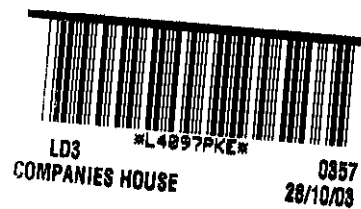


Reports & Financial Statements

For the year ended 31 December 2002

Euclidian (No.3) Limited

Company No: 2980509



EUCLIDIAN (NO.3) LIMITED

DIRECTORS:

J E MacGregor Truscott (Chairman)
J F Corrigan-Stuart

COMPANY SECRETARY:

A J Willoughby

REGISTERED OFFICE:

7 Birchin Lane
LONDON EC3V 9BW

AUDITORS:

Mazars
24 Bevis Marks
LONDON EC3A 7NR

EUCLIDIAN (NO.3) LIMITED

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EUCLIDIAN (NO.3) LIMITED

DIRECTORS' REPORT

The directors present their annual report, together with the accounts of the company for the year ended 31 December 2002.

RESULTS AND DIVIDENDS

The loss for the year to 31 December 2002 before taxation was £885,000 (2001: loss of £1,555,000) and the loss after taxation was £326,000 (2001: loss of £148,500).

The directors do not propose a final dividend for the year (2001: nil).

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The company's principal activity during the year was to act as a corporate member participating in the Lloyd's insurance market.

DIRECTORS

In accordance with the company's Articles of Association, none of the directors is required to retire from office at the annual general meeting.

The directors who held office throughout the period and to the date of this report are listed below:

J E MacGregor Truscott
J F Corrigan-Stuart

The interests of directors in other group companies are disclosed in the directors' report of the ultimate holding company, Euc Re Limited.

AUDITORS

On 1 September 2002 our auditors, Mazars Neville Russell, changed their name to Mazars. A resolution to re-appoint Mazars as auditors will be proposed at the forthcoming annual general meeting.

EUCLIDIAN (NO.3) LIMITED

DIRECTORS' REPORT (continued)

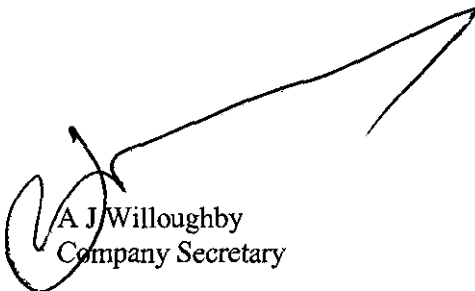
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

Approved by the Board of Directors on 30 June 2003
and signed on its behalf by:



A J Willoughby
Company Secretary

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EUCLIDIAN(NO.3) LIMITED

We have audited the financial statements of Euclidian No. 3 Limited for the year ended 31 December 2002 which comprise the profit and loss account, balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 the audit work, for this report, or for the opinion we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



MAZARS
CHARTERED ACCOUNTANTS
and Registered Auditors
24 Bevis Marks
London EC3A 7NR
30 June 2003

EUCLIDIAN (NO.3) LIMITED**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2002**

	Note	2002 £'000	2001 £'000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written	3	47,514	31,830
Outward reinsurance premiums	3	<u>(13,963)</u>	<u>(10,909)</u>
Earned premiums, net of reinsurance		33,551	20,921
Allocated investment return transferred from the non-technical account		595	629
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount	3	(32,739)	(22,371)
Reinsurers' share	3	<u>15,597</u>	<u>11,112</u>
		(17,142)	(11,249)
Change in the provision for claims:			
Gross amount	3	(14,973)	(7,315)
Reinsurers' share	3	<u>13,001</u>	<u>4,200</u>
Open year loss provisions	3	(3,276)	(3,541)
Reinsurers share	3	<u>3,276</u>	<u>3,541</u>
		<u>(1,972)</u>	<u>(3,115)</u>
Claims incurred, net of reinsurance		(19,114)	(14,364)
Net operating expenses	4	<u>(15,971)</u>	<u>(8,917)</u>
Balance transferred to the non-technical account		<u>(939)</u>	<u>(1,731)</u>

EUCLIDIAN (NO.3) LIMITED**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2002**

	Note	2002 £'000	2001 £'000
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(939)	(1,731)
Investment income			
- syndicate participations		566	626
- corporate undertakings		31	11
Investment expenses and charges		(2)	(8)
Allocated investment return transferred to the general business technical account		(595)	(629)
Other income		55	177
Other charges, including value adjustments		<u>(1)</u>	<u>(1)</u>
Loss on ordinary activities before tax	5	(885)	(1,555)
Taxation on loss on ordinary activities	6	<u>559</u>	<u>70</u>
Loss on ordinary activities after tax	10	<u>(326)</u>	<u>(1,485)</u>

The company has no gains or losses other than the loss for the year.

