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Ravensworth Finance Limited

Directors' report and financial statements
Period to 30 September 2007

Registered number	MC177875 (Cayman Islands)
Registered number	FC027236 (UK)

Contents

Directors' report

The Directors present their report and the financial statements for the period from 11 December 2006 to 30 September 2007 The comparative period is the period from 23 November 2006, the date of incorporation, to 11 December 2006

Principal activities and business review

Ravensworth Finance Limited ("the Company") is an investment company whose principal activities are to make and manage investments

The Company's results for the period ended 30 September 2007 show a profit after tax of £792,761 (period to 11 December 2006 profit of £2,530).

It is noted that the Company has net current liabilities of £249,981,269 The Directors, however, have prepared the financial statements on a going concern basis, as the Company has an investment in the preference shares of Kilgallon Finance Limited ("Kilgallon"), whose carrying value at the balance sheet date of £251,291,856 is sufficient to cover the Company's current liability position. Therefore, the Directors consider the results for the period to be satisfactory

The Company will continue to make and manage investments

Dividends

Dividends totalling £775,888 were paid to ordinary shareholders during the period (period to 11 December 2006 nil) There were no dividends declared but unpaid at the end of the period

Directors and directors' interests

The Directors who held office during the period were as follows

Stephen Hjorring

Christianne Smart

Philip Shaw

Michael Kirkman (appointed 14 March 2007)

None of the Directors who held office during the period had any disclosable interest in the shares of the Company

No rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families or exercised by them during the period

Directors' report *(continued)*

Principal risks and uncertainties

Refer to note 18 disclosures on financial risk management

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Principal place of business

The Company is managed and controlled in the UK The offices of the Company and the location of board meetings throughout the period was 30 St Mary Axe, London EC3A 8EP

Political and charitable contributions

The Company made no political or charitable contributions during the period

Accounting period length

The Company's second accounting period is less than one year in length. This is to ensure that the accounting period end date is in line with the consolidating parent company

Auditors

PricewaterhouseCoopers LLP expressed their willingness to continue in office

By order of the board

Christianne Smart
Director
21 November 2007

London
United Kingdom

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and 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 that the financial statements comply with International Financial Reporting Standards,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business,
- furnish the independent auditors with all necessary information in order for them to perform their statutory audit

The Directors confirm that they have complied with the above requirement in preparing the financial statements The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial 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

Each of the persons who is a Director at the date of approval of this report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information, and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

By order of the board

Christianne Smart
Director
21 November 2007

London
United Kingdom

Independent auditors' report to the members of Ravensworth Finance Limited

We have audited the financial statements of Ravensworth Finance Limited for the period ended 30 September 2007 which comprises the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 700 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

Basis of audit opinion

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

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

Independent auditors' report to the members of Ravensworth Finance Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 30 September 2007 and of its profit and cash flows for the period then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985 as applicable to overseas companies, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
22 November 2007

Balance sheet

	Note	As at 30 September 2007 £000	As at 11 December 2006 £000
Non-current assets			
Available-for-sale investments	3	252,002	251,000
		252,002	251,000
Current assets			
Loans and receivables		-	1,000
Dividends receivable	4	307	3
Cash and cash equivalents		58	-
		365	1,003
Total assets		252,367	252,003
Current liabilities			
Debenture Stock issued	5	(250,000)	-
Interest accrued on Debenture Stock issued	5	(323)	-
Tax payable	5	(6)	
Trade and other payables	5	(17)	-
		(250,346)	-
Net assets		2,021	252,003
Equity			
Ordinary share capital	6	2,000	2,000
Share premium	8	-	250,000
Retained earnings		19	3
Available-for-sale reserve	7	2	-
Total equity		2,021	252,003

The notes on pages 10 to 22 form part of these financial statements The financial statements on pages 6 to 22 were approved by the Board of Directors on 21 November 2007 and were signed on its behalf by

Christianne Smart
Director

Statement of changes in equity
for the period 12 December 2006 to 30 September 2007

	Note	Share Capital £000	Share Premium £000	Retained earnings £000	AFS Reserve £000	Total £000
Balance at 23 November 2006		-	-	-	-	-
Issuance of ordinary shares at par		2,000	-	-	-	2,000
Share premium on issuance of ordinary shares		-	250,000	-	-	250,000
Profit for the period		-	-	3	-	3
Balance at 12 December 2006		**2,000**	**250,000**	**3**	**-**	**252,003**
Debenture Stock issued out of share premium	*8*	-	(250,000)	-	-	(250,000)
Profit for the period		-	-	792	-	792
Fair value gain, gross of tax - AFS financial assets	*7*	-	-	-	2	2
- Ordinary share dividends	*9*	-	-	(776)	-	(776)
Balance at 30 September 2007		**2,000**	**-**	**19**	**2**	**2,021**

