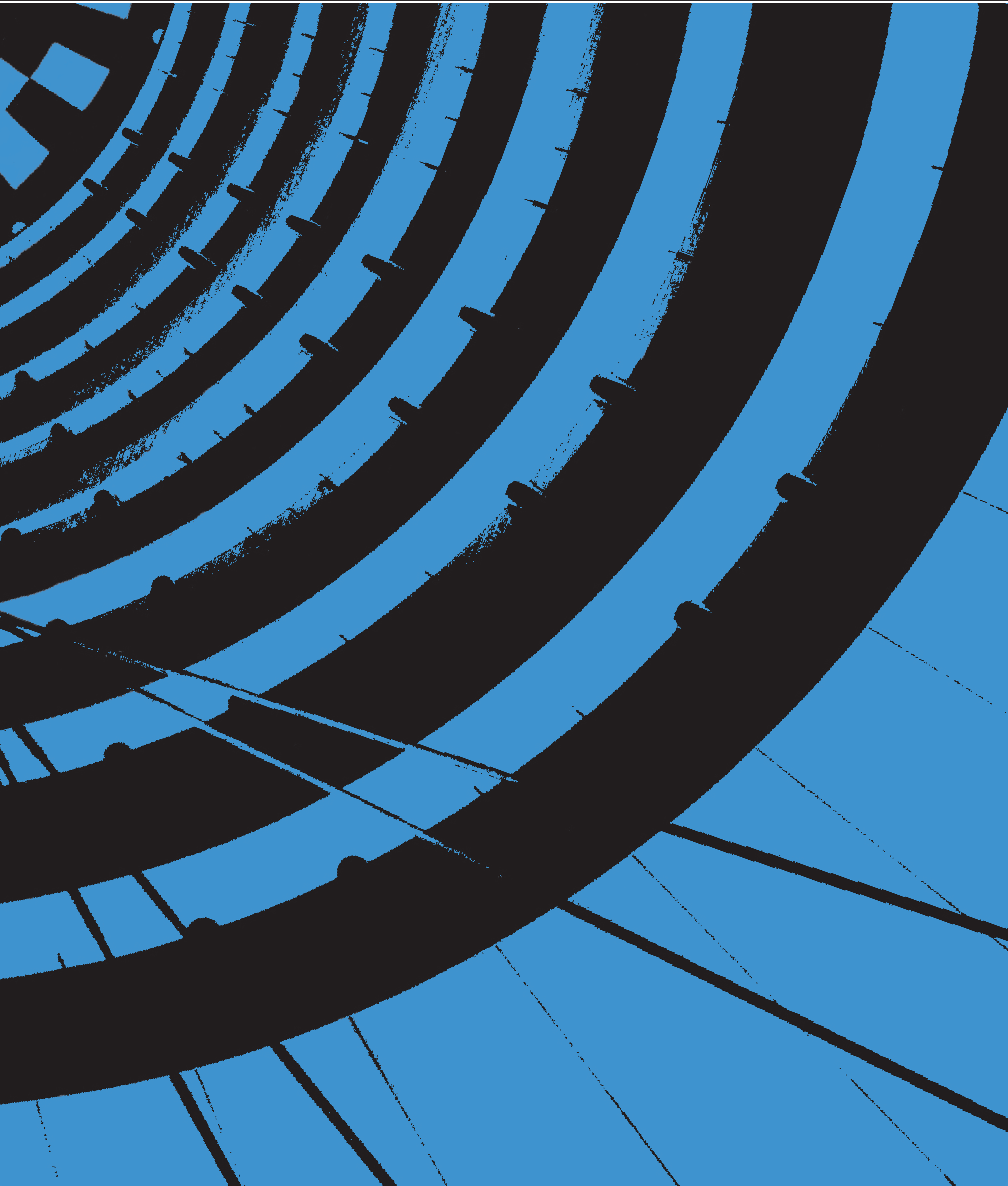
Tawa plc Annual Report 2007



- On 4 May, Tawa completed the UK acquisition of KX Reinsurance Company Limited ("KX Re"), formerly Continental Management Services Limited, from the CNA Group.
- On 26 July Tawa raised a net $48 million through an IPO and was admitted to AIM.
- On 5 November, Tawa contracted to buy PXRE Reinsurance Company of Connecticut from Argo Group – a transaction which closed on 31 March 2008.
- Proposed final dividend of 1.5p per share.
- A placing of 11.1 million ordinary shares at £1.30 per share was completed on 31 March 2008 to partly finance the acquisition of PXRE.
- Profit before tax and discontinued operations for the year $45.8 million (2006: $5.1 million).
- Reported net profit $42.9 million (2006: $53.0 million).
- Net assets increased by $94.6 million to $237.1 million at 31 December 2007 – $2.33 per share up from pro forma net assets per share at 31 December 2006 – $1.78.
- Pro forma net assets at 31 December 2007 including the acquisition of PXRE, new debt and the share placing amount to $273.7million – $2.42 (£1.21) per share.

Tawa was formed in 2001 to acquire and manage the run-off of non-life insurance companies and portfolios of policies and to provide run-off related services.

Tawa is able to conduct nearly all activities relating to run-offs, from acquisition through to the management and to finality. Its claims-focused, accelerated run-off strategy is a key strength for the Group and is designed to protect and then create shareholder value while respecting the rights of policyholders.

Tawa's strategy is to build up and manage a portfolio of run-off businesses and by doing so become a consolidator of the non-life run-off market. Since its formation, Tawa has acquired CX Re, KX Re and PXRE and is managing the run-off of these businesses.

Tawa plc Joint statement of the Chairman and Chief Executive Officer

2007 was a landmark year for Tawa plc (the "Company"). First we closed the KX Reinsurance Company Limited ("KX Re") acquisition, based in London; second the Company was admitted on the AIM market and third, we contracted to acquire PXRE Reinsurance Company ("PXRE") in Connecticut, USA.

These three events profoundly changed the scale of the Group. Over the year, the Group moved from being a sole run-off operation, with one principal shareholder, to what it was initially formed to be – a consolidation platform for the run-off industry. By doing so, the Group significantly enhanced its visibility and strengthened its future financing capacity – two key elements to ensure future growth.

An after tax profit of $43 million was earned during 2007 and the net assets increased by $95 million, to $237 million ($2.33/£1.16 per share) at 31 December 2007.

As expected, our acquisition activity has provided the bulk of the increase in net assets this year, but our management activity, both for Group risk carriers and to third parties is also providing us with an earnings stream which will be used for regular dividend payments. We are pleased to report that the Board of Directors is recommending a dividend of 1.5p per share payable on 30 June 2008.

As was discussed extensively in our IPO presentations in July 2007, the Group's strategy is to acquire further run-off companies and portfolios in the UK, US, Continental Europe, Bermuda and elsewhere in the world as suitable opportunities arise. This is intended to enable the Group to construct and manage a portfolio of run-offs that are at differing stages of maturity. This should allow a more stable cash flow over time for the Group than would otherwise be the case with a single run-off as the downscaling of insurance liabilities will enable the risk carriers to release cash from their previously trapped equity.

We are pleased to say that this year has confirmed the strength of this business model. The commutation programme at CX Reinsurance Company Limited ("CX Re") has continued apace – in the last 4 years the team has commuted well over $850 million of gross insurance liabilities involving over 300 deals. Undiscounted insurance liabilities at CX Re reduced from $580 million to $332 million over the year and we are continuing the descaling plan. CX Re's residual volatility has been compensated for by a more stable KX Re run-off, and we believe that the two companies are together forming a stable footing in the UK which can sustain further local acquisitions. Tawa plc's expected acquisition of PXRE, a medium size company in the US with $123 million estimated undiscounted insurance liabilities is another step forward as it enables us to establish a footing in Connecticut, one of the insurance centres of the US. PXRE will form the basis of our planned development effort in the US which currently is the main focus of the management team.

This report provides us with an opportunity to list the key objectives we set out for Tawa plc when we came to the market:

1 The Group seeks to grow its net asset value per share in excess of 15% per year. Such long term growth will mainly be formed by carefully structured acquisitions of run-off portfolios while accepting short term earnings will vary, arising from the volatility of individual portfolios.
2 The Group prices its acquisitions with an IRR target similar to those of Private Equity fund expectations, namely in excess of 20% post leverage. While including some leverage in its acquisitions Tawa plc believes that the built-in leverage of its targets sets natural limits to bank financing.
3 The Group's claim-focused, accelerated run-off descaling strategy is and will remain a key strength for the Group. It is designed to protect and then create shareholder value while respecting the rights of policyholders.

We have started 2008 with the expected closing on 31 March 2008 of the PXRE transaction. It is being funded with $30 million of debt facilities and $29 million from new equity raised by Tawa plc. The net asset value is expected to increase on a pro-forma basis from $2.33/£1.16 to $2.42/£1.21 per share when the transaction closes, after taking into account the PXRE acquisition, new debt taken on and the share placing.

As to future prospects, we believe that active underwriting companies are now under increasing pressure to focus on the efficient use of their capital, which should create a greater need for redeployment of capital tied up in discontinued business. In this context, vendors will want to ensure that transfers of such portfolios will go with minimal execution risk, with no reputation risk, and even more that the finality such sales procure will not be jeopardized by mismanagement of divested assets. Tawa plc is committed to providing high quality run-off operations that meet these objectives.

We therefore look forward to 2008 with confidence knowing that the Group is in good shape to grow in these changing and challenging markets. While we are by no means immune to competition, we believe we are in a good position to take opportunities as they occur.

We would like to thank all our employees for their support in 2007 and our shareholders for their backing both of the IPO and in underwriting our new PXRE Connecticut acquisition.

Lastly, we believe that all of this year's work has created significantly less volatility for our Group. However, we remind you that we are in the business of taking or assuming risks. In our view, our descaling strategy mitigates those risks, but it is only through careful assessment and management of those risks that we can earn the level of return our shareholders expect.

Robin Jackson
Chairman

Giles Erulin
Chief Executive Officer

Summary of 2007 results

- Profit for the year was $42.9 million.
- Group net assets have increased by $94.6 million to $237.1 million ($2.33/£1.16 per share).

Introduction to the Group's business

Tawa plc's strategy is to build up and manage a portfolio of run-off businesses and by doing so become a consolidator of the non-life run-off market. By creating a diversified portfolio of run-off businesses at different stages of the run-off process, Tawa will gain economies of scale and enhanced and more stable earnings. Since its formation, Tawa has acquired CX Re and KX Re and is managing the run-off of these businesses and expects shortly to complete the acquisition of PXRE, Connecticut.

Tawa seeks to generate value from run-offs in a variety of ways, depending on the nature of each run-off entity in question. These include:

- Buying net assets at a significant discount to economic value and accelerating capital extraction;
- Buying volatile books of business and applying Tawa's management techniques to create value and reduce volatility;
- Earning management fees from managing run-offs; and
- Obtaining synergies and process efficiencies from combining the management of multiple run-offs.

During the course of a run-off, a company will be exposed to a range of risks, which need to be identified and managed. Those risks include adverse loss development (insurance risk), liquidity and operational risks, fluctuating foreign exchange rates and interest rates, and credit risk both in respect of investments and reinsurer solvency.

The assets of a run-off company typically comprise cash, investments and reinsurance recoveries. From these assets and any associated investment income the company must meet the cost of administering, and paying, all future claims on policies issued prior to the run-off. The residual balance, if any, will be returned to shareholders once all liabilities have been repaid or when the regulator is satisfied, inter alia, that the volatility is reduced to a level where capital can be released based on estimates as to the appropriate level of reserves and capital that the business requires to settle all valid claims.

Balance sheet

The Group focuses its business performance on growing the net assets per share and aligns its performance rewards to increasing shareholder value through the increase in the overall net asset value (NAV). The table below shows the Group's performance over the last four years. The increase in NAV for 2007, excluding the $48 million net proceeds of the IPO, was 33%. As is described further below the major driver for this increase ($41.3 million) in NAV was the Group's acquisition of KX Re on 4 May 2007.

	2007 $m	**% Increase**	2006 $m	% Increase	2005 $m	% Increase	2004 $m
The Group's net asset value development	**189.1**		142.5		88.4		84.8
% Increase of the net asset value		**33%**		61%		4%	
Net proceeds from the IPO	**48.0**						
The Group's net assets at 31 December 2007	**237.1**						

KX Re's discounted balance sheet

The Group's insurance subsidiary, KX Re, maintains a discounted balance sheet. Discounting is applied to insurance assets and liabilities with a mean term in excess of 4 years. At 31 December 2007 KX Re's portfolios had an average mean term of 10.37 years.

The Group's policy is to discount the insurance liabilities and the reinsurance asset at the risk free rate applicable to the relevant currency for the duration of the liabilities. Currencies held are US$, GBP and Euros. The average effective rate of investment return used to discount KX Re's net liabilities is 4.21%.

KX Re's net liabilities before discounting as at 31 December 2007 were $94.8 million. After applying a discount of $26.2 million they were $68.6 million. The discount is unwound over the life of the portfolio, which represents a charge to the Income Statement and actual investment income is measured against this to ensure that it remains appropriate to continue to discount at the chosen rate. In 2007 the investment return for KX Re was $1.5 million in excess of the unwind of the discount.

Cash and investments

The Group's consolidated cash position at 31 December 2007 was $38.5 million. Of that amount $26.0 million related to the Group's insurance subsidiary KX Re. This cash is not considered to be freely distributable within the Group. The Group's free cash is therefore $12.5 million.

The Group's investment strategy is to mitigate, in so far as is possible, the risks relating to changes in interest rates, foreign exchange rates and to liquidity risks, whilst adopting a conservative approach to credit risk. This mitigation is achieved by broadly matching the duration and currency of the liabilities and maintaining a high quality and readily realisable portfolio of fixed income securities. Within the confines of this strategy, the Group continues to look for opportunities to enhance the return from the portfolio.

The Group's investments, which are derived from its subsidiary KX Re, at the end of the period, are $165.0 million. The KX Re portfolio, which is broadly matched in terms of foreign exchange exposure and duration, comprises almost exclusively cash and treasuries and has therefore been largely unaffected by the recent market volatility related to the credit crunch. The entire portfolio is invested in instruments with a credit rating of "A" or better.

Investments and cash

	%
Type	
Treasuries	44.81
Corporates	3.73
CMO, MBS & ABS	0.84
Cash (equivalents MM and short term)	50.62
	100.00
By Credit rating	
AAA	96.27
AA	1.24
A	2.49
	100.00

Deferred assets

On 21 March 2006, the Group disposed of 87.35% of its shareholding in CX Re. The retained shareholding of 12.65% has been accounted for under the equity method since that date.

The initial consideration for the shares was $1.00, together with a deferred consideration equal to the purchaser's share of 100% of the amount of distributions made by CX Re up to $171 million and thereafter equal to 95% of the distributions made by CX Re.

Deferred assets relate to the consideration outstanding on the disposal of CX Re and the Group's receipt of a facilitation fee in respect of the sale following which tax losses have been surrendered to CX Re's shareholders. The deferred consideration is accounted for in two ways:

- Adjustment in the overall net asset value of the Group's associate CX Re through the income statement; and
- Transaction facilitation fee due directly to Tawa plc.

The effect of the deferred consideration on the Group's balance sheet is as follows:

	$m 100%	Group share 87.35%
CX Re net assets December 2006	98.1	85.6
CX Re net assets December 2007	92.2	80.5
Movement in net assets	(5.9)	(5.1)

The drivers behind the Group's reduction in deferred consideration in respect of CX Re are discussed below in the section on Profit and Loss.

The transaction facilitation fee is derived from the level of tax losses surrendered to shareholders. The amount surrendered for 2006 accounting periods was greater than anticipated a year ago and the increase in the fee represents Tawa plc's share of the increased proceeds. Deferred consideration in respect of the Group's transaction facilitation fee amounts to $23.8 million (2006: $20.6 million).

At 31 December 2007 the total deferred consideration was $104.3 million (2006: $106.0 million).