All items derive from continuing operations.

No operations were acquired or discontinued in the year.

EUCLIDIAN (NO.3) LIMITED

BALANCE SHEET as at 31 December 2002

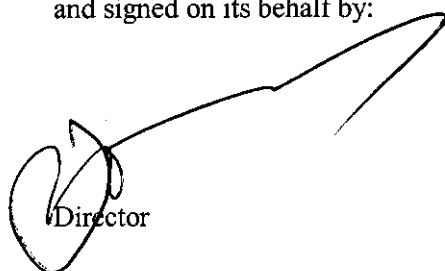
		2002			2001		
	Note	Syndicate £'000	Other £'000	Total £'000	Syndicate £'000	Other £'000	Total £'000
ASSETS							
INTANGIBLE ASSETS	7	-	-	-	-	1	1
INVESTMENTS							
Financial investments	8	6,669	-	6,669	6,713	-	6,713
Deposits with ceding undertakings		-	-	-	5	-	5
REINSURERS' SHARE OF TECHNICAL PROVISIONS							
Claims outstanding		9,941	-	9,941	14,288	-	14,288
DEBTORS							
Debtors arising out of direct insurance operations:							
Due from policyholders		11	-	11	6	-	6
Due from intermediaries		7,810	-	7,810	10,657	-	10,657
Debtors arising out of reinsurance operations		8,016	14,673	22,689	10,985	5,501	16,486
Inter account		5,117	(5,117)	-	495	(495)	-
Amounts due from group undertakings		-	1,012	1,012	-	748	748
Other debtors	6(c)	391	2,131	2,522	70	1,200	1,270
		<u>21,345</u>	<u>12,699</u>	<u>34,044</u>	<u>22,213</u>	<u>6,954</u>	<u>29,167</u>
OTHER ASSETS							
Cash at bank and in hand		1,177	3,773	4,950	4,160	17	4,177
Other		3,324	-	3,324	2,022	-	2,022
		<u>4,501</u>	<u>3,773</u>	<u>8,274</u>	<u>6,182</u>	<u>17</u>	<u>6,199</u>
PREPAYMENTS AND ACCRUED INCOME							
Other prepayments and accrued income		26	11	37	40	-	40
TOTAL ASSETS		<u>42,482</u>	<u>16,483</u>	<u>58,965</u>	<u>49,441</u>	<u>6,972</u>	<u>56,413</u>

EUCLIDIAN (NO.3) LIMITED

BALANCE SHEET as at 31 December 2002

		2002			2001		
	Note	Syndicate £'000	Other £'000	Total £'000	Syndicate £'000	Other £'000	Total £'000
LIABILITIES							
CAPITAL AND RESERVES							
Called up share capital	9, 10	-	-	-	-	-	-
Profit and loss account	10	-	(3,371)	(3,371)	-	(3,045)	(3,045)
Shareholders' funds	10	-	(3,371)	(3,371)	-	(3,045)	(3,045)
TECHNICAL PROVISIONS							
Claims outstanding - gross amount		36,072	10,203	46,275	40,182	6,086	46,268
Deposits received from reinsurers		100	-	100	-	-	-
CREDITORS							
Creditors arising out of direct insurance operations		5,442	-	5,442	2,617	-	2,617
Creditors arising out of reinsurance operations		628	-	628	3,230	-	3,230
Other creditors including taxation and social security		236	-	236	3,393	-	3,393
Amounts due to other group companies		-	1,312	1,312	-	1,311	1,311
Long Term Creditors	16	-	4,575	4,575	-	-	-
		6,306	5,887	12,193	9,240	1,311	10,551
ACCRUALS AND DEFERRED INCOME							
		4	3,764	3,768	19	2,620	2,639
TOTAL LIABILITIES		42,482	16,483	58,965	49,441	6,972	56,413

Approved by the board of directors on 30 June 2003
and signed on its behalf by:



Director

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002

1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Basis of preparation

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 ("the Act") and in accordance with applicable Accounting Standards.

