BE Masojada is also Deputy Chairman of Lloyd's. Hiscox Underwriting Group Services Limited receives a fee of £41,250 p.a. in relation to his services. No balances were outstanding at 31 December 2004.

30 Commutation of business

On 24 December 2004, the Group terminated the operation of its protected cell company, Harlequin Insurance PCC Ltd, through a commutation. The loss before tax of Harlequin Insurance PCC Ltd in these accounts for the period up to commutation was US$761,000.

Net assets disposed of and the related commutation proceeds were as follows:

	£000
Reinsurer's share of technical provisions – claims outstanding	2,283
Debtors arising out of reinsurance operations	5,436
Cash at bank and in hand	1,566
Claims outstanding	(9,226)
Other creditors	(7)
Net assets	52
Commutation proceeds	675
Profit on commutation	**623**

31 Principal subsidiary companies

As at 31 December 2004

Company	Nature of business	Country of incorporation
Hiscox Assurances Services†	Underwriting agent	France
Hiscox Insurance Company Limited†	General insurance	England
Hiscox Insurance Company (Guernsey) Limited†	General insurance	Guernsey
Hiscox Dedicated Corporate Member Limited	Lloyd's corporate name	England
Hiscox Select Insurance Fund PLC	Insurance holding company	England
Hiscox Select Holdings Limited†	Insurance holding company	England
Hiscox Select A to J Limited†	Lloyd's corporate name	England
Hiscox Holdings Limited‡	Insurance holding company	England
Hiscox Insurance Holdings Limited	Insurance holding company	England
Hiscox International Holdings B.V.†	Insurance holding company	Netherlands
Hiscox Syndicates Limited†	Lloyd's managing agent	England
Hiscox Underwriting Ltd†	Lloyd's underwriting agent	England
Hiscox AG†	Underwriting agent	Germany
Hiscox bv†	Underwriting agent	Netherlands
Hiscox Investment Management Limited	Investment management	England
Hiscox Connect Limited	Online intermediary	England
Hiscox Underwriting Group Services Limited	Service company	England
Hiscox NV†	Underwriting agent	Belgium
Hiscox Trustees Limited^	Corporate trustee	England
Hiscox Pension Trustees Limited	Pension trustee	England

All companies are wholly owned. The proportion of voting rights of subsidiaries held is the same as the proportion of equity shares held.

†Held indirectly.

‡Hiscox Holdings Limited held 67,580 shares (2003: 406,884 shares) in Hiscox plc at 31 December 2004. In accordance with UITF Abstract 37, which came into force during 2003, the cost of these shares of £64,000 (2003: £386,000) has been taken to a separate reserve for own shares.

During 2004, 339,304 of these shares were issued to staff at a price of £1.069 as part of the employee performance share plans. This gave rise to a profit on disposal of £41,000 which has been credited to reserves. These gains on own shares have not been taken through the profit and loss account nor through the statement of total recognised gains or losses in accordance with UITF Abstract 37.

^Hiscox Trustees Limited is the trustee of the Hiscox plc Group Employee Share Ownership Plan (ESOP). The ESOP owned 325,434 shares (2003: 313,368 shares) in Hiscox plc at 31 December 2004. The shares have been purchased by the ESOP for future use in employee share option schemes. None of these shares are currently under option to employees, nor have been conditionally gifted to them. In accordance with UITF Abstract 38, which the Company has adopted early in 2003, the cost of these shares of £409,000 (2003: £300,000) has been taken to a separate reserve for own shares.

Notes to the Consolidated Cash Flow Statement

32

(a) Reconciliation of operating profit to net cash inflow from operating activities	2004 £000	2003 £000
Operating profit before taxation after interest, based on longer term investment return	**86,337**	77,122
Depreciation and amortisation of fixed assets	**4,405**	4,125
Increase in general insurance technical provisions, net of reinsurance	**56,019**	43,482
Increase/(decrease) in amounts owed to agents	**(4,708)**	(2,591)
(Increase)/decrease in amounts owed by agents	**(4,670)**	(11,295)
(Increase)/decrease in other debtors	**(14,687)**	(24,979)
Increase/(decrease) in other creditors	**(162)**	482
Cash transferred (to)/from Lloyd's business (note 32c)	**–**	(7,712)
Realised and unrealised investment (gains)/losses	**(4,333)**	(8,004)
Short term fluctuations in investment return	**(7,800)**	8,792
Interest expense	**1,952**	1,946
(Profits)/losses relating to Lloyd's business	**(36,472)**	(56,516)
Other non-cash transactions	**(951)**	(1,264)
Net cash inflow from operating activities	**74,930**	23,588