	$m
2006	106.0
Reduction in NAV of CX Re	(5.1)
Increase in transaction facilitation fee	2.2
Interest on transaction facilitation fee	0.5
Exchange gain	0.7
2007	**104.3**

Insurance liabilities – KX Re

The Group's expected loss development is determined by the Group's internal actuaries based on historical claims analysis and projected trends. Actual reported losses may vary from expected loss development. Generally, as an underwriting year matures the level of newly reported claims decreases.

During the year the Group experienced an improvement in the prior year net reserves before discount excluding commutations of $1.9 million (2006: $45.0 million). After discount the favourable reserves development during the year was $7.3 million (2006: $36.4 million) net of reinsurance and commutations.

Profit and loss

The Group's operating segments are:

Underwriting run-off – this segment comprises the results from the Group's acquired run-off companies. In 2007 this was the result of KX Re. CX Re's results were included in 2006 when it was still a subsidiary of the Group. CX Re became an associate on 21 March 2006 when Tawa plc disposed of 87.35% of the shares held.

Run-off management – this segment includes results of the operations of subsidiary Tawa Management Limited ('Tawa Management'), the Group's provider of run off management and consultancy services; and

Other corporate activities – this segment reflects results from the acquisition of KX Re, the Group's investment in its associated undertaking CX Re, the change in the deferred consideration attributable to the sale of 87.35% of the shares of CX Re on 21 March 2006 and the costs of developing the business.

Underwriting run-off

The underwriting run-off profit for the period was $9.4 million. This represents KX Re's contribution to Group profits from 4 May 2007, the date of acquisition.

The business of KX Re comprises a collection of mature portfolios of long tail liabilities, including exposure to asbestos, environmental and other latent claims. The Group's objective for KX Re is to reduce the company's liabilities by accelerating the natural run off of the portfolio to enable the extraction of capital with regulatory approval.

Asset and liability management in insurance entities (ALM)

The Group's strategic principles for its ALM are to:

- Provide liquid funds to finance liability and capital management;
- Mitigate exposure to changes in interest and forex rates;
- Assume measured credit risk in line with agreed guidelines; and
- Invest the Group's surplus in line with agreed guidelines.

The ALM return represents the increase in value to the Group balance sheet from investment activities after taking into account the unwind of the discount and fees. The KX Re ALM return for 2007 was $3.8 million.

Yields achieved within the portfolio have been higher than in recent years. KX Re achieved an annualised post acquisition return of 8.2%. However, these returns include unrealised gains caused by significant decreases in interest rates across the short and medium terms of the yield curves. Correspondingly the discount rate for liabilities has reduced, thus increasing the value of the liabilities. The ALM return takes into account the net impact of changes to assets and liabilities.

Run-off management

The revenue of Tawa Management comprises:

- Management fees from and expenses recharged to CX Re and KX Re;
- Income from consultancy services provided to a range of third party clients;
- Income from inspections performed on behalf of CX Re; and
- Expenses recharged to Tawa plc in relation to acquisitions and business development.

Revenue in 2007 was $30.6 million generating a profit for the period of $3.7m.

Tawa Management continues to look for opportunities to enhance its offering in the third party consulting market. It recently added to this business by recruiting three asbestos claims experts from the London market.

Other corporate activities

The profits generated from other corporate activities for the year were $25.8 million.

	$m
Business development and other expenses	(9.0)
Acquisition of KX Re	41.3
Finance costs	(2.8)
Share in associate	(0.8)
Deferred consideration of CX Re and facilitation fee	(2.9)
	25.8

The net costs in developing the business and other expenses during the year were $9.0 million. A significant part of the 2007 costs are the management expenses related to the Group's admission to AIM and the Group's active acquisition strategy. The deferred consideration of CX Re is net of the CX Re transaction facilitation fee of $2.7 million described above.

Acquisition of KX Re

On 4 May 2007, 100% of the issued share capital of KX Re was acquired by KX Re Holdings Limited, a wholly owned subsidiary. The table below shows the consideration paid, the net assets at fair values (considered equal to carrying values) and the negative goodwill arising on acquisition.

Analysis of assets and liabilities acquired

	Book value $m	Fair value adjustment $m	Fair value on acquisition $m
Assets			
Cash and cash equivalents	111.2		111.2
Investments: Debt and equity securities	75.8		75.8
Loans and receivables including insurance receivables	8.2		8.2
Reinsurers' share of technical provisions	19.4		19.4
Liabilities			
Creditors arising out of reinsurance operations	(3.4)		(3.4)
Other liabilities	(0.8)		(0.8)
Technical provisions	(93.8)	(8.7)	(102.5)
	116.6	(8.7)	107.9
Goodwill on acquisition			(41.3)
Consideration paid			66.6

In determining the fair value of KX Re's assets and liabilities acquired, the technical provisions have been increased to include an insurance risk premium which reflects management's consideration of the uncertainty of the technical provisions acquired. The risk premium was assessed as $8.7 million at acquisition but has been revised to $4.7 million at 31 December 2007 and is expected to be released to profits over time if the valuation of the technical provisions is proved to be correct.

Finance costs

The acquisition of KX Re was financed by a bridging loan of $35 million from Financière Pinault S.C.A, the ultimate parent of the Group, and bank facilities of $35 million. The bridging loan was repaid using proceeds from the IPO in July 2007. Finance costs relating to these facilities during the period were $2.8 million.

Share in associate and deferred consideration derived from the sale of CX Re

The Group made a loss of $0.8 million from its share of losses of its associate CX Re. In addition through the deferred consideration following the sale of CX Re on 21 March 2006, which is dependent upon the ultimate earn out value of the company, the Group's results are affected by changes in the net assets of CX Re. The change in the deferred consideration for the year resulted in a loss to the Group of $5.1 million.

During the year CX Re's net assets decreased from $98.1 million to $92.2 million. This was after $4 million management fees were charged by Tawa Management. The reduction in net assets was principally driven by an increase to the unallocated loss adjustment expense provision in CX Re of $6 million, to fund future commutations the benefits of which are expected to come through in 2008.

In addition CX Re, particularly in the last quarter, has been exposed to the spread widening experienced across the global investment markets. This exposure has led to an unrealised underperformance within the investments supporting the liabilities of $4 million compared to the risk free return on which the discount of the liabilities is based.

The fair value of CX Re's investments at the year end was $306 million. Investment yield for the year was 4.8% (21 March – 31 December 2006: 4.0%). This return reflects the combination of unrealised gains due to decreases in interest rates across the yield curves and unrealised losses due to the underperformance of spread products, most significantly commercial mortgage-backed securities ("CMBS"), asset-backed securities ("ABS") and corporate bonds, in the last six months of the year.

Compared to duration adjusted risk free assets, negative returns based on US Lehman credit indices during 2007 were as follows: CMBS -4.35%; ABS -6.34%; corporate bonds -4.64% (financial institutions sector -6.87%). The Company's experience was broadly in line with these market indices. At the end of 2007, the portfolio comprised the following allocation by investment sector: treasuries 23%; agencies 2%; corporate bonds 37%; CMBS/ABS 25%; cash and cash equivalents 13%.

This underperformance of spread products has continued into 2008 as liquidity concerns reverberate around the global investment markets. Detailed and regular analysis of the Company's investment portfolio has been carried out in conjunction with the investment managers to understand the quality and nature of the underlying exposures.

Overall result

The results of the business in 2007 clearly show that the major driver of value is the acquisition of risk carriers. Some acquisitions, like CX Re are highly volatile and can impact earnings adversely; however they are purchased at a large discount to NAV and carry heavy risk premiums with the profit being earned over the period of the run-off. Other acquisitions, like KX Re, are much more stable; the purchase price discount to NAV is not so high but the risk premiums are smaller – hence the fair value giving rise to negative goodwill which is taken to earnings. Nonetheless the real value comes in extracting surplus regulatory capital which remains trapped in the risk carriers until they have been able to demonstrate by the management techniques applied to the liability portfolios that their need for excessive capital has diminished.

In a normal investment climate, given that most of the Group's investments sit in its regulated risk carrier entities, it should be expected that the Group will earn a modest return above risk free on its surplus. This hasn't happened in 2007 primarily because of the widening of credit spreads causing unrealised mark-to-market losses which impact the overall return on the CX Re investment portfolio. The good performance of KX Re has alleviated the CX Re position so that overall the Group had a positive ALM result for the year.

The turbulence in the global credit markets has continued into 2008. KX Re remains invested primarily in cash and treasuries which limits the Group's exposure. CX Re's portfolio remains exposed to further widening of credit spreads but has not currently had to book realised losses.

The Directors present their report together with the financial statements for the year ended 31 December 2007.

Change of name and re registration as a public limited company

On 13 June 2007, the Company changed its name from Tawa UK Limited to Tawa Limited. On 10 July 2007 the Company changed its name from Tawa Limited to Tawa plc and was re registered as a public limited company.

Share capital

On 26 July 2007 (the date of the Company's admission to trading on AIM) the Company's share capital was reorganised as follows:

- 291,993,453 issued Preferred Shares were repurchased by the Company and cancelled;
- the authorised and issued Preferred Shares and Deferred Shares were redesignated as Ordinary Shares of the same nominal value;
- new Ordinary Shares were allotted and issued to the holders of the Ordinary Shares on a ratio of 7,999 new shares for every one Ordinary Share held; and
- the authorised share capital was decreased from £150,000,000 to £20,000,000.

A summary of all issues of share capital during the year are set out in note 26 to the financial statements.

Admission to AIM and placings with institutional shareholders

On 26 July 2007, 16,000,000 new Ordinary Shares of 10p each were placed with institutional shareholders at a price of 125p per share raising approximately £17 million after expenses. Also on that date, Financière Pinault S.C.A subscribed for an additional 5,891,017 new Ordinary Shares of £0.10p at a price of 125p per share.

On the same date, the Company's issued Ordinary Shares were admitted to trading on AIM.

Principal activities and business review

The Company continued to trade as a company acting as an investment vehicle within the insurance industry. It incurs most of its costs in the pursuit of appropriate acquisition opportunities. Given the nature of Tawa plc, the principal risks and uncertainties facing the Group are deemed to be in respect of the performance of investments acquired and acquisition opportunities. The key performance indicators used to monitor the performance of the Group are the value and changes in value of investments acquired, administrative expenses incurred and the progress made in relation to potential acquisitions.

On 12 March 2007, the Company set up a new wholly owned subsidiary, KX Re Holdings Limited. On 4 May 2007, this subsidiary acquired the whole of the share capital of KX Re, formerly known as Continental Management Services Limited.

The Group recorded a profit on ordinary activities after tax for the year of $42.9 million (2006: $53.0 million). This profit was primarily attributable to the acquisition of KX Re on 4 May 2007.

On 1 November 2007, the Company set up a new wholly owned subsidiary, WT Holdings Incorporated. This subsidiary is expected to acquire the whole of the issued share capital of PXRE Reinsurance Company a Connecticut, USA, subsidiary of Argo Group International Holdings, Ltd. Regulatory approval from the Connecticut Department of Insurance was received on 20 March 2008 and subject to certain pre-closing transfers and adjustments, the acquisition is expected to complete on 31 March 2008.

On 7 November 2007, the Company set up two new wholly owned subsidiaries, Tawa Corporate Capital Limited and Tawa Managing Agency Limited. These subsidiaries are intended to become, respectively, a Lloyd's corporate member and a Lloyd's managing agency, subject to FSA and Lloyd's approval.

On 9 November 2007 the Company set up a new wholly owned subsidiary, Tawa Consulting Limited. This subsidiary has been established in order that there is a single dedicated unit for the conduct of the Group's various consulting and advisory operations.

A review of the Company's and the Group's activities is more fully set out in the Chairman's and Chief Executive Officer's Statement and the Financial Review on pages 2 and 4 respectively.

Results and dividends

The results for the Group for the year ended 31 December 2007 are set out in the accounts and related notes on pages 22 to 62.

The Directors recommend a final dividend of 1.5p per share (2006: nil) to be paid on 30 June 2008 to shareholders on the register on 30 May 2008.

Directors

The Directors of the Company who served throughout the year, except where otherwise shown, were as follows:
R A G Jackson
G M J Erulin
P M M Barbizet
C G Bird (appointed 28 June 2007)
L P M J Brivezac (appointed 28 June 2007)
J Y Casamayou (ceased to be a director 28 June 2007)
A J Hamilton
J J Hendrickson (appointed 28 June 2007)
W D McConnell (resigned 15 June 2007)
G F Pagniez
E M Rosenstiehl (resigned 26 June 2007)
D A Vaughan (appointed 28 June 2007)

In accordance with the Articles of Association, Robin Jackson, Gilles Erulin, Patricia Barbizet, Anthony Hamilton and Gilles Pagniez, having been appointed more than 3 years ago, retire and, being eligible, offer themselves for re election at the forthcoming Annual General Meeting. Colin Bird, Loic Brivezac, John Hendrickson and David Vaughan, having been appointed since the previous Annual General Meeting, retire and being eligible, offer themselves for re election at the forthcoming Annual General Meeting.

None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings other than their contracts of employment.

Corporate governance

The Company's compliance with corporate governance requirements is discussed in the corporate governance statement on pages 13 to 19.

Directors' interests

The interests of the Directors in the issued Ordinary Share capital of the Company at the beginning and the end of the year are set out below. The interests as at 31 December 2006 represent Deferred Shares of 10p each.

	31 December 2007 Ordinary Shares of 10p	28 June 2007 Ordinary Shares of 10p	31 December 2006 Deferred Shares of 10p
R A G Jackson	**–**	–	–
G M J Erulin	**880,000**	880,000	110
P M M Barbizet	**–**	–	–
C G Bird	**880,000**	880,000	226
L P M J Brivezac	**–**	–	–
A J Hamilton	**50,000**	–	–
J J Hendrickson	**–**	–	–
G F Pagniez	**400,000**	400,000	50
D A Vaughan	**880,000**	880,000	172

The Company has a policy of making awards to executive directors under its performance share plan. The Remuneration Committee has sole discretion for making awards. Awards made under the performance share plan are as follows:

Director	Awarded 26 July 2007	Price	Vesting Date
C G Bird	116,000	Nil	26 July 2010
G M J Erulin	420,000	Nil	26 July 2010
D A Vaughan	316,800	Nil	26 July 2010

Awards are subject to performance conditions set by the Remuneration Committee each time awards are granted and these determine the extent to which awards vest. Awards that do not vest will lapse. Details of the applicable performance conditions are set out in the Directors' Remuneration Report on pages 15 to 19.

No awards to directors lapsed during the year. Except as stated above, none of the Directors in office as at 31 December 2007, nor any members of their immediate families, had any interest in the share capital of the Company at 31 December 2006 or 2007.

Substantial shareholdings

	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
Financière Pinault SCA	80,491,017	79.00

The Directors have not been notified or were otherwise aware of any other holdings of 3% or more of the Company's issued share capital.

Risk management

The main risk factors to the Group's financial performance and the steps taken to mitigate them are detailed in the analysis of risk note on pages 34 to 44.

Creditor payment policy

Although the Company does not follow a specific code when settling its payment obligations with creditors, it is the policy of the Company to ensure that all suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations.

Going concern

The Directors are confident that the Company has adequate resources to continue in operation. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Charitable and political donations

During the year, charitable donations amounted to $nil (2006: $nil). No political contributions were made.

Auditors

KPMG LLP resigned as auditors of the Company on 13 July 2007. The Directors appointed Deloitte & Touche LLP as auditors in their place. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Each Director confirms that so far as he is aware there is no relevant audit information of which the Company's auditors are unaware. Each Director also confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any such information and to establish whether the 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

Christopher Jones
Company Secretary
28 March 2008

The Company has continued its commitment to maintaining effective corporate governance during 2007. While companies on the AIM Stock Exchange are not obliged to comply with the Combined Code, the Company wishes to apply best practice in relation to corporate governance and aims to comply with the Combined Code as far as practicable having regard to its size and stage of development.

The Board has authority, and is accountable to shareholders, for ensuring that the Company is appropriately managed and achieves the corporate objectives it sets. In order to fulfil its responsibilities, the Board meets on a regular basis and has a formal schedule of matters specifically reserved for its consideration and decision. The schedule of matters reserved to the Board provides that the Board's role encompasses the overall management of the Company including approval of long term strategy and objectives, oversight of operations, ensuring maintenance of a sound system of internal controls and risk management, decisions relating to any changes in the Company's capital structure or of management and approval of any significant expenditure. When Directors are unable to attend a meeting, they are advised of matters to be discussed and have the opportunity to make their views known to the Chairman prior to the meeting.