(b) Recognition of insurance transactions

Preparing financial statements in accordance with Section 255 of and Schedule 9A to the Act has required the company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the Syndicates").

For each such syndicate, the company's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the company's profit and loss account. Similarly, its proportion of each Syndicate's assets and liabilities has been reflected in its balance sheet (under the column heading "syndicate"). The "syndicate" assets are held subject to trust deeds for the benefit of the company's insurance creditors.

The proportion referred to above is calculated by reference to the company's participation as a percentage of each Syndicate's total capacity.

The company has delegated sole management and control of its underwriting through each Syndicate to the managing agent of the Syndicate ("the Managing Agent") and it has further undertaken not to interfere with the exercise of such management and control. The Managing Agents of the Syndicates are therefore responsible for determining the insurance transactions to be recognised by the company. The only exceptions to this rule are the level of provision for outstanding claims and transactions relating to the Gearing and Risk Sharing Agreement with Centre Solutions (Bermuda) Limited. The provisions have been determined by the directors of the company (see 2(e) below).

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 December 2002 (continued)**

1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

(c) Sources of data

The information used to compile the technical account and the "syndicate" balance sheet is based on returns prepared for this purpose by the Managing Agents of the Syndicates ("the Returns"). For syndicates not managed by Euclidian Underwriting Limited, these Returns have been subjected to audit by the syndicate auditors and are based on the audited syndicate returns to Lloyd's and the audited annual reports to Syndicate members. This base data has been adjusted as necessary so that the Returns reflect the differences in preparation between syndicate annual reports and financial statements in accordance with Schedule 9A.

The format of the Returns has been established by Lloyd's and, for syndicates not managed by Euclidian Underwriting Limited, Lloyd's has also been responsible for collating the data at a syndicate level and analysing it into corporate member level results.

The Returns cover the 12 months to 31 December 2002 and 31 December 2001.

2 ACCOUNTING POLICIES

(a) Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial investments.

(b) Basis of accounting for underwriting results

All classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the Syndicates. The nature of the information Managing Agents can make available is insufficient for the company to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis followed by the company, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently, no profit is recognised in respect of an underwriting year until that time at the earliest. Profit is only recognised if a syndicate has been able to effect a "reinsurance to close" (see (f) below) in respect of that underwriting year.

If an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 December 2002 (continued)**

2 ACCOUNTING POLICIES (continued)

(c) Premiums

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial year, together with any adjustments arising in the year to such premiums receivable in respect of business written in prior years. Premiums are shown gross of commission payable to intermediaries and exclude insurance premium tax.

Gross premiums written may include "reinsurance to close" receivable (see (f) below).

Premiums written by a syndicate may also include the reinsurance of other syndicates on which the company participates. No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' claims) to remove this intersyndicate reinsurance.

(d) Claims incurred

Claims incurred include the costs of claims handling expenses. Recoverable amounts arising out of subrogation or salvage are deducted from the cost of claims. Claims incurred comprise amounts paid or provided in respect of claims occurring during the year to 31 December, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year.

(e) Provision for claims

Provision is made for claims incurred but not paid in respect of events up to 31 December. The provision includes the amounts required to ensure no profit is recognised before the end of the third year under the three year funded basis of accounting (see (b) above).

The provision is increased as appropriate by the company to the extent that deficits are foreseen on underwriting years before the 36 months point is reached.

In deciding whether any such additional provision is necessary, each syndicate participation has been considered in isolation.

The provision is based on the Returns and reports from the Managing Agents. When appropriate, statistical methods have been applied to past experience of claims frequency and severity.

(f) Reinsurance to close

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year in consideration of:

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2002 (continued)

2 ACCOUNTING POLICIES (continued)

(f) Reinsurance to close (continued)

- (a) a premium; and
- (b) either
 - (i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurances and other monies receivable in connection with that insurance business); or
 - (ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharge of the liabilities of the reinsured members.