The notes on pages 10 to 22 form part of these financial statements

Income statement

	Note	Period 12 December 2006 to 30 September 2007 £000	Period 23 November 2006 to 11 December 2006 £000
Dividend income	*10*	10,090	3
Interest expense	*11*	(9,272)	-
Administrative expenses	*12*	(19)	-
Operating profit and profit before income tax		799	3
Taxation	*16*	(7)	-
Profit for the period		792	3

The Company has paid dividends on equity shares of £775,888 during the period There were no dividends declared but unpaid at the period end Refer to note 9

The Company's results are derived from continuing operations

The notes on pages 10 to 22 form part of these financial statements

Cash flow statement

	Note	Period 12 December 2006 to 30 September 2007 £000	Period 23 November 2006 to 11 December 2006 £000
Cash flows from operating activities	*17*	**835**	(252,000)
Tax paid		**(1)**	-
Net cash generated/(used) in operating activities		**834**	(252,000)
Cash flows from financing activities			
Issue of ordinary shares	*6, 8*	-	252,000
Ordinary share dividends paid	*9*	**(776)**	-
Net cash generated/(used) in financing activities		**(776)**	252,000
Net increase in cash and equivalents		**58**	-
Balance at beginning of period		-	-
Cash and cash equivalents		**58**	-

Notes
(forming part of the financial statements)

1 General information

Ravensworth Finance Limited ("the Company") is a company which makes and manages investments The Company is a limited liability company incorporated in the Cayman Islands and managed and controlled in the UK The offices of the Company and the location of board meetings throughout the period were 30 St Mary Axe, London EC3A 8EP

The Company is not listed on any exchange

These Company financial statements were authorised for issue by the Board of Directors on 21 November 2007

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below These policies have been consistently applied during the period presented unless otherwise stated

The financial statements cover the period from 12 December 2006 to 30 September 2007 This is to ensure that the accounting period end date is in line with the consolidating parent company

Current liability position of the Company

It is noted that the Company has net current liabilities of £249,981,269 The Directors, however, have prepared the financial statements on a going concern basis, as the Company has an investment in the preference shares of Kilgallon, whose carrying value at the balance sheet date of £251,291,856 is sufficient to cover the Company's current liability position

Basis of preparation

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards, as adopted by the European Union and IFRIC interpretations IFRS standards and interpretations are issued by the International Accounting Standards Board (IASB) and comprise International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)

The balance sheet and income statements in this document are presented in accordance with IAS 1 'Presentation of Financial Statements' These financial statements are prepared on a historical cost basis, as modified for certain items which have been fair valued in accordance with appropriate International Financial Reporting Standards.

Once approved, the financial statements cannot be amended without re-presenting them for approval by the Board

All references to figures in the narrative passages throughout these financial statements are in absolute sterling terms

Notes *(continued)*

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

Interest income and expense

Interest income and expense for all interest-bearing financial instruments except for those classified as held for trading or designated at fair value are recognised in 'interest income' and 'interest expense' in the income statement using the effective interest method, based on the rates of the financial assets of financial liabilities to which they relate

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability

Fee income

Fee income is recognised on an accruals basis when the service has been provided

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts Bank overdrafts, if any, are shown within borrowings in current liabilities on the balance sheet

Foreign currency translation

Items included in the financial statements, are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The financial statements are presented in sterling, which is the Company's functional and presentation currency There are no non-sterling transactions which affect the financial statements for the period

Financial instruments

The Company classifies its financial assets in the following categories at fair value through profit and loss, loans and receivables, and available-for-sale The classification depends on the purpose for which the financial assets were acquired Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date Financial investments are recognised on trade date, when the Company enters into contractual arrangements with counterparties to purchase securities, and are derecognised when either the securities are sold or the borrower repays their obligations

(a) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management Derivatives are categorised as 'held for trading' and therefore classified as financial assets at fair value through profit and loss unless they are designated as hedges Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date

Notes *(continued)*

Financial instruments *(continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company provides money directly to a debtor with no intention of trading the receivable They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity

(d) Available-for-sale assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date

Purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss Financial assets carried at fair value through profit or loss, are initially recognised at fair value and transaction costs are expensed in the income statement Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net', in the period in which they arise

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired

If an impairment loss has occurred on available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement If there is objective evidence that an impairment loss has been incurred on any other type of financial asset, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest

Notes *(continued)*

Financial instruments *(continued)*

rate The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement If a loan or held-to-maturity

investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract As a practical expedient, the Company will measure impairment on the basis of an instrument's fair value using an observable market price, where available

Deferred income tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets, or the entity's own equity

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as liabilities in the period in which the dividends are approved by the Company's board of directors

3 Available-for-sale investments

	£000
Opening balance at 12 December 2006	251,000
Additions	
- UK Gilt stock	997
Accretion of UK Gilt discount and revaluation	5
Available-for-sale investments at 30 September 2007	**252,002**

The Company made an investment in 4 75% June 2010 UK Gilt stock on 21 December 2006 At the period end, the fair value of this investment was £1,002,335 Accretion of £2,333 is included in the income statement and £2,404 has been credited to an available-for-sale reserve within capital and reserves Refer note 7

The fair value adjustment has been arrived at using quoted market prices There were no disposals during the period

Notes *(continued)*

Available-for-sale investments *(continued)*

The Company subscribed for 251,000,000 preference shares of £1 each in Kilgallon on 23 November 2006 These preference shares do not entitle the holder to vote at general meetings of the Company These preference shares carry dividends at a rate of 4 7157%, subject to declaration by the board of directors of Kilgallon This investment has been classified as 'available-for-sale' under IAS 39 Presentation and Disclosure As the investment does not have a quoted market price in an active market, and nor can the fair value be reliably measured, the investment is carried at cost

4 Dividends receivable

	At 30 September 2007 £000	At 11 December 2006 £000
Interest receivable	-	3
Preference share dividends receivable	292	-
UK Gilts - coupons receivable	15	-
	307	3

5 Current liabilities

	At 30 September 2007 £000	At 11 December 2006 £000
Debenture Stock issued	(250,000)	-
Interest accrued on Debenture Stock issued	(323)	-
Tax payable	(6)	-
Amounts payable in respect of audit and service fees	(17)	-
	(250,346)	-

The directors of the Company, in accordance with its Articles, resolved to issue the Debenture Stock out of the share premium account of the Company on 18 December 2006

The Debenture Stock was accordingly allotted and issued as fully paid-up to the holder of the preference shares for no consideration on 18 December 2006 The Debenture Stock matures on 21 December 2009 The Debenture Stock may be redeemed at any time by either the Company or holder, given notice of one day, in accordance with the Debenture Stock Instrument Schedule Consequently, the Debenture Stock has been classified as a current liability

Notes *(continued)*

6 Share capital

	At 30 September 2007	At 11 December 2006
Authorised	**£000**	£000
Equity		
4,000,000 ordinary shares of a par value of £1 each	**4,000**	4,000
	4,000	4,000

	At 30 September 2007	At 11 December 2006
Allotted, called up and fully paid	**£000**	£000
Equity		
2,000,000 ordinary shares of £1 each	**2,000**	2,000
	2,000	2,000

The Company issued 2,000,000 ordinary shares of £1 each to Ampersand Investments (UK) Limited ("Ampersand") on incorporation Each ordinary share carries one vote which may be exercised at general meetings of the Company All issued shares are fully paid Each ordinary share was issued at a premium of £125 per share

7 Available-for-sale reserve

	£000
At 12 December 2006	-
Mark to market adjustments in respect of available-for-sale investments	2
At 30 September 2007	**2**

Mark to market adjustments made in respect of available-for-sale investments are included as a movement in equity, and do not affect the profit or loss for the period

Notes *(continued)*

8 Share premium

	£000
At 12 December 2006	250,000
Debenture Stock issued out of share premium	(250,000)
Balance on share premium account at 30 September 2007	-

The directors of the Company, in accordance with its Articles, resolved to issue the Debenture Stock out of the share premium account of the Company on 18 December 2006 The Debenture Stock was accordingly allotted and issued as fully paid-up to the holder of the preference shares for no consideration on 18 December 2006 The Debenture Stock matures on 21 December 2009 The Debenture Stock attracts a fixed coupon of 4 7157%, payable quarterly