(b) Movement in opening and closing portfolio investments net of financing	Notes	2004 £000	2003 £000
Net cash inflow/(outflow) for the period	32(e)	**393**	(25,608)
Portfolio investments	32(d), 32(e)	**51,951**	35,968
Decrease/(increase) in loans	32(e)	**305**	(257)
Movement arising from cash flows		**52,649**	10,103
Movement in Lloyd's business	32(c), 32(e)	**184,574**	182,711
Changes in market value and exchange rate effects	32(e)	**(1,185)**	10,042
Increase in portfolio investments net of financing		**236,038**	202,856
Total portfolio investments net of financing at 1 January		**824,983**	622,127
Total portfolio investments net of financing at 31 December		**1,061,021**	824,983

(c) Cash flows of the Lloyd's business	2004 £000	2003 £000
Premiums received, net of reinsurance	**470,267**	442,742
Claims paid, net of reinsurance	**(124,154)**	(104,587)
Net portfolio investments	**14,249**	12,055
Other net cash flows	**(175,788)**	(175,211)
Net cash flow before retention and transfer from/(to) the Group	**184,574**	174,999
Transfer from/(to) the Group	**–**	7,712
Cash retained in the Lloyd's business	**184,574**	182,711

32 continued

(d) Analysis of cash flows for headings netted in the cash flow statement	2004 £000	2003 £000
Servicing of finance		
Interest paid	**(1,359)**	(2,194)
Interest paid element of finance leases	**(25)**	(39)
	(1,384)	(2,233)
Capital expenditure		
Payments to acquire tangible fixed assets	**(3,080)**	(2,935)
Payments to acquire land and buildings	**(2,985)**	–
Receipts from sales of tangible fixed assets	**–**	–
Receipts from sales of land and buildings	**500**	–
Payments to acquire intangible fixed assets	**(3,286)**	(117)
	(8,851)	(3,052)
Acquisitions and disposals		
Payments to acquire investment in associated undertaking	**(200)**	(50)
Net cash proceeds on disposal of a business	**675**	–
Movement in net cash and investments on disposal of a business	**(1,566)**	–
	(1,091)	(50)
Financing		
Proceeds from share issues	**2,046**	1,862
(Payments)/receipts relating to own shares	**254**	751
New bank loan	**–**	456
Repayment of bank loan	**(420)**	–
Capital element of finance leases	**(101)**	(159)
	1,779	2,910
Portfolio investment		
Purchase of shares and units in unit trusts	**65,899**	74,316
Purchase of debt securities and other fixed interest securities	**277,925**	301,303
Sale of shares and units in unit trusts	**(96,389)**	(29,730)
Sale of debt securities and other fixed interest securities	**(231,855)**	(241,646)
Increase/(decrease) in deposits with credit institutions	**36,371**	(68,275)
	51,951	35,968

(e) Movement in cash, portfolio investments and financing*	At 1 January 2004 £000	Cash flow £000	Changes in other business £000	Changes to market value and currencies £000	At 31 December 2004 £000
Cash at bank and in hand	52,945	393	7,994	–	**61,332**
Shares and units in unit trusts	111,947	(30,490)	–	5,337	**86,794**
Debt securities and other fixed interest securities	579,470	46,070	177,572	(6,715)	**796,397**
Deposits with credit institutions	81,299	36,371	(992)	193	**116,871**
Other investments	54	–	–	–	**54**
	825,715	52,344	184,574	(1,185)	**1,061,448**
Amounts owed to credit institutions	(477)	420	–	–	**(57)**
Finance leases	(255)	(115)	–	–	**(370)**
Total	824,983	52,649	184,574	(1,185)	**1,061,021**

*These balances include amounts relating to syndicate participations, but exclude participations in associated undertakings of £1,109,000 (2003: £519,000).