Since 28 June 2007, the Board has comprised three Executive Directors, namely Gilles Erulin, Colin Bird and David Vaughan and six Non Executive Directors, namely Robin Jackson, Patricia Barbizet, Loic Brivezac, Anthony Hamilton, John Hendrickson and Gilles Pagniez.

The Non Executive Directors share responsibility for the discharge of the Board's duties by taking an essentially supervisory role and are chosen for their broad and complimentary experience in relation to the Executive Directors. The key elements of the role and responsibility of the Non Executive Directors are:

- Supervision of, and advice to, the Executive Directors
- Evaluation of Executive Directors' performance
- Remuneration of Executive Directors
- Monitoring of the effectiveness of controls
- Governance and compliance

These roles and responsibilities are carried out through membership of the Company's Audit, Nomination and Remuneration Committees. Membership of, and attendance at, the Committees is set out below. The terms of reference for the Committees, along with the schedule of matters reserved to the board can be found on the Company's website www.tawaplc.net.

Board attendance during 2007

Director	Relevant number of meetings	Number attended	% Attendance
Robin Jackson	7	7	100
Gilles Erulin	7	7	100
Patricia Barbizet	7	6	86
Colin Bird	4	3	75
Loic Brivezac	4	4	100
Jean Casamayou (until 28 June 2007)	3	3	100
Anthony Hamilton	7	4	57
John Hendrickson	4	4	100
William McConnell (until 15 June 2007)	3	3	100
Gilles Pagniez	7	7	100
Etienne Rosenstiehl (until 26 June 2007)	3	3	100
David Vaughan	4	3	75
Average attendance			91

Committee membership during 2007

Director	Audit Committee	Nomination Committee	Remuneration Committee
Robin Jackson	Yes	No	Yes
Gilles Erulin	No	No	No
Patricia Barbizet	No	Yes (Chair)	No
Colin Bird	No	No	No
Loic Brivezac	Yes	No	No
Jean Casamayou (until 28 June 2007)	No	No	No
Anthony Hamilton	No	Yes	No
John Hendrickson	Yes (Chair)	No	Yes
William McConnell (until 15 June 2007)	No	No	No
Gilles Pagniez	No	No	Yes (Chair)
Etienne Rosenstiehl (until 26 June 2007)	No	No	No
David Vaughan	No	No	No

Board independence

Messrs Robin Jackson, Anthony Hamilton and John Hendrickson are considered independent with regards to the provisions set out in the Combined Code.

Audit Committee

The Audit Committee was established by the Board on 28 June 2007 and consists of John Hendrickson (Chairman), Loic Brivezac and Robin Jackson. The Committee meets at least twice a year and will meet at least once without any Executive Director being present. The external auditors attend the Committee meetings (including at least one with no Executive Directors present), to discuss the nature and scope of the audit before it commences as well as reviewing the auditor's reports relating to accounts and internal control systems.

The main responsibilities of the Audit Committee are to monitor the integrity of the financial statements, to review the effectiveness of the Company's financial reporting and internal control policies, to make recommendations to the Board in relation to the appointment of external auditors, including reviewing terms and conditions and fee arrangements. The Committee also has regard to the requirements of the FSA and the Combined Code in carrying out its duties.

During the year, the Audit Committee reviewed the Company's Interim Report. Since the year end, the Audit Committee has reviewed the 2007 Annual Report. The Audit Committee also considered the terms and conditions, fees and independence of Deloitte & Touche LLP and confirms the independence of the external auditors.

Attendance at each of the meetings by Committee members is set out below.

Relevant Director	Audit Committee Number of meetings	Number attended
John Hendrickson	2	2
Loic Brivezac	2	2
Robin Jackson	2	2
Average attendance		100%

Remuneration Committee

The Remuneration Committee was established by the Board on 28 June 2007 and consists of Gilles Pagniez (Chairman), John Hendrickson and Robin Jackson.

The Committee's main responsibilities are to determine the remuneration of the Company's Chairman, the Executive Directors and the Company Secretary and to see that awards under the Group's share and incentive plans, while complying with statutory and other requirements, are consistent with the Group's overall performance and the performance of individuals and provide an additional incentive to management.

The Committee met once in 2007 to consider an initial grant of awards under the Tawa 2007 Performance Share Plan at the time of admission to trading on AIM. Attendance at that meeting by Committee members is set out below.

Relevant Director	Remuneration Committee Number of meetings	Number attended
Gilles Pagniez	1	1
John Hendrickson	1	1
Robin Jackson	1	1
Average attendance		100%

Nomination Committee

The Nomination Committee was established by the Board on 28 June 2007 and consists of Patricia Barbizet (Chairman) and Anthony Hamilton. It meets as required and its duties include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board with regard to any changes.

The Committee met once in 2007 primarily to consider a report on the Group's arrangements to ensure continuity in the performance of key functions. Attendance at that meeting by Committee members is set out below.

Relevant Director	Nomination Committee Number of meetings	Number attended
Patricia Barbizet	1	1
Anthony Hamilton	1	1
Average attendance		100%

The Committee has considered the renomination of Directors for the AGM on 19 June 2008. In accordance with the Company's Articles of Association, all Directors submit themselves for election by shareholders at the Company's AGM following their appointment. In addition, a third of the remaining Directors also retire by rotation and, therefore, all Directors are subject to re election every three years.

Corporate social responsibility

The Company recognises the importance of various stakeholders to its business, including its employees, shareholders, capital providers, clients and the wider community. The Company takes into account its responsibilities to, and impact on, each of these stakeholders in its policies and procedures.

Employee relations

The Company recognises that its success lies with its employees and, as such, it aims to meet or exceed best practice in terms of employee relations. The Company has an established equal opportunities policy. Performance indicators are monitored monthly. During 2007, companies in the Group had an average absence record of 4.07 days per employee compared with 6.12 during 2006. Ongoing professional development is encouraged with an average of 35 hours (five days) per employee of training undertaken (not including additional study leave for examinations). 14% of the workforce holds at least one professional qualification.

The Group's voluntary employee turnover decreased to 2% during 2007 from 7% in 2006. Involuntary turnover (redundancies) amounted to 9% in 2007 an increase from 1% in 2006. Overall staff turnover during 2007 was 11% against 8% in 2006.

Directors' remuneration report

All members of the Remuneration Committee are Non Executive Directors and they do not have any personal financial interest in the Company other than their shareholdings in the Company disclosed in the Directors' Report on page 11.

Remuneration policy

The objective of the policy is to ensure that all members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The Remuneration Committee will have regard to conditions of service and remuneration levels of competitor companies to ensure that the Company is well placed to attract and retain high calibre management, but not so as to cause remuneration to rise without a corresponding improvement in performance.

There are key elements of the remuneration package for Executive Directors and senior management:

- Basic salary and benefits
- Annual performance related bonus
- Share awards
- Pension arrangements

Basic salary and benefits

The Remuneration Committee is responsible for determining the remuneration of the Chairman, all Executive Directors, the Company Secretary and, in addition the senior management of the Group with annual remuneration above £300,000. The Committee utilises advice from Hewitt New Bridge Street Consultants (a leading advisor on senior executive compensation to UK listed companies) together with reports provided by Watson Wyatt as well as other publicly available reports in order to ensure that remuneration levels are consistent with comparable companies, while also taking into account the Company's performance. Executive Directors also receive benefits in kind such as private health care and permanent heath insurance.

Annual performance related bonus

Tawa plc's annual bonus provision comprises of two elements; variable pay and business performance bonus.

Variable Pay: Each year, a pool is created based on 10% of the total salary bill. This is allocated across the workforce based on an assessment of each individual's contribution and performance aligned to objectives and targets set at the beginning of the year. Variable pay is awarded in December and awards typically range from 0 – 17% of base pay.

Business Performance Bonus is directly linked to the performance of the whole Company against the business plan and factors which employees can control. In the past a fixed percentage of the total salary bill is determined based on business performance. One third of any bonus paid is paid in cash with the remaining two thirds paid in the form of deferred shares to which employees become entitled after a further 12 months and 24 months, subject to continued employment but no other employment conditions.

On target awards as a percentage of salary have in the past varied from 20% to 30%.

Executive Directors (Band 5) bonus amounts have been determined by the Board on an annual basis and comprise of (i) variable pay target of 10% of salary (ii) a business performance target of 30% of salary and (iii) a discretionary top up bonus. An aggregate maximum limit of 80% of salary over the whole bonus applies.

Bonus arrangements covering payments in 2008 are under review.

Directors' remuneration

Services whilst Directors of the parent, amounts received as Director of the parent, as Director of any subsidiary and otherwise in connection with any company in the Group.

	Salary/Fees $	Bonus $	Pension $	Taxable Benefits $	**2007 Total $**	2006 Total $
Chairman						
Robin Jackson	155,830	–	–	–	**155,830**	68,200
Executive Directors						
Gilles Erulin	506,019	–	41,917	6,789	**554,725**	187,050
Colin Bird	222,162	–	–	4,382	**226,544**	–
David Vaughan	161,809	144,424	257,565	14,983	**578,782**	–
Non-Executive Directors						
Patricia Barbizet	88,010	–	–	–	**88,010**	60,177
Loic Brivezac	44,540	–	–	–	**44,540**	–
John Hendrickson	48,385	–	–	–	**48,385**	42,034
Anthony Hamilton	122,604	–	–	–	**122,604**	68,200
Gilles Pagniez	115,604	–	–	–	**115,604**	116,843
Total	1,464,963	144,424	299,482	26,154	**1,935,024**	542,504

During the year certain Directors of Tawa plc also received the following remuneration from associates of the Group or a subsidiary when they were not a Director of Tawa plc:

	Salary/Fees $	Bonus $	Pension $	Taxable Benefits $	**2007 Total $**	2006 Total $
Executive Directors						
Gilles Erulin	64,356	–	–	–	**64,356**	104,307
Colin Bird	576,466	–	15,808	–	**592,274**	386,136
David Vaughan	178,525	–	204,897	–	**383,422**	770,158
Non-Executive Directors						
John Hendrickson	40,954	–	–	–	**40,954**	42,034
Gilles Pagniez	70,207	–	–	–	**70,207**	70,206
Total	930,508	–	220,705	–	**1,151,213**	1,372,841

Share awards

During 2007, the Company established two share plans: the Tawa 2007 Performance Share Plan (the "Performance Share Plan") and the Tawa 2007 Deferred Share Bonus Plan (the "Deferred Share Bonus Plan"), collectively referred to as the "Tawa Share Plans". The Tawa Share Plans are a key element of Tawa plc's retention and reward policy and are designed to align the interests of employees and shareholders in addition to incentivising staff to deliver outstanding results.

The Performance Share Plan

The Performance Share Plan provides for the grant of awards over Ordinary Shares. The vesting of awards granted to Executive Directors are subject to performance conditions set by the Remuneration Committee on or prior to the grant of an award. The vesting of awards granted to other employees may not be subject to performance conditions. Awards normally vest on the third anniversary of the date of grant, subject to the satisfaction of the relevant performance conditions and to the employee being either an employee or director within the Tawa Group on that date.

The initial tranche of awards to the Executive Directors and senior executives at the time of the Company's admission to trading on AIM were subject to the following conditions:

(a) One-half of the award is subject to a condition measuring the compound growth in the Company's Net Asset Value per Share before dividends as determined by the Remuneration Committee ("NAV") over a period commencing on the date of Admission and ending on 31 December 2009; and

(b) One-half of the award is subject to a condition measuring the Company's relative Total Shareholder Return ("TSR") performance against a group of companies comprising the constituents of the FTSE Small Cap excluding investment trusts (the "Comparator Group") over a single period of three years.

The portion of an award subject to the NAV condition will not vest unless NAV growth during the performance period is at least equal to an average of 12.5% compound per annum, thereafter this portion of the award will vest as follows:

NAV per Share growth during the performance period (average compound)	Percentage of one-half of the total number of Shares subject to the award that will vest
Less than 12.5%	Nil
Equal to 12.5%	25%
Equal to or greater than 20%	100%
Between 12.5% and 20%	Pro-rata between 25% and 100%

The portion of the award subject to the TSR performance condition will vest as follows:

Rank of the Company's TSR against comparator companies at the end of the performance period	Percentage of one-half of the total number of Shares subject to the award that will vest
Below median	Nil
Median	25%
Upper quartile	100%
Between median and upper quartile	Pro-rata between 25% and 100%

The performance period for the TSR condition began on 26 July 2007. For the initial tranche, the "base" TSR of the Company and the companies in the Comparator Group will be the average Net Returns of such companies for the first three months of the performance period, with the "end" TSRs being the relevant Net Returns for the three month period preceding the end of the performance period (except in the event of a takeover when TSR may be averaged over a shorter period).

As noted above, in addition to the satisfaction of performance conditions, the vesting of these awards is subject to the Executive Director and senior executive being either an employee or director within the Tawa group on the third anniversary of admission, except in the case of the award granted to Gilles Erulin, who is required to be an employee or director within the Tawa Group on 30 March 2010.

At the time of the Company's admission to trading on AIM, an initial grant over Ordinary Shares with an aggregate value equal to £75,000 was made under the Performance Share Plan to eight senior executives, none of whom were Executive Directors. These awards formed part of a discretionary cash bonus, one-third of which was required to be used to acquire Ordinary Shares. In return, the Company granted each executive an award over Ordinary Shares with value on grant worth 50 per cent of the amount invested. These awards, which are not subject to performance conditions, will vest on the second anniversary of admission subject to the executive being an employee or director within the Tawa Group and to the extent that the Ordinary Shares acquired on admission have been retained.

Also at the time of admission, each employee (excluding Executive Directors and senior managers) in the Group were granted an award under the Performance Share Plan over 2,400 Ordinary Shares. These awards were not subject to any performance conditions and vest on the second anniversary of the date of Admission, subject to the employee being an employee or director within the Tawa Group on that date.

The Deferred Share Bonus Plan

The Deferred Share Bonus Plan allows the Company to defer a portion of an employee's bonus into a conditional award over Ordinary Shares with an aggregate market value on grant equivalent to the value of the deferred bonus. The intention is that one-half of an award vests on the first anniversary of the date of grant and the other half vests on the second anniversary of the date of grant. No awards were made under the Deferred Share Bonus Plan during 2007.

Awards held

The awards held over Ordinary Shares of 10p each in the Company as at 31 December 2007 by Executive Directors serving at the year end are shown below:

Director	Scheme	Shares under award on 1 January 2007	Grants during year	Shares under award on 31 December 2006	Date awards vest
Gilles Erulin	Performance Share Plan	–	420,000	–	26 July 2010
Colin Bird	Performance Share Plan	–	116,000	–	26 July 2010
David Vaughan	Performance Share Plan	–	316,800	–	26 July 2010

Future grants of awards under Tawa Share Plans will be approved by the Remuneration Committee. The Remuneration Committee will have due regard to the Association of British Insurers Guidelines and the Combined Code in making such awards and setting appropriate performance conditions.

Pensions

Executive Directors are entitled to become members of Tawa's Retirement Benefit Plan or to elect for contributions to be paid into a personal plan. The amount of employer contributions is linked to age and ranges from contributions of 7% to 20% of salary. To be a member of the Tawa Plan individuals are required to contribute a minimum of 3% of salary. The amount of contribution made to Executive Directors is outlined in the table above.

Service contracts

Gilles Erulin's contract is for a fixed term until 31 March 2010 during which period it is terminable by either side on 12 months notice. The contracts of Colin Bird and David Vaughan are terminable by either side on 12 months notice and, in any event will terminate on the date they attain the age of 65.

The Remuneration Committee believes that these notice periods provide an appropriate balance and adequately protect the Company, having regard to the prevailing market for recruiting suitable replacements.

Non Executive Directors

The Executive Directors will review Non Executive Directors' remuneration annually to ensure that fees are in line with comparable companies. All Non Executive Directors receive an annual fee in respect of their board duties and an attendance fee for each board and board committee they attend. The Non Executive Directors do not receive any other benefit.