9 Dividends

	Period to 30 September 2007 £000	Period to 11 December 2006 £000
Ordinary dividends paid	**776**	-
	776	-

There were no amounts that were declared but unpaid at the period end in respect of the preference shares and ordinary shares The ordinary shareholder received 38 79438 pence per share in respect of its shareholding (period to 11 December 2006 nil)

10 Dividend income

	Period to 30 September 2007 £000	Period to 11 December 2006 £000
Preference share dividends receivable	**10,047**	-
UK Gilts - coupons receivable	**37**	-
Accretion of UK Gilt discount	**2**	-
Interest received on bank deposits	**2**	-
Interest receivable on funds lent	**2**	3
	10,090	3

Notes *(continued)*

11 Interest expense

	Period to 30 September 2007 £000	Period to 11 December 2006 £000
Interest payable on funds borrowed	(2)	-
Interest payable on Debenture Stock issued	(9,270)	-
	(9,272)	-

12 Administrative expenses

	Period to 30 September 2007 £000	Period to 11 December 2006 £000
Service fees	(8)	-
Audit fees	(9)	-
Legal fees	(1)	-
Bank charges	(1)	-
	(19)	-

Service fees represent charges made by Swiss Re Services Limited in relation to finance, operational, legal, infrastructure, advisory and other services provided to the Company

13 Profit on ordinary activities before taxation

Auditor's remuneration in relation to the audit for the period to 30 September 2007 amounted to £9,500 In the prior period audit fees in respect of the Company were borne by another company within the Swiss Re group

14 Employees

The Company had no employees during the current or prior period, all services being provided by Swiss Re group companies A charge of £7,952 was made for such services for the current period In the prior period, this charge was borne by a Swiss Re group company

15 Directors' emoluments

The Directors received no remuneration in respect of their services to the Company for the current or prior periods No pension benefits were accrued under pension schemes during the current or prior period

Notes *(continued)*

16 Taxation

Analysis of charge in period

	Period to 30 September 2007 £000	Period to 11 December 2006 £000
Current tax	**7**	-
Income tax expense	**7**	-

The tax charge for the period is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

Factors affecting the tax charge for the current period	**£000**	£000
Profit before income tax	**799**	3
Profit before income tax multiplied by the standard rate of corporation tax in the UK of 30%	**240**	1
Effects of		
Non-taxable dividends receivable	**(3,014)**	-
Group relief received for no consideration	**-**	(1)
Non-deductible interest expense	**2,781**	-
	7	-

Notes *(continued)*

17 Cash generated from operating activities

	Period to 30 September 2007 £000	Period to 11 December 2006 £000
Profit before income tax	799	3
Changes in working capital		
Interest and coupon income	(305)	(3)
Interest accrued on Debenture Stock issued	323	-
Trade and other payables	17	-
Accretion of UK Gilt discount	(2)	-
Purchase of UK Gilt	(997)	-
Funds lent to Swiss Re group companies	-	(1,000)
Return of funds lent to Swiss Re group companies	1,000	-
Purchase of Kilgallon Preference Shares	-	(251,000)
Cash generated from operations	835	(252,000)

During the period, the Company issued out of share premium a Debenture Stock, which is a significant non-cash transaction (refer notes 5 and 8) The accretion of UK Gilt discount is also considered a non-cash transaction

18 Financial instruments

(a) Financial risk management

The Company's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance

(i) Foreign exchange risk

The Company is not exposed to foreign exchange as all its assets and liabilities are denominated in the Company's functional currency of sterling

(ii) Price risk

The Company is exposed to securities price risk on UK Gilt investments However, this investment is not considered material in relation to the Company's overall portfolio

Notes *(continued)*

Financial instruments *(continued)*

(iii) *Credit risk*

The Company has significant concentrations of credit risk with Kilgallon, in the form of a preference share investment of £251,000,000

Management believe that the amount of the exposure is indicated by the carrying value of the financial assets

(iv) *Liquidity risk*

The Company holds assets on the balance sheet that are sufficient to cover its liabilities The assets are sufficiently liquid and the Company has the ability to raise funding to meet its liabilities as they fall due In addition, the income it receives on its assets is sufficient to cover its expenses, including preference share dividends

(v) *Interest rate risk*

The Company is exposed to fair value interest rate risk from its investment in fixed rate UK government securities It is the directors' opinion that the fair value interest rate risk arising from these investments is insufficient to require hedging