(f) Scope of cash flow
The consolidated cash flow statement excludes cash flows relating to underwriting on Lloyd's syndicates.

Five Year Summary

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Results					
Gross premiums written	778,893	797,380	676,705	548,926	384,736
Net premiums written	681,566	660,966	416,144	412,577	260,687
Net premiums earned	642,429	547,451	385,129	344,199	241,450
Operating profit/(loss) before taxation	86,337	77,122	34,584	(21,220)	2,950
Short term fluctuations in investment return	(7,800)	8,792	(11,142)	(8,694)	1,043
Exceptional items	–	–	–	–	1,803
Movement in equalisation provision	(1,503)	(2,506)	(2,703)	(2,582)	(2,309)
Profit/(loss) on ordinary activities before tax	77,034	83,408	20,739	(32,496)	3,487
Profit/(loss) on ordinary activities after tax	54,574	60,491	14,399	(23,107)	5,430
Combined ratio	93.0%	87.2%	94.8%	109.9%	103.1%
Assets employed					
Intangible assets	23,586	21,753	23,086	23,797	24,407
Financial investments	1,001,225	773,289	501,774	344,402	263,655
Cash at bank and in hand	61,332	52,945	121,196	62,520	38,466
Net technical provisions	(1,052,680)	(845,450)	(613,108)	(512,993)	(303,652)
Other net assets	338,136	327,300	246,184	247,065	110,686
Net assets	371,599	329,837	279,132	164,791	133,562
Net asset value per share	126.7p	113.5p	97.0p	85.5p	90.2p
Financed by					
Shareholders’ funds	371,599	329,837	279,132	164,791	133,562
Key statistics					
Adjusted earnings/(loss) per share based on operating profit/(loss) after tax*	21.0p	19.3p	11.3p	(9.7)p	3.2p
Earnings/(loss) per share based on profit/(loss) on ordinary activities after tax*	18.7p	20.9p	6.9p	(14.8)p	3.5p
Diluted earnings/(loss) per share based on profit/(loss) on ordinary activities after tax*	18.5p	20.6p	6.7p	(14.8)p	3.4p
Dividends per share*	5.00p	4.20p	3.54p	0.00p	3.17p
Return on shareholders’ funds**	16.5%	21.7%	8.7%	(17.3%)	4.2%
Share price – high***	180.5p	170.5p	164.5p	226.0p	144.0p
Share price – low***	143.5p	137.0p	120.5p	72.5p	83.0p

*Earnings/(losses) and dividends per share for earlier years have been restated for subsequent changes of capital not involving full consideration at fair value, including bonus issues and rights issues.
**Profit on ordinary activities after taxation as a percentage of opening shareholders’ funds.
***Closing mid market price.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Hiscox plc will be held at 1 Great St Helen's London EC3A 6HX on 21 June 2005 at 11.00 am for the following purposes:

Ordinary business

(1) To receive the accounts of the Company for the year ended 31 December 2004 together with the directors' and auditors' reports thereon.

(2) To re-appoint SJ Bridges who retires as director in accordance with the Articles of Association and the Combined Code.

(3) To re-appoint RS Childs who retires as director in accordance with the Articles of Association and the Combined Code.

(4) To re-appoint C Franklin Engler who retires as director in accordance with the Combined Code.

(5) To re-appoint SH Hall who retires in accordance with the Combined Code (aged 71).

(6) To re-appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid.

(7) To authorise the directors to determine the level of auditors' remuneration.

(8) To declare a final dividend for the year ended 31 December 2004 of 3.5 pence (net) per ordinary share payable to shareholders on the register at the close of business on 15 April 2005.

Special business

To consider and, if thought fit, pass the following resolutions, of which resolutions 9 to 11 will be proposed as ordinary resolutions and resolutions 12 to 14 will be proposed as special resolutions.