Where the reinsurance to close is between members on successive years of account of the same syndicate, the managing agent has a duty to ensure both sets of members are treated equitably and to set the reinsurance to close with the intention that neither a profit nor a loss accrues to either group of members.

To the extent that the company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

If the company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the company has assumed a greater proportion of the business of the syndicate. If the company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the syndicate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a syndicate year of account and it is treated for accounts purposes as settling all the company's outstanding gross liabilities in respect of the business so reinsured.

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002 (continued)

2 ACCOUNTING POLICIES (continued)

(g) Investments

Listed and other traded investments are stated at mid market values. Other investments are stated at directors' valuations. Unrealised gains and losses are recognised in the profit and loss account.

(h) Investment income

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments. Realised gains and losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation.

Where investments represent the company's share of syndicate investments, they are treated as sold and repurchased at each year end in recognition of the annual venture nature of participation on a syndicate. The cost of these investments is therefore their market value at each 31 December. *The realised gains reported by Syndicates are net of any realised losses.*

All investment income is allocated to the technical account.

(i) Investment expenses and charges

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation. The realised losses reported by Syndicates are net of any realised gains.

(j) Net operating expenses

Operating expenses are recognised when incurred. They include the company's share of syndicate operating expenses, the remuneration payable to Managing Agents and the direct costs of membership of Lloyd's. Where they relate to the company's underwriting, they are taken into account in calculating the technical provision required under the three year funded basis of accounting.

(k) Other charges

Expenses not attributable to underwriting are recognised when incurred.

(l) Foreign currencies

Transactions in foreign currencies other than sterling, United States dollars and Canadian dollars are translated at the rates of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are translated at the rates of exchange ruling at the end of the financial year. Exchange differences arising on translation are dealt with in the profit and loss account.

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002 (continued)

2 ACCOUNTING POLICIES (continued)

(m) Syndicate participation rights

Where the company has purchased the right to participate on Syndicates, the cost is capitalised and amortised in equal annual instalments over 3 years, the period of time for which the company expects to derive economic benefit from its expenditure.

Amortisation commences at the end of the third year from the start of the company's first underwriting year on the Syndicate.

If, at any time, the directors become aware of a permanent diminution in the value of the company's right to participate on a syndicate, the asset is written down accordingly.

(n) Taxation

The company is taxed on its share of the underwriting results "declared" by Syndicates and these are deemed to accrue evenly over the calendar year in which they are declared.

The Inland Revenue agrees the taxable results of Syndicates at a syndicate level on the basis of computations submitted by the Managing Agent. Any adjustments that may be necessary to the tax provisions established by the company as a result of Inland Revenue agreement of syndicate taxable results will be reflected in the financial statements of subsequent periods.

Other profits are recognised and assessable to corporation tax in the same period, after adjustment in accordance with tax legislation.

(o) Deferred taxation

Provision is made in full for deferred tax liabilities, using the liability method, on all material timing differences. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is 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.

(p) Cash flow statement

The company is exempt from preparing a cash flow statement under FRS1 (Revised 1996) as greater than 90% of the corporate voting rights are held within the group whose consolidated financial statements, in which the company is included are publicly available.

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2002 (continued)

3 SEGMENTAL INFORMATION

Year ended 31 December 2002	Gross premiums written £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
<i>Direct business</i>					
Accident and health	6,818	3,272	(2,177)	(1,377)	6,536
Motor - third party liability	(3)	(402)	(19)	46	(378)
Motor - other classes	1,585	(2,024)	(389)	(24)	(852)
Marine, aviation and transport	5,410	(2,551)	(1,877)	9,672	10,654
Fire and other damage to property	13,402	(26,586)	(4,762)	(3,166)	(21,112)
Third party liability	8,669	(12,662)	(2,827)	(7,841)	(14,661)
Credit and suretyship	499	(2,626)	(174)	(1,531)	(3,832)
Legal expenses	101	(31)	(31)	450	489
Assistance	3	(31)	(1)	11	(18)
Other	230	(743)	(101)	(2,403)	(3,017)
	<u>36,714</u>	<u>(44,384)</u>	<u>(12,358)</u>	<u>(6,163)</u>	<u>(26,191)</u>
<i>Reinsurance business</i>					
Other reinsurance acceptances	11,805	(9,549)	(3,735)	12,737	11,258
Reinsurance to close	(1,005)	6,221	122	8,061	13,399
	<u>10,800</u>	<u>(3,328)</u>	<u>(3,613)</u>	<u>20,798</u>	<u>24,657</u>
Total	<u>47,514</u>	<u>(47,712)</u>	<u>(15,971)</u>	<u>14,635</u>	<u>(1,534)</u>