Overview

The control of all day-to-day operations of the Group is vested in the Board, delegated to management where appropriate but always subject to the review of all matters by the Board as a whole. At its present size the key controls of the Group are vested in the Executive Directors, which undertakes a close day-to-day supervision of all activities and financial decisions.

However, such a system can only provide reasonable, not absolute, assurance against material misstatement or loss. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives as set by the board.

The Audit Committee has oversight over the external auditors. Executive Management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

The Audit Committee's main objectives are: to monitor the integrity of the Group's financial statements and any other formal announcements relating to the Group's financial performance before submission to, and approval by, the Board; review the Group's internal controls and risk management system; and review arrangements by which employees may, in confidence, raise concerns in financial reporting and other matters.

The Group's systems of internal control consist of five interrelated components:

- Control environment – The control environment within the company provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board of Directors.

The control environment is also communicated to all employees through the following key policies approved by the Board:

- Tawa plc's Corporate Objectives
- Code of Ethics and Conduct
- Whistle Blowing Procedures
- Insider Trading – Restrictions on share dealing by directors and employees

Risk Management

The Company faces a variety of risks from both internal and external sources that require identification, assessment and management of those risks. Risk management is the process that enables the business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess and prioritise the risks identified and the means of mitigating them;
- Where possible and commercially feasible, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured.

As the environment in which the Company is operating is constantly changing, the risk assessment process needs to be dynamic and updated on an ongoing basis.

An analysis of the risk management framework at Tawa can be found on pages 34 to 44.

Monitoring

Internal control systems need to be monitored to assess the quality of the system over time. The Group achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of monthly management and exception reports. The Group believes it has implemented an effective system of internal control.

We have audited the Group and parent company financial statements (the "financial statements") of Tawa plc for the year ended 31 December 2007 which comprise the Consolidated and Company Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statement, the Consolidated and Company Statement of Recognised Income and Expenses, and the related notes 1 to 51. 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 our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report 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).

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 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the joint statement of the chairman and chief executive officer and Financial Review that is cross referred from the Business Review section of the Directors' Report.

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 other information contained in the Annual Report as described in the contents section 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. Our responsibilities do not extend to any further information outside the Annual Report.

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 Group's and 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, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Company's affairs as at 31 December 2007 and of the Group's and Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
28 March 2008

Tawa plc Consolidated income statement

For the year ended 31 December 2007

	Notes	**31 Dec 2007 $m**	31 Dec 2006 $m
Continuing operations			
Revenue	7	**30.6**	21.9
Investment return	8	**11.5**	0.6
Other income		**–**	0.1
Net income		**42.1**	22.6
Insurance claims and loss adjustment expenses		**5.0**	–
Insurance claims and loss adjustment expenses recovered from reinsurers		**1.2**	–
Net insurance claims		**6.2**	–
Cost of services		**(27.3)**	(18.6)
Administrative expenses		**(12.9)**	(4.3)
Expenses		**(40.2)**	(22.9)
Results of operating activities		**8.1**	(0.3)
Share of results of associates	24	**(0.8)**	5.6
Negative goodwill recognised	35	**41.3**	–
Profit before finance costs		**48.6**	5.3
Finance costs	9	**(2.8)**	(0.2)
Profit before tax		**45.8**	5.1
Taxation	10	**–**	–
Profit for the year from continuing operations		**45.8**	5.1
(Loss)/profit for the period from discontinued operations	11	**(2.9)**	47.9
Profit for the year	12	**42.9**	53.0
Attributable to:			
Equity holders of the Group		**42.9**	53.0
Earnings per share			
From continuing and discontinued operations	17		
Basic: Ordinary shares (dollars per share)		**0.4**	0.5
Diluted: Ordinary shares (dollars per share)		**0.4**	0.5
From continuing operations	17		
Basic: Ordinary shares (dollars per share)		**0.4**	0.1
Diluted: Ordinary shares (dollars per share)		**0.4**	0.1

The notes on pages 26 to 62 form part of these financial statements.

Tawa plc Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	Notes	**31 Dec 2007 $m**	31 Dec 2006 $m
Currency translation differences		**3.7**	1.1
Net income recognised directly in equity		**3.7**	1.1
Profit for the year		**42.9**	53.0
Total recognised income and expense for the year attributable to equity holders of the Group		**46.6**	54.1

The notes on pages 26 to 62 form part of these financial statements.

Tawa plc Consolidated balance sheet

As at 31 December 2007

	Notes	31 Dec 2007 $m	31 Dec 2006 $m
Assets			
Cash and cash equivalents	18	**38.5**	5.7
Investments: Debt and equity securities	19	**165.0**	–
Loans and receivables including insurance receivables	20	**18.8**	3.7
Reinsurers' share of technical provisions	21	**18.1**	–
Property, plant and equipment	22	**0.1**	0.8
Deferred assets	23	**104.3**	106.0
Interests in associates	24	**11.8**	12.6
Goodwill	25	**18.2**	18.2
Total assets		**374.8**	147.0
Equity			
Share capital	26	**20.0**	57.2
Share premium	27	**85.2**	–
Retained earnings	28	**131.9**	85.3
Total equity attributable to equity holders		**237.1**	142.5
Liabilities			
Creditors arising out of reinsurance operations		**4.5**	–
Other liabilities	29	**6.8**	4.5
Financial liabilities – borrowings	30	**35.0**	–
Technical provisions	21	**91.4**	–
Total liabilities		**137.7**	4.5
Total liabilities and equity		**374.8**	147.0

The notes on pages 26 to 62 form part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2008 and were signed on its behalf on 28 March 2008 by:

Giles Erulin
Chief Executive Officer

Colin Bird
Chief Financial Officer

Tawa plc Consolidated cash flow statement

For the year ended 31 December 2007

	Notes	31 Dec 2007 $m	31 Dec 2006 Continuing $m	31 Dec 2006 Discontinued $m	31 Dec 2006 Total $m
Cash used in operating activities	31	**(12.1)**	(4.2)	(46.3)	(50.5)
Cash payments to acquire equity and debt securities		**(256.5)**	–	(88.0)	(88.0)
Cash receipts from sale of equity and debt securities		**85.9**	–	125.6	125.6
Cash transferred from investing activities		**81.4**	–	–	–
Cash receipts from interest		**6.5**	0.7	–	0.7
Acquisition of subsidiary net of cash and cash equivalents	35	**44.6**	–	–	–
Cash (used in)/generated from investing activities		**(38.1)**	0.7	37.6	38.3
Proceeds from issue of equity shares		**48.0**	–	–	–
Proceeds from financial borrowings		**70.0**	–	–	–
Repayments of financial borrowings		**(35.0)**	–	–	–
Cash flows generated from financing activities		**83.0**	–	–	–
Net decrease in cash and cash equivalents		**32.8**	(3.5)	(8.7)	(12.2)
Cash and cash equivalents at beginning of year		**5.7**	9.2	14.3	23.5
Cash disposed on sale of subsidiary		**–**	–	(5.6)	(5.6)
Cash and cash equivalents at end of year		**38.5**	5.7	–	5.7

The notes on pages 26 to 62 form part of these financial statements.

1 General information

Tawa plc, formerly Tawa UK limited (the "Company") and its subsidiaries (together the "Group") are engaged in two principal business activities:

- The acquisition and run-off of insurance companies that have ceased underwriting; and
- The provision of run-off management services to acquired insurance companies.

The Group acquired the entire share capital of KX Reinsurance Company Limited ("KX Re") (formerly Continental Management Services Limited) on 4 May 2007.

On 21 March 2006, the Company disposed of the majority of its 100% shareholding in CX Reinsurance Company Limited ("CX Re"). As a result of the disposal, the classification of the Company's shareholding in CX Re changed from "subsidiary" to "associate" as the Group retains 49.95% of the voting power. Consequently, the operating results, assets and liabilities have been treated as discontinued for all years up to the date of sale. The profit on disposal has been included in "Profit for the year from discontinued operations" in the Income Statement. Deferred consideration related to the disposal of CX Re has been recorded in the balance sheet. Any adjustments to deferred consideration will be accounted for as adjustments to the profit on disposal in the years in which the adjustments to the deferred consideration arise.

2 Accounting developments

2.1 Standards and interpretations effective in the current period

In the current year the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 5).

In addition, the Group has elected to adopt IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective 1 March 2007) in advance of its effective date. The impact of the adoption of IFRS 2 has been to expand the disclosures provided in the financial statements (see note 32).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Interpretations were in issue but not yet effective:

- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008); and
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Group except for the additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

3 Basis of preparation, and critical accounting judgements and estimates

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European. The financial statements also comply with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The Company has not previously prepared Group accounts so reconciliations are not required for the Group's transition from UK GAAP to IFRS.

The consolidated financial statements are presented in millions of US dollars, rounded to the nearest hundred-thousand. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through the income statement.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgement in making estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised if the revisions affect only those periods or in the periods of the revision and future periods if applicable.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in following years include:

Outstanding claims provisions and related reinsurance recoveries

There is uncertainty as regards the eventual outcome of the claims and related reinsurance recoveries that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified and those that are not yet apparent to the insured. Significant delays occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date.

In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

Basis of discounting

The Group's net technical provisions, estimated as set out in note 5 "Analysis of Risk", will be paid over a period of many years dependent upon the nature of the underlying risk, the claims outstanding and the related reinsurance recoveries. The net future liabilities have been reduced or "discounted" by an amount representing an estimate of future investment income from income-producing assets set aside to meet net claims liabilities. The payment patterns for claims outstanding are derived by the Group's actuaries from analysis of historical patterns experienced by the Group and other comparable companies in run-off. The Group's investment portfolio has been structured to minimise interest rate exposure such that the maturity profile of the fixed income investments matches the maturity profile of the technical provisions. The discount rate, hence anticipated future investment income, has been calculated with reference to relevant dates on the yield curve for Treasury bonds in the currencies in which the investments are held. This is consistent with a mark-to-market value for the invested assets of the Group at the balance sheet date.

The use of discounted technical provisions in representing the economic position of the Group necessarily depends upon the accuracy of the estimate of:

(i) future claims and expense payments and associated reinsurance recoveries;
(ii) the payment profiles attributable to claims payments and related reinsurance recoveries; and
(iii) the future rate of return expected on invested assets.

3 Basis of preparation, and critical accounting judgements and estimates continued

Fair value of financial assets – measurement considerations

Active market: quoted price

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

Revenue recognition – Deferred consideration

The deferred consideration carried in the balance sheet is linked to the net asset value of the Group's associate, CX Re. A number of risks impact the fair value of CX Re and any changes in the fair value of CX Re will have a direct impact on the value of deferred consideration carried in the balance sheet. The fair value of CX Re is deemed to be its net asset value.

As IFRS are limited in specifying full insurance-specific guidelines to the requirements of IFRS 4 'Insurance Contracts' pending completion of the second phase of the IASB's project on insurance contracts, accounting policies for insurance contracts have been selected with primary consideration to existing UK GAAP as permitted by IFRS 4.

4 Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These financial statements consolidate all the enterprises in which the Group controls, directly or indirectly. There are no other enterprises over which the Group has the ability to exercise control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by another entity.

Intra-group transactions, balances, and gains and losses are eliminated except to the extent that the transaction provides evidence of an impairment of the asset transferred.

The results of subsidiaries disposed of during the year are included in the consolidated income statement up to the effective date of disposal, as appropriate.

The financial results, profit on disposal and deferred consideration adjustments relating to the sale of Group operations are included in "Profit for the year from discontinued operations" in the Income Statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combinations. The acquiree's identifiable assets, liabilities and contingent liabilities that meet conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date.

4 Accounting policies continued

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of net fair value of assets, liabilities and contingent liabilities recognised.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If 'negative goodwill' remains after reassessment of the acquiree's assets and liabilities and the cost of the cost of the combination, then it is recognised immediately in the income statement.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currencies of the major Group entities are:

KX Reinsurance Company Limited	USD
Tawa plc	USD
Tawa Management Limited	GBP

The consolidated financial statements are presented in millions of US dollars, which is the Group's presentation currency.

4 Accounting policies continued

b) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing exchange rates at the date of the most recent balance sheet presented;
ii) income statement items are translated at average exchange rates prevailing throughout the relevant year;
iii) all resulting exchange differences are recognised in equity.

c) Transactions and balances

Premium, claim and commission transactions and investment income during the year are recorded in ledgers denominated in the recognised settlement currencies and translated into US dollars at average rates of exchange during the year. Other revenue transactions are recorded at average rates of exchange during the year.

Non-monetary assets are initially translated at transaction date. Non-monetary items are measured at the average rate applicable when the transaction occurred and not retranslated.

Revenue recognition

Revenue is attributable to providing management and operational services relating to the insurance industry and all income derived from associated concerns and is recognised in the Income Statement on an accrued basis. Incentive fees are attributable to providing transaction facilitation and structuring services and are recognised in the Income Statement on an accrued basis.

Deferred consideration is attributable to the disposal consideration of CX Re and is determined on an annual basis by reference to the terms of the sale which include changes in the net asset value of CX Re. As described in the Analysis of Risk note, the net assets of CX Re are impacted by a variety of factors including the uncertainty in the estimation of future claims payments.

Accounting for insurance contracts

Premium revenue

Written premiums, gross of commission payable to intermediaries, comprise the Group's share of written premiums on contracts entered into during a financial period, regardless of whether such amounts may relate in whole or in part to a later financial period, exclusive of taxes and duties levied on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for pipeline premiums. For inwards proportional reinsurance treaties and certain binding authorities and lineslips, written premium is included in line with anticipated writing patterns of cedants and agents. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

Claims incurred

Claims incurred include all claims and internal and external claims settlement expense payments made in respect of the financial period, together with the movement in the provision for claims outstanding and internal and external claims settlement expenses, including claims incurred but not reported. Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

Claims outstanding and loss adjustment expenses

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred up to, but not paid at, the balance sheet date, whether reported or not, together with provisions for future costs related to the management of the run-off of the portfolio of claims. Where applicable, prudent estimates are made for salvage and subrogation recoveries.

The gross claims outstanding provisions and related reinsurance recoveries, net of specific provision for doubtful recoveries, are determined on the basis of information currently available. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly. Claims outstanding are carried at actuarial "best-estimates".

4 Accounting policies continued

Discounting

The Group's net technical provisions, estimated as set out in note 5 below, will be paid over a period of many years dependent upon the nature of the underlying risk, the claims outstanding and the related reinsurance recoveries. The net future liabilities have been reduced or "discounted" by an amount representing an estimate of future investment income from income-producing assets set aside to meet net claims liabilities. The payment patterns for claims outstanding are derived by the Group's actuaries from analysis of historical patterns experienced by the Group and other comparable companies in run-off. The Group's investment portfolio has been structured to minimise interest rate exposure such that the maturity profile of the fixed income investments matches the maturity profile of the technical provisions. The discount rate, hence anticipated future investment income, has been calculated with reference to relevant dates on the yield curve for Treasury bonds in the currencies in which the investments are held. This is consistent with a mark-to-market value for the invested assets of the Group at the balance sheet date.

Employee benefits

Pension costs

The Group only operates defined contribution pension arrangements. Contributions are charged to the income statement as employee benefit expense as they become payable in accordance with the rules of each scheme. The Group has no further payment obligations once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Financial instruments

Financial assets

The Group recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition the Group determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the financial instruments are acquired.

a) *Investments (debt and equity securities)*

Debt and equity securities are non-derivative financial assets. On initial recognition, the fair value is the cost including transaction costs directly attributable to the acquisition. On subsequent remeasurement, the fair value represents the listed bid price. Fair value movements are recognised through the income statement.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit and loss ("FVTPL") upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

b) *Loans and receivables including insurance receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are designated on initial recognition and measured at fair value, using relevant measurement techniques. They are subsequently measured at fair value. Annual impairment reviews are undertaken and allowances are made for any permanent impairments.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group does not deal in any derivatives. Purchases and sales of securities and currencies are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

4 Accounting policies continued

Before evaluating whether, and to what extent, de-recognition of a financial asset or liability is appropriate, the Group determines whether de-recognition should be applied to only part of the financial asset/liability or group of financial assets/liabilities. The Group only derecognises a financial asset or liability when the contractual rights and obligations to the cash flows expire or the financial asset/liabilities are transferred and the Group has also transferred substantially all risks and rewards of ownership.