Ordinary resolutions

(9) That the directors be generally and unconditionally authorised (in substitution for all existing authorities) pursuant to Section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (within the meaning of that Section) up to a maximum aggregate nominal value of £4,897,001.43, representing 33.3% of the issued ordinary share capital as at 14 March 2005, for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next Annual General Meeting or a date falling fifteen months from the date of the passing of this resolution provided that the authority of the directors shall extend to the making of any offer or agreement before the expiration or revocation of the authority which would or might require relevant securities to be allotted after the expiration or revocation of this authority and the directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry or revocation of this authority.

(10) That the Remuneration Report contained within the Report and Accounts for the year ended 31 December 2004 be approved.

(11) That the amendment to the Rules of the Hiscox Unapproved Share Option Scheme by the addition of a new Schedule 2 in relation to the issue of options in France in the form produced to the Meeting and initialled by the Chairman for the purposes of identification be and is hereby approved and that the directors be authorised to do all acts and things which they may consider necessary or expedient to carry the amendment into effect.

Special resolutions

(12) That the directors be empowered (in addition to all existing authorities) pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 9 as if Section 89(1) of the Act did not apply to the allotment. This power will expire on the earlier of the conclusion of the next Annual General Meeting or a date falling fifteen months after the date of the passing of this resolution, but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the directors may allot equity securities in pursuance of that offer or agreement as if the authority conferred by this resolution had not expired provided that this power is limited to:

(i) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in proportion (as nearly as may be) to their existing holdings of ordinary shares but subject to the directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:
   (a) to deal with equity securities representing fractional entitlements; and
   (b) to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and

(ii) the allotment of ordinary shares for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £734,550.22.

(13) That the Company be authorised to purchase its own shares from the market. The authority will be limited to a purchase of own shares up to a maximum number of 14,500,000 shares (representing 4.9% of the Company's issued share capital) and the cost of the shares will be limited to a minimum share price of £0.50 per share and a maximum price per share that is not more than 5% above the average of the closing middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased. This authority will terminate on the earlier of the conclusion of the next Annual General Meeting or a date falling fifteen months after the date of the passing of this resolution. The Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

(14) That the Articles of Association of the Company, to allow for electronic proxy voting, be and are hereby amended as follows:

(a) By inserting the following in article 1(A): ""electronic communication" has the same meaning as in the Electronic Communications Act 2000;".

(b) By deleting article 60 and replacing it with the following: "60. Voting by Proxy
   (A) Subject to paragraph (B) below, an instrument appointing a proxy shall be in writing in any usual form (or in another form approved by the board) executed under the hand of the appointor or his duly constituted attorney or, if the appointor is a company, under its seal or under the hand of its duly authorised officer or attorney or other person authorised to sign.
   (B) Subject to the Acts, the board may accept the appointment of a proxy received in an electronic communication on such terms and subject to such conditions as it considers fit. The appointment of a proxy received in an electronic communication is not subject to the requirements of paragraph (A) above. The board may require the production of any evidence it considers necessary to determine the validity of such an appointment.
   (C) Unless the contrary is stated in it, the appointment of a proxy is deemed to confer authority to demand or join in demanding a poll and to vote on a resolution or amendment of a resolution put to, or other business which may properly come before, the meeting or meetings for which it is given, as the proxy thinks fit.

Notice of Annual General Meeting continued

(D) A proxy need not be a member.

(E) A member may appoint more than one proxy to attend on the same occasion. When two or more valid but differing instruments of proxy are delivered for the same share for use at the same meeting, the one which is last validly delivered or received (regardless of its date or the date of its execution) shall be treated as replacing and revoking the other or others as regards that share.

(F) Deposit of an instrument of proxy does not prevent a member attending and voting in person at the meeting or an adjournment of the meeting or on a poll.

(G) An instrument of proxy is (unless the contrary is stated in it) valid for an adjournment of the meeting as well as for the meeting or meetings to which it relates. An instrument of proxy is valid for 12 months from the date of execution or, in the case of an appointment of proxy delivered in an electronic communication, for the duration specified by the board.

(H) Subject to the Acts, the Company may send an instrument of proxy to all or none of the persons entitled to receive notice of and to vote at a meeting. If sent the instrument shall provide for two-way voting (without prejudice to a right to abstain) on all resolutions set out in the notice of meeting.".