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2002 (continued)

3 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2001	Gross premiums written £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
<i>Direct business</i>					
Accident and health	3,433	(6,108)	(1,050)	(770)	(4,495)
Motor - third party liability	32	(2)	(29)	53	54
Motor - other classes	1,477	(166)	(482)	293	1,122
Marine, aviation and transport	5,257	(5,153)	(1,580)	(9,189)	(10,665)
Fire and other damage to property	9,685	(8,923)	(2,945)	6,921	4,738
Third party liability	4,716	(1,518)	(1,437)	16,364	18,125
Credit and suretyship	56	(30)	(37)	1,853	1,842
Legal expenses	86	(32)	(25)	10	39
Assistance	13	(1)	(5)	(10)	(3)
Other	(98)	158	49	1,436	1,546
Total direct	<u>24,657</u>	<u>(21,773)</u>	<u>(7,541)</u>	<u>16,961</u>	<u>12,303</u>
<i>Reinsurance business</i>					
Other reinsurance acceptances	4,369	(5,963)	(1,290)	(6,186)	(9,070)
Reinsurance to close	<u>2,804</u>	<u>(1,950)</u>	<u>(86)</u>	<u>(6,362)</u>	<u>(5,594)</u>
Total reinsurance	<u>7,173</u>	<u>(7,913)</u>	<u>(1,376)</u>	<u>(12,548)</u>	<u>(14,664)</u>
Total	<u><u>31,830</u></u>	<u><u>(29,686)</u></u>	<u><u>(8,917)</u></u>	<u><u>4,413</u></u>	<u><u>(2,360)</u></u>

All gross premiums in respect of direct business are written in the United Kingdom.

The open year loss provisions and the reinsurers' share thereof are excluded from the segmental analysis as they have no net effect.

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002 (continued)

4 NET OPERATING EXPENSES

	2002	2001
	£'000	£'000
Acquisition costs	11,026	5,717
Administrative expenses	1,695	1,342
Profit on exchange	1,225	(68)
Personal expenses	2,025	1,926
	<u>15,971</u>	<u>8,917</u>

5 LOSS ON ORDINARY ACTIVITIES BEFORE TAX

	2002	2001
	£'000	£'000
The loss on ordinary activities before tax is stated after charging:		
Auditors' remuneration - audit services	<u>6</u>	<u>3</u>

No staff were employed by the company.

No director received any emoluments from the company in the year (2001: £Nil).

EUCLIDIAN (NO.3) LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
For the year ended 31 December 2002 (continued)**6 TAXATION ON LOSS ON ORDINARY ACTIVITIES****(a) Analysis of tax in period**

	2002 £'000	2001 £'000
Overseas tax	3	(1)
Overprovision on prior years	-	(50)
Group relief	-	(21)
Movement in deferred tax	(562)	-
	<u> </u>	<u> </u>
Tax credit for the period	(559)	(70)
	<u> </u>	<u> </u>

(b) Factors affecting the tax charge for the current period

The tax assessed for the period varies from that resulting from applying the standard rate of corporation tax in the UK: 30% (2001: 30%)

The differences are explained below:

	2002 £'000	2001 £'000
Loss on ordinary activities before tax	(885)	(1,553)
	<u> </u>	<u> </u>
Tax at 30% thereon:	(266)	(466)
Utilisation of tax losses	163	54
Movement in short term timing differences	(28)	-
Timing differences arising from reinsurance cancellation premiums	173	216
Balance on the Technical Account less the 2002 (2001) reinsurance cancellation premium	(63)	186
Allowable expenses included within the technical account	(28)	(30)
CTA2 Adjustments	47	19
Difference between the 1999 (1998) Syndicate Result and reinsurance recoveries	2	-
Overseas taxation	(3)	1
Adjustment in respect of prior periods	-	(50)
	<u> </u>	<u> </u>
Current tax (charge) / credit for the period	(3)	(70)
	<u> </u>	<u> </u>