Gains and losses on derecognition are recognised through the income statement.

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.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Other financial liabilities

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; and
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses when appropriate. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Fixtures and fittings	4 years
Computer equipment	4 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

The residual values and useful lives of the assets are reviewed at each balance sheet date and adjusted if appropriate.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Share based payments

The Group has applied the requirements of IFRS 2 Share-based Payment for the first time in the current year. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

4 Accounting policies continued

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting condition) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the stochastic valuation model. The expected life used in the model has been adjusted, based on managements best estimate, for the effects of non-transferability, exercise restriction, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

Transactions with related parties

IFRS requires all entities to disclose related party transactions. The Group's policy is to have regard to the materiality from both the shareholders' and the related party's perspective.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Taxation

Income tax expense represents the sum of the tax payable or receivable in the year and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on all temporary differences, which are based on the difference between the financial statement carrying values and the tax bases of assets and liabilities using enacted income tax rates and laws. Deferred income tax assets are recognised to the extent that it is regarded as probable that they will be utilised against sufficient future taxable income. Deferred income tax assets and liabilities are not discounted.

Current tax payable by any Group company on distribution to the holding company of the undistributed profits of any subsidiaries is recognised as deferred tax unless the timing of the distribution of those profits is controlled by the holding company and the temporary difference is not expected to reverse in the foreseeable future.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Investment income, expenses and charges

Investment income is accounted for on a receivable basis, gross of any imputed tax credit. Interest is accrued up to the balance sheet date. Realised gains or losses represent the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses comprises the increase/decrease in the period in the value of the investments held at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investments disposed of in the current period.

5 Analysis of risk

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 30, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, share premium and retained earnings as disclosed in notes 26, 27 and 28 respectively.

Gearing ratio

The risk carriers managed by the Group, which are regulated financial institutions, have no borrowings. Similarly the parent has no borrowings. The Group's executive management review working capital on a continual basis and assess the appropriate financing structures for acquisitions. The acquisition of KX Re was financed with bank debt of approximately 50% of the acquisition price, with the balance being financed from the proceeds of the IPO in July 2007.

The gearing ratio at the end of the year was as follows:

	31 Dec 2007 $m	31 Dec 2006 $m
Debt	**35.0**	–
Cash and cash equivalents	**(12.5)**	–
Net debt	**22.5**	–
Equity	**237.1**	142.5
Net debt to equity ratio	**9%**	0%

The debt is defined as long and short term borrowings. The debt has not been reduced by all Group cash and cash equivalents as some cash belonging to regulated subsidiaries is not regarded as readily distributable within the Group.

Equity includes all capital and reserves of the Group.

Regulatory capital requirement

The Group manages the regulatory capital of its FSA regulated subsidiary KX Re and ensures that there is sufficient capital surplus in the Company.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the financial statements.

Categories of financial instruments

	31 Dec 2007 $m	31 Dec 2006 $m
Financial assets		
Loans and receivables (including cash and cash equivalents)	**57.3**	9.4
Available-for-sale investments	**165.0**	–

Risk management framework

The Group is exposed to various types of risk as discussed below.

The Board of Directors retains overall responsibility for the risk management framework that has been established to mitigate the Group's exposure to risk and assesses the effectiveness of the controls established to identify, monitor and mitigate the risks faced by the Group.

5 Analysis of risk continued

Although the Group disposed of the majority of its shareholding in CX Re on 21 March 2006, retaining only a 12.65% shareholding now accounted for under the equity method, the deferred consideration receivable on the sale of CX Re is impacted by the net asset value of CX Re and consequently, the Group still remains exposed to all the major risk types related to CX Re.

The risks that the Group faces, or faced during the years under review, include, but are not limited to:

Insurance risk – risk associated with the uncertainty, the quantum of the claim or the time when claims payments will fall due.

Investment and credit risk – risk associated with the Group's reinsurance arrangements, investment portfolio, and other counterparty credit risk.

Financial risk – risk associated with possible future change in one or more of a specified interest rate, financial instrument price, foreign exchange rate or other variable.

Insurance risk

Sources of uncertainty in the estimation of future claim payments

The uncertainty in the financial statements principally arises in respect of the technical provisions of the insurance operations. There is uncertainty as regards the eventual outcome of the claims that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the Group needs to apply sophisticated estimation techniques to determine the appropriate provisions. The Group sets its provision for claims outstanding based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods and market benchmarks, as appropriate.

The adequacy of the claims outstanding provision is assessed by reference to actuarial projections of the ultimate development of claims in respect of each underwriting year. In addition, in certain areas of the portfolio, exposure analysis has been performed. This provision is derived through extensive analysis by the Group's in-house actuaries including reference to internal and external benchmarks. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually.

The provision for claims outstanding and the provision for future expenses related to the run-off of the net liabilities are discounted to take account of future investment income which will be generated prior to settlement of the claims. The use of discounted technical provisions in representing the economic position of the Group necessarily depends upon the accuracy of the estimate of:
(i) future claims and expense payments and associated reinsurance recoveries;
(ii) the payment profiles attributable to claims payments and related reinsurance recoveries; and
(iii) the future rate of return expected on invested assets.

Whilst the Directors consider that the gross provision for claims and the related recoveries are fairly stated on the basis of the information currently available to them, due to the nature of the insurance industry there is inherent uncertainty in these estimates. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

Significant delays occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

5 Analysis of risk continued

The following table presents the Group's booked gross claims outstanding before claims handling provisions and before discounting by major risk class:

Group

	Asbestos, Pollution, Latent $m	Other $m	Total $m
2007	53.0	57.7	110.7
2006	–	–	–

The following table analyses the Group's gross claims outstanding between incurred but not reported ('IBNR') and case reserves:

	31 Dec 2007	31 Dec 2006
Case reserves	**55.9%**	–%
IBNR	**44.1%**	–%
Total	**100.0%**	–%

As the Group is exposed to CX Re's risk the following tables present CX Re's booked gross claims outstanding before claims handling provisions and before discounting by major risk class and gross claims outstanding between incurred but not reported ('IBNR') and case reserves:

CX Re

	Asbestos, Pollution, Latent $m	IGI $m	Other $m	Total $m
2007	72.9	–	247.1	320.0
2006	140.9	74.3	340.5	555.7

	31 Dec 2007	31 Dec 2006
Case reserves	**83.1%**	88.2%
IBNR	**16.9%**	11.8%
Total	**100.0%**	100.0%

Asbestos, pollution and other latent claims

These claims arise from policies issued prior to 1986 on a losses occurring basis. This means that a claim being notified any time after the exposure period would attach back to that exposure period regardless of the length of delay. By their nature such claims are frequently subject to disputes such as the extent of coverage and definitions of occurrence and possible legislative changes. Consequently, reserves for claims of this type cannot be determined using traditional actuarial techniques and the uncertainty surrounding the ultimate cost of settlement is greater than for more standard claims within the Group's portfolio. Significant adverse development may have a material impact on the Group's future results and net assets.

IGI

This was a portfolio of personal accident reinsurance. Since the 2006 year end this portfolio was subject to a reinsurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 transferring the liability from CX Re to a third party reinsurer.

Other

All books of business have been closed to new exposures for a number of years now and the result is that they do not suffer from attritional claims activity. However, the age of these claims means that more will be subject to disputes on the extent of coverage and size of loss and allocation of loss amounts. Market rulings and legal judgements can have a material effect on groups of these claims making the final outcome uncertain.

5 Analysis of risk continued

Basis for establishing provision for claims outstanding

Loss reserves for insurance and reinsurance business are established based on claims data reported to the Group by ceding companies supplemented with relevant industry benchmark loss development patterns used to project the ultimate incurred loss. Ultimate incurred loss indications are calculated by the Group's actuaries using several standard actuarial methodologies.

The Group's actuaries utilise several assumptions in applying each methodology, including loss development factors and actual reported claim frequency and severity. These reviews and documentation are completed in accordance with professional actuarial standards appropriate to the jurisdictions where the business is written. The selected assumptions reflect the actuaries' judgement based on historical data and experience combined with information concerning economic, judicial, regulatory and other influences on ultimate claim settlements. Best estimates are derived for each group and underwriting year.

Based on the actuarial indications, the Group selects and records a single point estimate, which becomes management's best estimate which the Group considers to be one that has an equal likelihood of developing a redundancy or deficiency as the loss experience matures. On an annual basis the Group analyses and records its loss reserve estimates across detailed lines of business which reflect class of business, geographic location, insurance versus reinsurance, proportional versus non-proportional, and treaty versus facultative exposures. In addition, a limited number of the Group's largest contracts are reviewed individually.

During the loss settlement period, additional facts regarding claims are reported. As this occurs it may be necessary to increase or decrease the unpaid losses and loss expense reserves. The actual final liability may be significantly different to prior estimates. The Group reviews additional reported claim information on a monthly basis. Actual claim experience is compared to that expected from the most recent actuarial reserve review to highlight significant variances. A complete actuarial analysis by detailed line of business including selection of single point estimates is completed annually and is reviewed by the Group's management.

The unallocated loss adjustment expense provision ("ULAE") is based on assessment of the resources required by year to deliver the strategy for each company taking into account staff by department, accommodation and office services overheads, legal and professional charges, including assistance with planned schemes of arrangement, IT overheads including investment in system developments and human resources overheads. These estimates are reviewed in the context of previous years' actual expenses.

If net claims reserves carried in the balance sheet moved by 1% the impact on the income statement would be a change in the profit before tax and net assets of $73,300.

Financial risk

Introduction

The Group is subject to several types of financial risk. The most significant of these is the risk that at any given date, the proceeds from realising the financial assets of the Group may be insufficient to meet the financial obligations arising from its insurance contracts. The Group is also exposed to risk as a result of changes in foreign currency.

The Group is also exposed to interest rate risk on its insurance reserves and floating rate borrowings. Where appropriate, reserves are discounted as permitted by IFRS 4. Discount rates are based on the USD risk-free rate. A reduction of 1% would reduce the net discount in the balance sheet by approximately $4.1 million as at 31 December 2007 (2006: $nil).

The Group is subject to financial risk through its equity accounted investment in CX Re. The most significant of these is the risk that at any given date, the proceeds from realising the financial assets of the Group may be insufficient to meet the financial obligations arising from its insurance contracts. The Group is also exposed to risk as a result of changes in foreign currency exchange rates.

Market Risk (including interest rate risk)

The Group and associate company CX Re's investment strategy is based on a high quality diversified portfolio of liquid investment grade fixed income and other securities as a method of preserving equity capital and prompt claim payment capability.

5 Analysis of risk continued

The Group and associate CX Re's invested assets are subject to interest rate risk. The interest rate risk is concentrated in the US and Europe and is sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Based on the Group's invested assets including cash at external managers of $177.1 million as at 31 December 2007 (2006: $nil), a 1% increase/decrease in interest rates across the yield curve would result in an approximate $1.0 million (2006: $nil) unrealised loss/profit respectively. For associate CX Re's invested assets at external managers of $237.6 million as at 31 December 2007 (2006: $330.8 million), a 1% increase/decrease in interest rates across the yield curve would result in an approximate $2.2 million unrealised profit/loss in 2007 (2006: $1.2 million).

The Group uses external investment managers to invest and manage its assets. The Board establishes investment policies and creates guidelines for external investment. These guidelines specify criteria on the overall credit quality and liquidity characteristics of the portfolio and include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities.

Of total invested assets, $177.1 million (2006: $nil) was managed by third-party fund managers with the asset mix shown below at 31 December 2007.

Asset class	**31 Dec 2007**	**Average rating 31 Dec 2007**	31 Dec 2006	Average rating 31 Dec 2006
Governments	**45%**	**AAA**	–%	–
Corporates	**4%**	**A+**	–%	–
Asset backed securities	**1%**	**AAA**	–%	–
Cash and other	**50%**	**AAA**	–%	–
Total	**100%**		–%	

The following table shows how CX Re's securities were invested among different asset classes:

Asset class	**31 Dec 2007**	**Average rating 31 Dec 2007**	31 Dec 2006	Average rating 31 Dec 2006
US government	**20%**	**AAA**	24%	AAA
Mortgage backed securities	**9%**	**AAA**	7%	AAA
Commercial mortgage backed securities	**7%**	**AAA**	12%	AAA
EU government and corporate	**13%**	**AA-**	6%	AA+
GBP corporates and government	**2%**	**A+**	10%	A+
Corporates	**20%**	**A+**	17%	AA-
Municipals	**2%**	**AAA**	3%	AA+
Other asset backed securities	**5%**	**AAA**	8%	AAA
Canadian government	**4%**	**AAA**	3%	AAA
Cash and other	**18%**	**AAA**	10%	AAA
Total	**100%**		100%	

The following table shows the Group's securities maturity dates and interest rate ranges, (2006: nil):

$ million – 2007	**Total**	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Exposed to fair value risk						
Debt securities fixed interest rate	**165**	84	22	2	7	50

	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Interest rates range					
Debt securities fixed interest rate	0.0%–6.7%	4.8%–4.9%	4.2%–4.3%	5.4%–5.8%	4.5%–6.8%

5 Analysis of risk continued

The following tables show CX Re's securities maturity dates and interest rate ranges:

$ million – 2007	**Total**	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Exposed to fair value risk						
Debt securities fixed interest rate	**175**	22	7	6	19	121
Variable yield securities	**131**	107				24

$ million – 2006	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Interest rates range					
Debt securities fixed interest rate	3.4%–7.3%	5.0%–6.5%	5.0%–6.5%	0%–6.5%	0%–7.8%

	Total	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Exposed to fair value risk						
Debt securities fixed interest rate	255	62	8	35	16	134
Variable yield securities	57	57				

	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Interest rates range					
Debt securities fixed interest rate	None	2.9%–5.5%	2.6%–6.1%	3.2%–7.4%	0%–9.9%

Deferred asset

On 21 March 2006 Tawa disposed of 87.35 per cent of the "A" Shares (carrying the economic rights) of CX Re and 50.05 per cent of the "B" Shares (carrying the voting rights) of CX Re to two financial institutions and other purchasers for an initial consideration from each purchaser with further amounts being payable to Tawa, referenced to future distributions from CX Re to its shareholders. Such distributions would be enhanced by the successful offset of CX Re's tax losses by the shareholders against their respective taxable profits. This transaction created $23.8 million (2006: $20.6 million) of value for the Group, which is included in the deferred assets at 31 December 2007. The $23.8 million proceeds will not be released to the Group until the claiming companies agree their tax returns for the relevant periods with HMRC. Should the losses not finally be available to the claiming companies, the proceeds would accrue to the benefit of the claiming companies and the deferred amounts receivable by the Group would reduce accordingly.

Credit risk

When the Group was underwriting, it purchased reinsurance to manage its catastrophe exposure and mitigate insurance risk. However, the ceding of insurance risk exposes the Group to credit risk from its reinsurers and retrocessionaires.

In designing the reinsurance programme the Group took account of the risk assessment, the financial strength of reinsurance counterparties, the benefits to shareholders of capital efficiency and reduced volatility, and the cost of reinsurance protection.

When underwriting, the Group purchased retrocessional reinsurance to improve the extent to which it could manage risk exposures, protect against catastrophic losses, access additional underwriting capacity and stabilise financial ratios.

The Group continues to monitor its exposure to reinsurers and retrocessionaires closely over time. The following table shows the reinsurance assets carried on the balance sheet net of collateral, split by the credit rating of the counterparty group to which each reinsurer or retrocessionaire belongs and excludes the aggregate stop loss policies purchased by the Group:

5 Analysis of risk continued

Credit risk includes the risk of reinsurer default. The Directors have assessed exposure to bad debts arising from reinsurance dispute or failure and, following careful review, have made a provision against bad debts based on current information available.

Reinsurance recoveries are calculated by reference to the gross claims including IBNR utilising the Group's recovery programmes for facultative, proportional and excess of loss reinsurance. There is a quarterly review process to ensure the recoveries calculated are accurate, if any amendments are required these are made as manual adjustments.