(c) By deleting article 61 and replacing it with the following:
"61. Deposit of proxy
An instrument of proxy, and (if required by the board) a power of attorney or other authority under which it is executed or a copy of it notarially certified or certified in some other way approved by the board, shall be:

(i) in the case of an instrument in writing, deposited at the office, or another place in the United Kingdom specified in the notice convening the meeting or in an instrument of proxy or other accompanying document sent by the Company in relation to the meeting, not less than 48 hours before the time for holding the meeting or adjourned meeting or the taking of a poll at which the person named in the instrument proposes to vote;

(ii) in the case of an appointment of a proxy contained in an electronic communication, where an address has been specified for the purpose of receiving electronic communications:
(a) in the notice convening the meeting; or
(b) in any form of appointment of a proxy sent out by the Company in relation to the meeting; or
(c) in any invitation contained in an electronic communication to appoint a proxy issued by the Company in relation to the meeting,
received at such address not less than 48 hours before the time for holding the meeting at which the person named in the form of appointment of proxy proposes to vote;

(iii) in the case of a meeting adjourned for less than 28 days but more than 48 hours or in the case of a poll taken more than 48 hours after it is demanded, deposited or received as required by paragraphs (i) or (ii) not less than 24 hours before the time appointed for the holding of the adjourned meeting or the taking of the poll; or

(iv) in the case of a meeting adjourned for less than 48 hours or in the case of a poll not taken immediately but taken not more than 48 hours after it was demanded, delivered at the adjourned meeting or at the meeting at which the poll was demanded to the chairman or to the secretary or to a director.

An instrument of proxy not deposited or received in accordance with this article is invalid.".

(d) By deleting article 62 and replacing it with the following:
"62. When votes by proxy valid though authority revoked
A vote cast or poll demanded by a proxy or authorised representative of a company is valid despite termination of his authority unless notice of termination is received by the Company at the office or, in the case of a proxy, any other place specified for delivery or receipt of the form of appointment of proxy or, where the appointment of proxy was contained in an electronic communication, at the address at which the form of appointment was received, not later than the last time at which an appointment of proxy should have been delivered or received in order to be valid for use at the meeting or adjourned meeting at which the vote is cast or the poll demanded or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for use on the holding of the poll at which the vote is cast.".

By order of the Board
SJ Bridges
Secretary
14 March 2005

Note
A member entitled to attend and vote may appoint one or more proxies to attend and on a poll, vote instead of him. The instrument appointing a proxy must be in writing and a form of proxy for use at the meeting is enclosed.

A proxy need not also be a member of the Company.

Copies of the register of directors' interests and copies of any directors' service contracts (including the terms and conditions of appointment of non-executive directors) kept by the Company will be available for at least 15 minutes before the commencement of the meeting and will remain available during the continuance of the meeting to any person attending the meeting.

Copies of the amended rules of the Hiscox Unapproved Share Option Scheme, including Schedule 2, will be available for inspection at the offices of the Company at 1 Great St Helen's, London, EC3A 6HX during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of dispatch of this notice up to and including the date of the Annual General Meeting, and will be available for at least 15 minutes before the commencement of the meeting and will remain available during the continuance of the meeting to any person attending the meeting.

To be effective, the proxy and, unless previously registered with the Company, the authority or power of attorney under which it is executed or a notarially certified copy thereof must be lodged with the Company's registrars, Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent, BR3 4BR, not later than 48 hours before the time for holding the meeting or (as the case may be) the adjourned meeting.

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the relevant register of members of the Company as at 6.00 pm on 19 June 2005 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after 6.00 pm on 19 June 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Key Shareholder Information

• Annual General Meeting	21 June 2005
• Ex-dividend date*	13 April 2005
• Record date for 2004 final dividend**	15 April 2005
• Payment of final dividend	27 June 2005

*Shares bought on or after this date will not qualify for the dividend.
**Shareholders must be on our register on this date to receive the dividend.

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Or visit our website at www.hiscox.com

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HISCOX

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