Fair value estimation

The fair value of available-for-sale securities traded in active markets is based on quoted market prices at the balance sheet date

(b) Accounting for derivative financial instruments and hedging activities

The Company has not entered into hedging arrangements using derivative financial instruments

(c) Fair value of financial assets

The Company subscribed for 251,000,000 irredeemable preference shares of £1 each in Kilgallon on 23 November 2006 These preference shares do not entitle the holder to vote at general meetings of the Company These preference shares carry dividends at a rate of 4 7157%, subject to declaration by the board of directors of Kilgallon

The directors of the Company, in accordance with its Articles, resolved to issue a Debenture Stock out of the share premium account of the Company on 18 December 2006 The Debenture Stock was accordingly allotted and issued as fully paid-up to the holder of the preference shares for no consideration on 18 December 2006 The Debenture Stock matures on 21 December 2009 The Debenture Stock attracts a fixed coupon of 4 7157%, payable quarterly

Notes *(continued)*

19 Commitments and contingencies

There are no commitments or contingencies at the balance sheet date

20 Related parties

Ampersand, a wholly owned subsidiary of Swiss Re Specialised Investments Holdings (UK) Limited ("SRSIH"), itself a wholly owned subsidiary of Swiss Reinsurance Company ("Swiss Re"), holds all of the ordinary shares in the Company and appoints all of the Board of Directors and, through the Board, directs the financial and operating policies of the Company with a view to gaining economic benefit from its activities As such, Ampersand and other members of the Swiss Re group, including Swiss Re International Treasury (Ireland) Limited ("SRITL"), Swiss Re (Treasury) Luxembourg S A (SRTLX) , and Swiss Re Financial Products Corporation ("SRFPC"), are considered related parties of the Company

Yorkshire Bank Investments Limited ("YBIL"), a wholly owned subsidiary of National Australia Group Europe (UK Group) ("NAB UK Group"), owns all of the Debenture Stock issued by the Company As a consequence of this, both are considered to be related parties of the Company Furthermore, in accordance with the provisions of IAS 27 and SIC 12, the Company falls to be consolidated with the National Australia Bank Group ("NAB Group") Pursuant to and for the purposes of IAS 24 Related Party Disclosures, the NAB Group and other members of the NAB Group are considered to be related parties in relation to the Company

The Company acquired preference shares in Kilgallon, and holds this as its main investment Consequently, Kilgallon is considered a related party

Transactions with related parties

Ordinary dividends paid to Ampersand totalled £775,888 during the period

The issuance of the ordinary share capital to Ampersand created share premium of £250,000,000 Out of this share premium was issued a three year, no breakage cost, fixed rate Debenture Stock ("the Debenture Stock") of £250,000,000 The rate on the Debenture Stock is 4 7157%, and the maturity date is 21 December 2009 YBIL subsequently acquired the Debenture Stock

The Company's income statement shows interest payable on the Debenture Stock of £9,269,904 £322,993 is shown as accrued interest on the Company's balance sheet at the period end

Pursuant to its investment in £251,000,000 Kilgallon preference shares, the Company has earned dividends through the income statement of £10,047,297, with an amount declared but not received at the period end of £291,856

Notes *(continued)*

Related parties *(continued)*

In addition, the Company has lent excess funds during the period to SRTLX, and borrowed funds from SRFPC. There were no principal amounts outstanding at the period end Interest receivable of £1,409 was received, and £1,847 of interest was paid, respectively, during the period on such loans

In addition, the Company has stock lent UK gilts held to SRFPC The Company has earned interest of £78 under this stock loan agreement during the period

21 Ultimate parent undertaking

The Company regarded by the directors as the ultimate parent company is National Australia Bank Limited ("NAB"), a company incorporated in the State of Victoria, Australia This company also heads the largest group in which the results of the Company are consolidated In consequence of the application of IAS 27 and SIC 12 the Company is considered to be controlled by the NAB group as described by IAS Financial statements of NAB can be obtained by writing to National Australia Bank Limited (London Branch), 88 Wood Street, London EC2V 7QQ

The smallest group in which the results of the Company are consolidated was that headed by Clydesdale Bank PLC ("Clydesdale") which was incorporated in Great Britain and registered in England and Wales Financial statements of Clydesdale can be obtained by writing to the Corporate Affairs Department, 20 Merrion Way, Leeds, LS2 8NZ