For bad debt provisioning purposes, all insolvent security has a 100% provision. Well rated reinsurers are not provided against. In addition to a security provision there is a provision for losses classified as contentious and a provision for time barred losses which are calculated on a case by case basis. Any inwards set offs are netted off fully.

The following table summarises the average credit ratings of the Group's reinsurance counterparties:

Group Credit Rating of reinsurance counter party	**31 Dec 2007**	31 Dec 2006
A+	**4%**	-%
A	**15%**	-%
A-	**2%**	-%
BBB-	**1%**	-%
Other	**78%**	-%
Total	**100%**	-%

The table below summarises the associate CX Re's reinsurance counterparties:

CX Re's Credit Rating of reinsurance counter party	**31 Dec 2007**	31 Dec 2006
A+	**33%**	28%
A	**4%**	15%
A-	**1%**	1%
B++	**5%**	5%
Other	**57%**	51%
Total	**100%**	100%

No reinsurance purchased by the Group is collateralised (2006: nil).

The 3 largest policies which are collateralised in CX Re are as follows:

31 December 2007 in $m	Amount Recoverable	Discount	Net Amount	Collateral
AXA	3.0	(1.0)	1.9	0.1
Union America	0.3	(0.1)	0.2	0.3
Zurich	0.1	(0.0)	0.1	0.0

31 December 2006 in $m	Amount Recoverable	Discount	Net Amount	Collateral
AXA	3.5	(1.2)	2.3	0.1
Union America	0.5	(0.2)	0.3	0.5
Zurich	0.1	(0.0)	0.1	0.1

The management of the Group and CX Re mitigate risks associated with reinsurers by monitoring aged debt profiles. All factors which may impact recoverability are taken into account in determining the bad debt provisions and where possible management reduces bad debt exposure through commutations or settlements with counterparties.

5 Analysis of risk continued

Additionally, the Group is subject to credit risk in respect of third party entities in which the Group holds debt securities issued by those entities. As a consequence of the established investment policies and in order to mitigate investment risk, the average credit quality of the portfolio was AAA in 2007. In 2006 no such securities were held. (CX: Re AA+ in 2007 and 2006). Other than with respect to US, Canadian and European Union government and agency securities, the Group's investment guidelines limit its aggregate exposure to any single issuer to 2% (CX Re: 2%) of its portfolio. All securities must be rated BBB (CX Re: BBB-) or better at the time of purchase and the weighted average rating requirement of the Group's portfolio is A. There were no investment write-offs in 2007 or 2006.

The following table illustrates the split of total debt securities by rating of investee for the Group:

Group Credit Rating of investee	**31 Dec 2007**	31 Dec 2006
AAA/US Government or equivalent	**96%**	0%
AA	**2%**	0%
A	**2%**	0%
BBB+	**0%**	0%
NR	**0%**	0%
Total	**100%**	0%

The following table illustrates the split of total debt securities by rating of investee for CX Re:

CX Re Credit Rating of investee	**31 Dec 2007**	31 Dec 2006
AAA/US Government or equivalent	**69%**	66%
AA	**11%**	12%
A	**10%**	15%
Not rated by S&P	**10%**	7%
Total	**100%**	100%

At 31 December 2007, the Group's largest aggregate exposure to any single issuer other than with respect to the United States government and agency securities was $10.5 million (2006: $nil) in respect of JP Morgan.

At 31 December 2007, the associate CX Re's largest aggregate exposure to any single issuer other than with respect to the United States government and agency securities was $73 million in respect of shares in JP Morgan AAA rated cash funds (2006: $33 million in respect of Great Britain government securities).

Depending upon the duration of the liabilities supported by a particular portfolio, the Group's portfolio investment duration targets may range from 1 to 6 years (CX Re 4 to 6 years). The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. The Group seeks to utilise investment benchmarks that reflect this duration target. The Board periodically revises the Group's investment benchmarks based on business and economic factors including the average duration of the Group's potential liabilities. At 31 December 2007, the Group's investment portfolio had an effective duration of 3 years (2006: nil years). Associate company CX Re had an effective duration of 3.3 years (2006: 4.7 years).

5 Analysis of risk continued

Asset and liability mismatch risk

In order to ensure that adequate liquid resources are available to fund insurance liability cash outflows when they fall due, the Group's practice is to invest in assets to establish a sufficient matching with the currency and duration of the expected related liabilities for liquidity purposes. The tables below show the matching of assets and liabilities for the years under review:

Consolidated balance sheet

$ million – 2007	**Total**	Maturity date or contractual re-pricing date Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Exposed to fair value risk						
Debt and other securities	**165.0**	83.9	22.0	2.1	7.1	49.9
Cash	**38.5**	38.5				
Reinsurers' share of technical provisions	**18.1**	0.9	1.7	1.6	2.7	11.2
Deferred consideration	**104.3**					104.3
Other assets	**48.9**	18.2	2.0	1.0		27.7
Total assets	**374.8**	141.5	25.7	4.7	9.8	193.1
Technical provisions	**(91.4)**	(18.0)	(10.3)	(8.1)	(7.2)	(47.8)
Other liabilities	**(11.3)**	(9.6)	(0.7)	(1.0)		
Financial liabilities – borrowings	**(35.0)**				(35.0)	
Equity	**(237.1)**					(237.1)
Total liabilities and equity	**(374.8)**	(27.6)	(11.0)	(9.1)	(42.2)	(284.9)
Mismatch – surplus/deficit		113.9	14.7	(4.4)	(32.4)	(91.8)
Cumulative mismatch		113.9	128.6	124.2	91.8	–

Consolidated balance sheet

$ million – 2006	Total	Maturity date or contractual re-pricing date Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Exposed to fair value risk						
Deferred consideration	106.0					106.0
Cash	5.7	5.7				
Other assets	35.3			17.1		18.2
Total assets	147.0	5.7	–	17.1	–	124.2
Net liabilities	(4.5)	(4.5)				
Equity	(142.5)					(142.5)
Total liabilities and equity	(147.0)	(4.5)	–	–	–	(142.5)
Mismatch – surplus/deficit		1.2	–	17.1	–	(18.3)
Cumulative mismatch		1.2	1.2	18.3	18.3	–

5 Analysis of risk continued

CX Re only

$ million – 2007	**Total**	Less than one year	Maturity date or contractual re-pricing date After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Exposed to fair value risk						
Debt and other securities	**305.5**	129.0	6.7	5.6	18.9	145.3
Reinsurers' share						
of technical provisions	**36.7**	1.7	3.2	2.9	5.2	23.7
Other assets	**66.9**	51.6	15.3			
Total assets	**410.4**	183.6	25.2	8.5	24.1	169.0
Technical provisions	**(249.4)**	(50.6)	(26.3)	(21.2)	(35.2)	(116.1)
Other liabilities	**(69.0)**	(58.1)	(10.9)			
Equity	**(92.0)**					(92.0)
Total liabilities and equity	**(410.4)**	(108.7)	(37.2)	(21.2)	(35.2)	(208.1)
Mismatch – surplus/deficit		74.9	(12.0)	(12.7)	(11.1)	(39.1)
Cumulative mismatch		74.9	62.9	50.2	39.1	–

CX Re only

$ million – 2006	Total	Less than one year	Maturity date or contractual re-pricing date After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
Exposed to fair value risk						
Debt and other securities	401.1	97.1	12.0	55.7	25.5	210.8
Cash	2.9	2.9				
Reinsurers' share						
of technical provisions	97.2	20.2	14.0	9.0	7.0	47.0
Other assets	68.1	68.1				
Total assets	569.3	188.3	26.0	64.7	32.5	257.8
Technical provisions	(415.0)	(87.2)	(60.6)	(36.3)	(29.7)	(201.2)
Other liabilities	(56.3)	(32.1)		(24.2)		
Equity	(98.0)					(98.0)
Total liabilities and equity	(569.3)	(119.3)	(60.6)	(60.5)	(29.7)	(299.2)
Mismatch – surplus/deficit		69.0	(34.6)	4.2	2.8	(41.4)
Cumulative mismatch		69.0	34.4	38.6	41.4	–

The analysis of assets and liabilities by maturity has been prepared on the following basis:

- Assets are disclosed according to the date of maturity;
- Net liabilities, represented as discounted cash flows, are disclosed according to the timing of payment; and
- Equity is disclosed as being payable in more than five years.

This basis of disclosure gives the impression that the assets have a longer duration than the liabilities and causes the mismatches implied by the analysis. In practice, the Group mitigates its exposure to interest rate movements by broadly matching the duration of its assets and liabilities by comparing the discounted cash flows from its cash and investments (principal and interest) according to the period in which such cash flows arise.

5 Analysis of risk continued

Currency risk
The Group reports its results in US Dollars and accordingly, to the extent that shareholders' funds are invested in assets denominated in currencies other than US Dollars, exchange gains or losses may arise on translation.

The Group controls its currency risk by investing in assets that match the currency in which it expects related insurance liabilities to be paid and by investing the majority of assets backing shareholder funds in US Dollars.

US Dollar and other currencies are grouped together for currency management purposes due to the high level of correlation they have historically experienced relative to each other in comparison to their much lower correlation with the US Dollar. A positive percentage arises when assets exceed liabilities denominated in that currency while a negative percentage arises when liabilities exceed assets.

As at 31 December 2007 the Group estimates that 56% of shareholders' funds consist of USD.

Liquidity risk
Liquidity risk is the potential that obligations cannot be met as they become due as a consequence of not being able to readily realise assets to meet these obligations. The Group maintains sufficient liquidity to ensure it can meet its claim payment and commutation liabilities in accordance with its forecast estimates and payment profile.

6 Segmental information

Primary segment information – operating results by operating segment
The Group has 3 primary segments:
- Underwriting run-off
- Run-off management services
- Other corporate activities

Depreciation and capital expenditure related solely to the run-off management segment:

	31 Dec 2007 $m	31 Dec 2006 $m
Depreciation	**0.7**	0.4
Capital expenditure	**–**	0.2

6 Segmental information continued

Primary segment information – operating results by operating segment continued

For the year ended 31 December 2007	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	Eliminations $m	**Total $m**
Continuing operations					
Revenue	–	41.1	–	(10.5)	**30.6**
Investment return	10.1	0.6	0.8	–	**11.5**
Other income	–	–	–	–	**–**
Net income	10.1	41.7	0.8	(10.5)	**42.1**
Insurance claims and loss adjustment expenses	(1.9)	–	–	6.9	**5.0**
Insurance claims and loss adjustment expenses recovered from reinsurers	1.2	–	–	–	**1.2**
Net insurance claims	(0.7)	–	–	6.9	**6.2**
Cost of services	–	(34.9)	–	7.6	**(27.3)**
Administrative expenses	–	(3.1)	(9.8)	–	**(12.9)**
Expenses	–	(38.0)	(9.8)	7.6	**(40.2)**
Results of operating activities	9.4	3.7	(9.0)	4.0	**8.1**
Share of results of associates	–	–	(0.8)	–	**(0.8)**
Negative goodwill recognised	–	–	41.3	–	**41.3**
Profit/(loss) before finance costs	9.4	3.7	31.5	4.0	**48.6**
Finance costs	–	–	(2.8)	–	**(2.8)**
Profit/(loss) before tax	9.4	3.7	28.7	4.0	**45.8**
Income tax	–	–	–	–	**–**
Profit/(loss) for the period from continuing operations	9.4	3.7	28.7	4.0	**45.8**
(Loss)/profit for the period from discontinued operations	–	–	(2.9)	–	**(2.9)**
Profit/(loss) for the period	9.4	3.7	25.8	4.0	**42.9**

6 Segmental information continued

Primary segment information – operating results by operating segment continued

For the year ended 31 December 2006	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	Eliminations $m	Total $m
Continuing operations					
Revenue	–	28.6	–	(6.7)	21.9
Investment return	–	0.6	–	–	0.6
Other income	–	–	0.1	–	0.1
Net income	–	29.2	0.1	(6.7)	22.6
Cost of services	–	(24.3)	–	5.7	(18.6)
Administrative expenses	–	(4.3)	–	–	(4.3)
Expenses	–	(28.6)	–	5.7	(22.9)
Results of operating activities	–	0.6	0.1	(1.0)	(0.3)
Share of results of associates	–	–	5.6	–	5.6
Finance costs	–	(0.2)	–	–	(0.2)
Profit/(loss) before tax	–	0.4	5.7	(1.0)	5.1
Income tax	–	–	–	–	–
Profit/(loss) for the year from continuing operations	–	0.4	5.7	(1.0)	5.1
(Loss)/profit for the year from discontinued operations	(9.7)	–	57.6	–	47.9
(Loss)/profit for the period	(9.7)	0.4	63.3	(1.0)	53.0

Primary segment information – balance sheet by operating segment

As at 31 December 2007	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	**Total $m**
Investments	165.0	–	–	**165.0**
Reinsurers' share of technical provisions	18.1	–	–	**18.1**
Property, plant and equipment	–	0.1	–	**0.1**
Other assets	38.0	6.6	147.0	**191.6**
Total assets				**374.8**
Technical provisions	91.4	–	–	**91.4**
Other liabilities and equity	4.6	–	278.8	**283.4**
Total liabilities and equity				**374.8**

6 Segmental information continued

Primary segment information – balance sheet by operating segment continued

As at 31 December 2006	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	Total $m
Investments	–	–	–	–
Reinsurers' share of technical provisions	–	–	–	–
Property, plant and equipment	–	0.8	–	0.8
Other assets	–	9.4	136.8	146.2
Total assets				147.0
Technical provisions	–	–	–	–
Other liabilities and equity	–	4.3	142.7	147.0
Total liabilities and equity				147.0

Secondary segment information – geographical analysis

All of the Group's revenue is derived from providing services to UK entities and the assets and liabilities are not managed on a geographical basis. Accordingly no geographical segmental information has been provided.

7 Revenue

Revenue comprises fees related to the provision of insurance run-off management and related consultancy services.

	31 Dec 2007 $m	31 Dec 2006 $m
Management and consultancy fees	**4.7**	3.3
Expense recharges	**25.9**	18.6
Revenue	**30.6**	21.9

8 Investment return

	31 Dec 2007 $m	31 Dec 2006 $m
Cash and cash equivalents interest income	**6.5**	0.6
Realised gains on investments	**1.1**	–
Unrealised gains on investments	**3.9**	–
Investment revenue	**11.5**	0.6

9 Finance costs

	31 Dec 2007 $m	31 Dec 2006 $m
Interest on borrowings	**(2.8)**	(0.2)
Finance costs	**(2.8)**	(0.2)

10 Taxation

UK corporation tax is calculated at 30% (2006: 30%) of the estimated assessable UK profit for the year. The tax charge for the periods presented varied from the stated rate of UK corporation tax as explained below:

Continuing operations

	31 Dec 2007 $m	31 Dec 2006 $m
Profit on ordinary activities before taxation	**45.8**	5.1
At standard corporation tax of 30%	**13.7**	(1.5)
Factors affecting tax charge:		
Expenses not deductible for tax purposes	**2.2**	–
Capital allowances less than depreciation	**0.1**	–
Non taxable income	**(14.2)**	–
Utilisation of tax losses in respect of which no deferred tax assets were provided	**(1.8)**	1.5
Tax recoverable for the year	**–**	–

Discontinued operations

	31 Dec 2007 $m	31 Dec 2006 $m
Loss on ordinary activities before taxation	**(2.9)**	(12.0)
At standard corporation tax of 30%	**(0.9)**	(3.6)
Factors affecting tax charge:		
Expenses not deductible for tax purposes	**0.9**	–
Section 107 interest	**–**	(1.4)
Change in technical reserves disclaimed under FA2000 s107(4)	**–**	(2.7)
Movement in unrecognised deferred tax asset	**–**	8.1
Group / consortium relief recoverable at non-standard rates	**–**	(0.4)
Adjustment in respect of prior periods	**–**	(2.3)
Tax credit for the year	**–**	(2.3)

The Group has not recognised any deferred tax assets or liabilities.

At 31 December 2007 the Group had unrecognised deferred tax assets of $1.7 million (2006: $nil) in respect of tax losses carried forward.