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2002 (continued)

(c) Factors that may affect future tax charges

The company has a potential deferred tax asset of £1,307,000 (2001: £980,000) in respect of timing differences relating to crystallised tax losses and the reinsurance cancellation premiums; there is sufficient evidence that £562,000 (2001: £nil) of the asset will be recovered and a debtor has been established to reflect this. The remaining asset will be recovered in full if sufficient profits are generated in future against which the losses will be offset.

7 INTANGIBLE ASSETS

Syndicate participation rights

£'000

Cost

At 1 January 2002 and 31 December 2002

4
=

Amortisation

At 1 January 2002

(3)

Amortisation charge for the year

(1)
—

At 31 December 2002

(4)
—

Net book value

At 31 December 2002

-
=

At 31 December 2001

1
=

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 31 December 2002 (continued)**

8 FINANCIAL INVESTMENTS

	Syndicate	
	2002	2001
	£'000	£'000
Current value		
Shares and other variable yield securities	-	-
Debt securities and other fixed interest securities	6,288	5,723
Participation in Investment Pools	209	-
Deposits with credit institutions	113	929
Other investments	59	61
	<u>6,669</u>	<u>6,713</u>
Of which:		
Listed on a recognised stock exchange	6,567	6,713
Other listed	102	-
	<u>6,669</u>	<u>6,713</u>
Cost		
Shares and other variable yield securities	-	-
Debt securities and other fixed income securities	6,488	4,713
Participation in Investment Pools	209	-
Deposits with credit institutions	124	77
Other	80	53
	<u>6,901</u>	<u>4,843</u>

9 SHARE CAPITAL

	Authorised	Allotted, issued
	£	and fully paid
		£
At 31 December 2002 and 31 December 2001		
Ordinary shares of £1 each	<u>1,000</u>	<u>2</u>

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002 (continued)

10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2002	-	(3,045)	(3,045)
Loss for the year	-	(326)	(326)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002	-	(3,371)	(3,371)
	<u> </u>	<u> </u>	<u> </u>

11 LONG TERM CREDITORS

The amounts owed to Centre Solutions (Bermuda) Limited have increased due to the further injection of funds under the existing Reinsurance arrangements. As such repayments are only due out of future profits the earliest of which is expected to be recognised with the closure of the 2002 Year of Account in the accounts to 31 December 2004.

12 RELATED PARTY DISCLOSURE

The following Managing Agents managed more than 10% of the company's capacity on the underwriting years on which it participates.

Managing Agent	% of company's aggregate premium limit for year of account		
	2000	2001	2002
XL Brockbank Ltd	16.0	-	-
Euclidian Underwriting Limited	72.2	89.1	100

13 ULTIMATE HOLDING COMPANY

The immediate parent undertaking is Euclidian Holdings Limited. The ultimate parent undertaking is Euc Re Limited.

14 CONTINGENT LIABILITY

There are five other corporate member subsidiaries of Euc Re Limited. If one of these subsidiaries fails to meet any of its Lloyd's obligations, Lloyd's will be:

- (1) entitled to require the other subsidiaries to cease or reduce their underwriting; and/or
- (2) having regard to the fact that the Central Fund may be applied to discharge the obligations of the defaulting subsidiary, entitled to require each of the other corporate member subsidiaries to make contributions to the Central Fund up to the amount of their respective net profits held from time to time in premiums trust funds, sufficient to reimburse the Central Fund in full for any payment made on behalf of the defaulting member.

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

EUCLIDIAN (NO.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002 (continued)

15 MAJOR NON-CASH TRANSACTIONS

Amounts in respect of transactions relating to the company's activities have been received and paid by other group companies and have, therefore, been accounted for via the inter company account.

16 GOING CONCERN

The Financial Statements have been prepared on a going concern basis as the Directors are of the opinion that the reinsurances purchased by the Company to protect the company from any further underwriting losses, and the current expectations of future profits make this appropriate.