11 Discontinued operations

On 21 March 2006, the Company sold a significant proportion (87.35%) of its "A" shareholding in CX Re to a consortium in which Tawa plc participates. Following disposal, the equity accounting method has been adopted. The majority of the consideration receivable is in the form of deferred consideration. The income statement, balance sheet and cash flow information arising from discontinued operations are presented on the following pages.

Income statement

	31 Dec 2007 $m	31 Dec 2006 $m
Insurance premium revenue	**–**	0.2
Insurance premium ceded to reinsurers	**–**	–
	–	0.2
Investment income	**–**	(1.7)
Other income	**–**	2.6
Total income	**–**	1.1
Insurance claims and loss adjustment expenses	**–**	(12.5)
Insurance claims and loss adjustment expenses recovered from reinsurers	**–**	(0.6)
Net insurance claims	**–**	(13.1)
Results of operating activities	**–**	(12.0)
Finance costs	**–**	–
Loss before tax	**–**	(12.0)
Tax charge	**–**	2.3
Loss for the year after tax	**–**	(9.7)
(Loss)/profit on sale of investment	**(5.1)**	38.2
Other income on sale of investment (see below)	**2.2**	19.4
(Loss)/profit for the year	**(2.9)**	47.9

Other income on the sale of investment relates to the receipt of a transaction facilitation fee by the Group with regards to the sale of shares in CX Re. No tax is payable on the profit on sale of investment or other income on the sale of investment.

Cash flow information

	31 Dec 2007 $m	31 Dec 2006 $m
Cash used in operations	**–**	(46.3)
Income tax paid	**–**	–
Net cash used in operating activities	**–**	(46.3)
Cash payments to acquire equity and debt securities	**–**	(88.0)
Cash receipts from sale of equity and debt securities	**–**	125.6
Cash receipts from interest and dividends	**–**	–
Net cash generated from investing activities	**–**	37.6
Cash flows generated from financing activities	**–**	–
Net decrease in cash and cash equivalents	**–**	(8.7)
Cash and cash equivalents at beginning of year	**–**	14.3
Cash and cash equivalents at end of year	**–**	5.6

12 Profit for the year

Profit for the year has been arrived at after charging:

	31 Dec 2007 $m	31 Dec 2006 $m
Depreciation of property, plant and equipment	**0.7**	0.4
Staff costs (see note 15)	**19.9**	17.8
Amortisation of risk premium	**4.0**	–

13 Directors' emoluments

31 Dec 2007	Fees as directors $m	Other emoluments $m	Company pension contributions $m	**Total $m**	Highest paid directors' emoluments $m
Services as directors of the company	0.7	0.8	0.3	**1.8**	0.4
Services as directors of subsidiaries	–	0.1	–	**0.1**	0.6
	0.7	0.9	0.3	**1.9**	1.0

31 Dec 2006	Fees as directors $m	Other emoluments $m	Company pension contributions $m	Total $m	Highest paid directors' emoluments $m
Services as directors of the company	0.5	–	–	0.5	0.1
Services as directors of subsidiaries	–	–	–	–	–
	0.5	–	–	0.5	0.1

14 Auditors' remuneration

The following fees were incurred directly by the Group in respect of audit and related services set out below and paid to Deloitte & Touche LLP:

	31 Dec 2007 $m	31 Dec 2006 $m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.7**	0.4
Fees payable to the Company's auditors and their associates for other services to the Group	**0.1**	–
Total audit fees	**0.8**	0.4
Valuation and actuarial services	**0.3**	0.2
Corporate finance services – In connection with the Company's admission to AIM	**1.0**	–
– Other	**0.2**	–
Total non-audit fees	**1.5**	0.2

15 Staff costs

The average monthly number of employees (including Executive Directors) was:

	31 Dec 2007	31 Dec 2006
Claims and commutations management	**31**	35
Reinsurance	**6**	6
Consulting	**3**	5
Actuarial	**6**	6
Executive and management	**17**	11
Support	**33**	34
Number of employees	**96**	97

Their aggregate remuneration comprised:

	31 Dec 2007 $m	31 Dec 2006 $m
Wages and salaries	**14.5**	13.5
Social security costs	**1.8**	1.9
Other pension costs (see note 33)	**2.3**	1.6
Training, entertaining and other	**1.3**	0.8
Staff costs	**19.9**	17.8

16 Dividends

	31 Dec 2007 $m	31 Dec 2006 $m
Proposed final dividend for the year ended 31 December 2007 of 1.5p (2006: nil) per share	**3.1**	–

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

17 Earnings per share

During the financial year the Group undertook a capital restructure as detailed in note 26. For the purposes of this note the comparative figures have been restated.

Earnings

	31 Dec 2007 $m	31 Dec 2006 $m
Earnings for the purposes of basic earnings per share from continuing and discontinued operations being net profit attributable to equity holders of the Group	**42.9**	53.0
Earnings for the purposes of basic earnings per share from continuing operations being net profit attributable to equity holders of the Group	**45.8**	5.1

Number of shares

	31 Dec 2007	31 Dec 2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	**101,891,017**	101,891,017
Effect of dilutive potential ordinary shares:		
Share options	**1,015,000**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**102,906,017**	101,891,017

Basic earnings per share

	31 Dec 2007 $	31 Dec 2006 $
From continuing and discontinued operations		
Basic: Ordinary shares (dollars per share)	**0.4**	0.5
Diluted: Ordinary shares (dollars per share)	**0.4**	0.5
From continuing operations		
Basic: Ordinary shares (dollars per share)	**0.4**	0.1
Diluted: Ordinary shares (dollars per share)	**0.4**	0.1

18 Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	31 Dec 2007 $m	31 Dec 2006 $m
Cash at bank and in hand	**38.5**	5.7

The Director's believe that the carrying amount approximates its fair value.

19 Investments: Debt and equity securities

	31 Dec 2007 $m	31 Dec 2006 $m
Investments carried at fair value		
Redeemable notes	**165.0**	–

The investments included above represent investments in listed debt securities. The fair values of these investments are based on bid market prices. Fair value adjustments were made through the income statement.

The average duration of the portfolio in the year was 10.37 years (2006: nil).

20 Loans and receivables including insurance receivables

	31 Dec 2007 $m	31 Dec 2006 $m
Debtors arising out of reinsurance operations	**10.3**	–
Accrued income and prepayments	**1.6**	0.8
Other debtors	**6.9**	2.9
Total loans and receivables including insurance receivables	**18.8**	3.7
Due within one year	**18.8**	3.7

None of these assets are secured against Letters of Credit or are pledged, the Group also holds no security or collateral against these balances.

Accrued income and other debtors are considered current.

Debtors arising out of reinsurance operations past due are $1.2 million and net of bad debt $0.6 million. The average credit period is detailed below and these balances are reviewed on a monthly basis, any issues arising are escalated to the management team.

	0-6 Months	6-12 Months	12-24 Months	> 24 Months	Grand Total
	-0.1%	1.6%	70.6%	27.9%	100.0%

The Director's believe that the carrying amount approximates its fair value.

21 Technical provisions

	31 Dec 2007 $m	31 Dec 2006 $m
Gross claims outstanding		
Provision for claims outstanding, reported and not reported	**110.7**	–
Discount	**(35.5)**	–
	75.2	–
Claims handling provisions	**11.5**	–
	86.7	–
Risk premium adjustment	**4.7**	–
Total gross claims outstanding	**91.4**	–
Reinsurance		
Provision for claims outstanding, reported and not reported	**27.4**	–
Discount	**(9.3)**	–
Total reinsurers' share of claims outstanding	**18.1**	–
Undiscounted claims outstanding, net of reinsurance	**99.5**	–
Discount	**(26.2)**	–
Claims outstanding net of reinsurance	**73.3**	–
Security held for reinsurance		
Letters of credit held	**7.7**	–
Total collateral held	**7.7**	–

The technical provisions are all within KX Re, a wholly owned subsidiary acquired on 4 May 2007.

Whilst the Directors consider that the gross provision for claims and the related recoveries are fairly stated on the basis of the information currently available to them, due to the nature of the insurance industry there is inherent uncertainty in these estimates. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

Reserve development

The Group's expected loss development is determined by the Group's internal actuaries based on historical claims analysis and projected trends. Actual reported losses may vary from expected loss development. Generally, as an underwriting year matures the level of newly reported claims decreases.

During the year the Group experienced an improvement in the prior year net reserves before discount excluding commutations of $1.9 million (2006: $45 million). After discount the favourable reserves development during the year was $7.3 million (2006: $36.4 million) net of reinsurance and commutations.

21 Technical provisions continued

The following table presents the development of the Group's outstanding claims and claims handling expense reserves net of reinsurance and after discounting.

	31 Dec 2007 $m	31 Dec 2006 $m
Net discounted reserves at beginning of year	**–**	559.3
Acquisition of subsidiary	**74.4**	–
Impact of changes in foreign exchange rates	**0.8**	21.0
Net claims paid	**5.4**	(299.0)
Decrease in ultimates for net claims before discounting	**(1.9)**	(45.0)
Change in the impact of discounting	**(5.4)**	81.4
Sale of subsidiary	**–**	(317.7)
Net discounted reserves at end of year	**73.3**	–

22 Property, plant and equipment

Cost or valuation

	Computer equipment $m	Fixtures and fittings $m	Total $m
At 1 January 2006	0.5	1.1	1.6
Additions	0.2	–	0.2
At 1 January 2007	0.7	1.1	1.8
At 31 December 2007	**0.7**	**1.1**	**1.8**

Accumulated depreciation and impairment

	Computer equipment $m	Fixtures and fittings $m	Total $m
At 1 January 2006	0.3	0.3	0.6
Charge for the year	0.2	0.2	0.4
At 1 January 2007	0.5	0.5	1.0
Charge for the year	0.1	–	0.1
Impairment	–	0.6	0.6
At 31 December 2007	**0.6**	**1.1**	**1.7**
Carrying amount			
At 31 December 2007	**0.1**	**–**	**0.1**
At 31 December 2006	0.2	0.6	0.8

23 Deferred assets

Deferred assets relate to the consideration outstanding on the disposal of a subsidiary CX Re, as described in notes 1 and 5. Part of the deferred consideration is related to the net asset value of CX Re and is subject to net asset value adjustments through the income statement. Deferred consideration consists of $23.8 million in respect of a transaction facilitation fee and $80.5 million of proceeds on the disposal of CX Re, a total of $104.3 million (2006: $106 million).

24 Interests in associates

On 21 March 2006, the Group disposed of 87.35% of its shareholding in CX Re. The retained shareholding of 12.65% has been accounted for under the equity method since that date. The Group retains 49.95% of the voting shares. The table provides a summary of the financial results and position of CX Re for the year:

	31 Dec 2007 $m	31 Dec 2006 $m
Gross premiums written	**3.5**	2.8
(Loss)/profit for the year	**(5.9)**	44.0
Group's share of (losses)/profits of associate at 12.65%	**(0.8)**	5.6
Total assets	**410.4**	569.3
Total liabilities	**(318.3)**	(471.3)
Net assets	**92.2**	98.0
Group's share of net assets of associate at 12.65%	**11.8**	12.6

25 Goodwill

	31 Dec 2007 $m	31 Dec 2006 $m
Cost at 1 January	**18.2**	18.2
Balance at 31 December	**18.2**	18.2

The goodwill is in Tawa plc arising from its acquisition of Tawa Associates Limited which is now represented by the business of Tawa Management Limited. Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to the run-off services segment. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

26 Share capital

	31 Dec 2007 Number '000	31 Dec 2007 $m	31 Dec 2006 Number '000	31 Dec 2006 $m
Authorised:				
Preferred shared of £0.10	–	–	1,499,990	293.9
Deferred shares of £0.10	–	–	10	–
Ordinary shares of £0.10	**200,000**	**40.0**	–	–
Total authorised	**200,000**	**40.0**	1,500,000	293.9
Allotted, called up and fully paid:				
Preferred shared of £0.10	–	–	292,001	57.2
Deferred shares of £0.10	–	–	2	–
Ordinary shares of £0.10	**101,891**	**20.0**	–	–
Total allotted, called up and fully paid	**101,891**	**20.0**	292,003	57.2

On the 26 July 2007 the Company was admitted on the AIM Stock Exchange and underwent a share capital restructure. Authorised 1,499,990,000 preferred shares of £0.10 and 10,000 deferred shares of £0.10 were redesignated as ordinary shares. At the same time the Company's issued share capital was altered to 101,891,017 £0.10 ordinary shares.

27 Share premium

	31 Dec 2007 $m	31 Dec 2006 $m
Premium arising on issue of equity shares	**90.9**	–
Expenses of issue on equity shares	**(5.7)**	–
Balance at 31 December	**85.2**	–

28 Retained earnings

	31 Dec 2007 $m	31 Dec 2006 $m
Balance at 1 January	**85.3**	31.2
Profit for the period	**42.9**	53.0
Translation gain	**3.7**	1.1
Balance at 31 December	**131.9**	85.3

29 Other liabilities

	31 Dec 2007 $m	31 Dec 2006 $m
Accruals	**2.0**	0.7
Other creditors	**4.8**	3.8
Balance at 31 December	**6.8**	4.5

30 Financial liabilities – borrowings

	31 Dec 2007 $m	31 Dec 2006 $m
Bank loan falling due after more than one year	**35.0**	–

The bank loan is from Natixis bank and is due to be repaid in 2011. During the year interest payable was 3 month LIBOR plus 2%. The spread above 3 month LIBOR for future payments will be determined by the asset cover of KX Re and the rate will range between 2% and 3% over LIBOR. The Directors believe that the carrying amount of the bank loan approximates its fair value.

31 Cash used in operating activities

	Continuing $m	**Discontinued $m**	**31 Dec 2007 Total $m**	Continuing $m	Discontinued $m	31 Dec 2006 Total $m
Profit for the year	**45.8**	**(2.9)**	**42.9**	5.1	47.9	53.0
Adjustments for:						
– share of profit of associates	**0.8**	**–**	**0.8**	–	–	–
– loss on discontinued operations	**–**	**2.9**	**2.9**	–	–	–
– depreciation	**0.7**	**–**	**0.7**	0.4	–	0.4
– (additions)/disposals of fixed asset	**(41.3)**	**–**	**(41.3)**	25.3	–	25.3
– amortisation of risk premium	**(4.0)**	**–**	**(4.0)**	–	–	–
– investment return for the year transferred to investing activities	**(11.5)**	**–**	**(11.5)**	–	(6.3)	(6.3)
– profit on foreign exchange	**2.8**	**–**	**2.8**	(0.1)	7.6	7.5
	(6.7)	**–**	**(6.7)**	30.7	49.2	79.9
Change in operating assets and liabilities						
Net decrease in insurance liabilities	**(2.7)**	**–**	**(2.7)**	–	(42.1)	(42.1)
Net increase in loans and receivables	**(4.2)**	**–**	**(4.2)**	(35.1)	(54.2)	(89.3)
Net increase in other operating liabilities	**1.5**	**–**	**1.5**	0.2	0.8	1.0
Cash used in operations	**(12.1)**	**–**	**(12.1)**	(4.2)	(46.3)	(50.5)

32 Share based payments

The Group has 2 share plans, namely the Performance Share Plan and the Deferred Share Bonus Plan. The initial tranche of awards made under the Performance Share Plan were issued at the price of the Company's shares on admission to AIM. Awards under the Performance Share Plan normally vest on the third anniversary of the date of grant. However, awards were made to senior executives and employees at the time of admission to AIM which have a vesting period of 2 years from the date of grant. Under the Deferred Share Bonus Plan the intention is that one-half of an award vests on the first anniversary of the date of grant and the other half vests on the second anniversary of the date of grant. No awards have currently been made under the Deferred Share Bonus Plan. Awards under either plan normally lapse if an employee leaves the Group.

	31 Dec 2007 Number of share awards	31 Dec 2007 Weighted average exercise price $m
Granted during the period	**1,749,600**	**4.4**
Forfeited during the period	**(9,600)**	**(0.0)**
Outstanding at the end of the period	**1,740,000**	**4.4**

The inputs into the stochastic valuation model are as follows:

	31 Dec 2007
Weighted average share price	**137.5 pence**
Weighted average exercise price	**nil**
Expected volatility	**25%**
Expected life	**3 years**
Risk-free rate	**nil**
Expected dividend yield	**0%**

Expected volatility was determined by calculating the median volatilities of similar entities to Tawa plc over the last 3 years. The historic volatility of the companies within the following groups were analysed:

- FTSE Fledging and AIM Non-Life Insurers;
- FTSE Small Cap Non-Life Insurers;
- The whole FTSE Small Cap

The Group recognised total expenses of $0.3 million related to share based payments in 2007.

33 Retirement benefit scheme

Defined contribution schemes

The employees of the Group are covered by defined contribution schemes the costs of which are charged to the income statement when incurred. The total cost of retirement benefits for the Group in the year ended 31 December 2007 was $2.3 million (31 December 2006: $1.6 million).

34 Group companies

The consolidated financial information presents the financial record of the Group for the year ended 31 December 2007. A list of all significant investments in Group subsidiaries, including the name and country of incorporation is given below:

On 21 March 2006, the Company sold the majority of its shareholding in CX Re to a consortium in which Tawa plc participates. The majority of the consideration receivable is in the form of deferred consideration. Since that date CX Re has been accounted for under the equity method as the Company retained a 49.95% voting interest.

Name of subsidiary	Place of incorporation (or registration) and operation	Portion of ownership interest	Portion of voting power held	Method used to account for investment
Tawa Associates Limited	England	100%	100%	Consolidation
Tawa Management Limited	England	100%	100%	Consolidation
Tawa Management (Bermuda) Limited	Bermuda	100%	100%	Consolidation
KX Reinsurance Company Limited	England	100%	100%	Consolidation
KX Re Holdings Limited	England	100%	100%	Consolidation

35 Business combinations

On 4 May 2007, 100% of the issued ordinary shares of KX Re was acquired by KX Re Holdings Limited, a wholly owned subsidiary. The table below shows the consideration paid, the net assets at fair values (considered equal to carrying values) and the negative goodwill arising on acquisition.

Analysis of assets and liabilities acquired

	Book value $m	Fair value adjustment $m	Fair value on acquisition $m
Assets			
Cash and cash equivalents	111.2		111.2
Investments: Debt and equity securities	75.8		75.8
Loans and receivables including insurance receivables	8.2		8.2
Reinsurers' share of technical provisions	19.4		19.4
Liabilities			
Creditors arising out of reinsurance operations	(3.4)		(3.4)
Other liabilities	(0.8)		(0.8)
Technical provisions	(93.8)	(8.7)	(102.5)
	116.6	(8.7)	107.9
Goodwill on acquisition			(41.3)
Consideration paid			66.6
Consideration paid net of cash and cash equivalents			(44.6)

In determining the fair value of KX Re's assets and liabilities acquired, the technical provisions have been increased to include an insurance risk premium which reflects management's consideration of the uncertainty of the technical provisions acquired. The risk premium on acquisition was $8.7 million and has been assessed at $4.7 million as at 31 December 2007.

Since acquisition, the acquired company and its subsidiary have contributed profits of $7.0 million after the elimination of intra-group income and expenses. Annual impairment reviews are undertaken and the Group's directors are satisfied that the trading prospects of the subsidiaries support the current carrying values.

36 Related party transactions

Associate – CX Reinsurance Company Limited

One of the Company's subsidiaries, Tawa Management Limited, provides insurance run-off management services to CX Re, an associate of the Group in which the company has a 12.65% share interest and a 49.95% voting interest.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length. Run-off management expenses are recharged at cost.

For the year ended 31st December 2007, a run-off management fee of $4m was charged to CX Re by the Group. Expenses recharged at cost amounted to $21.3 million.

Ultimate parent – Financière Pinault S.C.A.

On 4 May 2007 as part of the acquisition of KX Re Financière Pinault, the Group's ultimate parent provided a bridging loan of $35 million to the Group. This loan was repaid in total by 26 July 2007. Interest of $0.9 million was paid on the loan.

Affiliated company – Christie's plc (subsidiary of Parent)

In relation to the years from 2004 to 2006, CX Re expects to surrender $190 million of tax losses as group relief. The total income recognised for this surrender in the income statement for CX Re was $25.5 million in 2006.

Key management personnel

The Group considers its key management personnel to include its Executive Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations.

Remuneration of key management personnel

The remuneration of the Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. For year ended 31 December 2007 this included 13 individuals (2006: 14 individuals).

Management remuneration

	31 Dec 2007 $m	31 Dec 2006 $m
Short-term employee benefits	**1.6**	3.2
Post-employment benefits	**0.3**	0.4
Management remuneration	**1.9**	3.6

Share and loan transactions with members of key management

As at 31 December 2007, the Group had travel loans outstanding to key management of $0.08 million (2006: $0.03 million). Share based payments granted to the Directors and employees in 2007 were $0.3 million (2006: $nil).

Immediate and ultimate parent company

In the opinion of the Directors, the immediate and ultimate parent is Financière Pinault S.C.A., a Société en commandite par actions incorporated in France. The group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004 Paris, France.

37 Contingent liabilities

Some of the Group's subsidiaries are routinely involved in litigation or potential litigation related to primarily the settlement of insurance claims liabilities. However, none of such actual or proposed litigation that had not been provided for met the definition of a contingent liability. Consequently, the group had no insurance related, or other, contingent liabilities as at 31 December 2007 (2006: no contingent liabilities).

38 Post balance sheet events

There are no post balance sheet events.

Tawa plc Company income statement

For the year ended 31 December 2007

	Notes	31 Dec 2007 $m	31 Dec 2006 $m
Investment return	41	**0.7**	0.1
Other income		**2.3**	24.5
Net income		**3.0**	24.6
Administrative expenses		**(7.4)**	(3.1)
(Loss)/profit on sale of investment		**(6.6)**	50.2
Results of operating activities		**(11.0)**	71.7
Finance costs	42	**(1.0)**	(0.1)
(Loss)/profit before tax		**(12.0)**	71.6
Taxation	43	**–**	–
(Loss)/profit for the year from continuing operations		**(12.0)**	71.6
(Loss)/profit for the year	40	**(12.0)**	71.6

The notes on pages 67 to 72 form part of these financial statements.

Tawa plc Company statement of recognised income and expense

For the year ended 31 December 2007

	Notes	31 Dec 2007 $m	31 Dec 2006 $m
Currency translation differences		**3.7**	1.1
Net income recognised directly in equity		**3.7**	1.1
Profit for the year		**(12.0)**	71.6
Total recognised income and expense for the year attributable to equity holders of the Group		**(8.3)**	72.7

The notes on pages 67 to 72 form part of these financial statements.

Tawa plc Company balance sheet

As at 31 December 2007

	Notes	31 Dec 2007 $m	31 Dec 2006 $m
Assets			
Cash at bank and in hand		**7.6**	0.0
Investment in subsidiaries	44	**50.5**	17.3
Investment in associates	45	**3.9**	3.9
Debtors		**3.3**	0.2
Debtors falling due in more than one year		**104.4**	106.4
Total assets		**169.7**	127.8
Equity			
Share capital		**20.0**	57.3
Share premium		**85.2**	-
Profit and loss account	49	**56.8**	65.4
Total equity attributable to equity holders		**162.0**	122.7
Liabilities			
Trade and other payables		**7.7**	5.1
Total liabilities and equity		**169.7**	127.8

The notes on pages 67 to 72 form part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2008 and were signed on its behalf on 28 March 2008 by:

Giles Erulin
Chief Executive Officer

Colin Bird
Chief Financial Officer

Tawa plc Company cash flow statement

For the year ended 31 December 2007

	Notes	**31 Dec 2007 $m**	31 Dec 2006 $m
Net cash from operating activities		**(12.0)**	71.6
Profit on foreign exchange		**3.4**	4.5
(Acquisition)/sale of subsidiary net of cash and cash equivalents		**(33.2)**	26.8
Cash (used in)/generated from investing activities		**(29.8)**	31.3
Proceeds from issue of equity shares		**47.8**	–
Cash flows generated from financing activities		**47.8**	–
Net increase in loans and receivables		**(1.0)**	(106.1)
Net increase in other operating liabilities		**2.6**	3.1
Change in operating assets and liabilities		**1.6**	(103.0)
Net decrease in cash and cash equivalents		**7.6**	(0.1)
Cash and cash equivalents at beginning of year		**0.0**	0.1
Cash and cash equivalents at end of year		**7.6**	0.0

The notes on pages 67 to 72 form part of these financial statements.

39 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards for the first time. The disclosure required by IFRS1 concerning the transition from UKGAAP to IFRS are given in note 51.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

For the first time in the current year, the Company has adopted IFRS 2, Share based payments. During the year, Tawa plc established a number of employee share schemes, hence the need for the adoption of this standard.

40 Profit for the year

The auditors' remuneration for audit and other services is disclosed in note 14 to the consolidated financial statements.

	31 Dec 2007 $m	31 Dec 2006 $m
The (loss)/profit on ordinary activities before taxation is stated after crediting:		
Foreign exchange gains	**(1.0)**	(0.2)

41 Investment return

	31 Dec 2007 $m	31 Dec 2006 $m
Interest receivable	**0.7**	0.1
Investment return	**0.7**	0.1

42 Finance costs

	31 Dec 2007 $m	31 Dec 2006 $m
Interest on borrowings	**1.0**	0.1
Finance costs	**1.0**	0.1

43 Taxation

	31 Dec 2007 $m	31 Dec 2006 $m
Current tax		
UK Corporation Tax on income for the period	**–**	–
Adjustments in respect of prior periods	**–**	–
Total current tax	**–**	–

Corporation tax is calculated at 30% (2006: 30%) of the estimated accessible profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	31 Dec 2007 $m	31 Dec 2006 $m
(Loss)/profit on ordinary activities before tax	**(12.0)**	71.6
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2006: 30%)	**(3.6)**	21.5
Effects of:		
Depreciation in excess of capital allowances	**–**	–
Addition/(utilisation) of tax losses	**3.6**	(21.5)
Total current tax	**–**	–

44 Subsidiaries

Details of the Company's significant subsidiaries at 31 December 2007 are as follows:

Name	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
KX Re Holdings Limited	England	100	100
KX Reinsurance Company Limited	England	100	100
Tawa Associates Limited	England	100	100
Tawa Management Limited	England	100	100
Tawa Management (Bermuda) Limited	Bermuda	100	100

45 Associates

Details of the Company's associate at 31 December 2007 is as follows:

Name	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
CX Reinsurance Company Limited	England	12.65	49.95

The investment in the associate is stated at cost.

46 Financial assets

Loans to other Group entities

At the balance sheet date amounts receivable from the fellow Group companies of $2.7 million (2006: $0.1million) were outstanding. The carrying amount of these assets approximates their fair value. There are no past due of impaired receivable balances (2006: nil).

Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their value.

47 Share capital and share premium

The movement on these items are disclosed in notes 26 and 27 to the consolidated financial statements.

48 Financial liabilities

Trade payables principally comprise an amount outstanding to another group company, Tawa Management Limited of $7.4 million (2006: $4.7 million). The remainder relates to amounts outstanding for trade purchases and ongoing costs.

49 Retained earnings

	31 Dec 2007 $m	31 Dec 2006 $m
Balance at 1 January	**65.4**	(10.6)
Net (loss)/profit for the year	**(12.0)**	71.6
Currency translation gains	**3.4**	4.4
Balance at 31 December	**56.8**	65.4

50 Related party transactions

KX Reinsurance Company Limited

One of the Company's subsidiaries, Tawa Management Limited, provides insurance run-off management services to KX Re, a 100% owned subsidiary of the Group.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length. Run-off management expenses are recharged at cost.

For the period 4 May to 31 December 2007, a run-off management fee of $0.3m was charged to KX Re by the Company. Expenses recharged at cost amounted to $3.0 million.

50 Related party transactions continued

Tawa Management

Tawa Management is a 100% owned subsidiary of the Company. Tawa Management provides administration support to the Company and recharges the expenses incurred. Staff related expenses are recharged at cost plus 15% whilst all other expenses are recharged at cost.

For the year to 31 December 2007, a total of $12.0 million was recharged from Tawa Management to the Company.

Associate – CX Reinsurance Company Limited

One of the Company's subsidiaries, Tawa Management, provides insurance run-off management services to CX Re, an associate of the Group in which the company has a 12.65% share interest and a 49.95% voting interest.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length. Run-off management expenses are recharged at cost.

For the year ended 31st December 2007, a run-off management fee of $4m was charged to CX Re by the Company. Expenses recharged at cost amounted to $21.3 million.

Affiliated Company – Christie's plc (subsidiary of Parent)

In relation to the years from 2004 to 2006, CX Re expects to surrender $190 million of tax losses as group relief. The total income recognised for this surrender in the income statement for CX Re was $25.5 million in 2006.

Ultimate Parent – Financière Pinault S.C.A.

On the 4 May 2007 as part of the acquisition of KX Re Financière Pinault, the Group's ultimate parent provided a bridging loan of $35 million to the Group. This loan was repaid in total by 26 July 2007. Interest of $0.9 million was paid on the loan.

Key management personnel

The Company considers its key management personnel to include its Directors and those members of management reporting directly to its Board that have executive management responsibility for Company-wide operations.

Remuneration of key management personnel

The remuneration of the Directors and those members of management reporting directly to its Board that have executive management responsibility for Company-wide operations, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. For year ended 31 December 2007 this included 13 individuals (2006: 14 individuals).

Management remuneration

	31 Dec 2007 $m	31 Dec 2006 $m
Short-term employee benefits	**1.6**	3.2
Post-employment benefits	**0.3**	0.4
Management remuneration	**1.9**	3.6

Share and loan transactions with members of key management

As at 31 December 2007, the Group had travel loans outstanding to key management of $0.08 million (2006: $0.03 million). Share based payments granted to the Directors and employees in 2007 were $0.3 million (2006: $nil).

Immediate and ultimate parent company

In the opinion of the Directors, the immediate and ultimate parent is Financière Pinault S.C.A., a Société en commandite par actions incorporated in France. The group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004 Paris, France.

51 Transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition the last financial statements under UKGAAP were for the year ended 31 December 2006 and the date of transition to IFRS was therefore 1 January 2006.

Reconciliation of equity at 1 January 2006 (date of transition to IFRS):

	UK GAAP $m	Effect of transition to IFRS $m	IFRS $m
Investments	42.2	–	42.2
Total non-current assets	42.2	–	42.2
Other receivables	0.4	–	0.4
Cash and cash equivalents	0.1	–	0.1
Total current assets	0.5	–	0.5
Total assets	42.7	–	42.7
Trade and other payables	(1.7)	–	(1.7)
Total liabilities	(1.7)	–	(1.7)
Total assets less total liabilities	41.0	–	41.0
Share capital	50.3	–	50.3
Profit and loss account	(9.3)	–	(9.3)
Total equity	41.0	–	41.0

Reconciliation of equity at 31 December 2006:

	UK GAAP $m	Effect of transition to IFRS $m	IFRS $m
Investments	21.3	–	21.3
Total non-current assets	21.3	–	21.3
Other receivables	106.6	–	106.6
Cash and cash equivalents	0.0	–	0.0
Total current assets	106.6	–	106.6
Total assets	127.9	–	127.9
Trade and other payables	(5.1)	–	(5.1)
Total liabilities	(5.1)	–	(5.1)
Total assets less total liabilities	122.8	–	122.8
Share capital	57.3	–	57.3
Profit and loss account	65.4	–	65.4
Total equity	122.8	–	122.8

51 Transition to IFRS continued

Reconciliation of profit for 2006:

	UK GAAP $m	Effect of transition to IFRS $m	IFRS $m
Administrative expenses	(3.1)	–	(3.1)
Finance income	24.6	–	24.6
Finance costs	(0.1)	–	(0.1)
Profit on sale of investment	50.2	–	50.2
Net profit	71.6	–	71.6

The Company has not previously prepared Group accounts and so the above reconciliations are not required for the Group. As part of the transition from UK GAAP to IFRS, the following changes have been effected for the Group accounts:

- The Company has chosen the exemptions under IFRS 1 not to reconsider business combinations prior to the date of transition; and
- the Company has chosen to retain the value of property, plant and equipment as under previous GAAP and not to revalue them.

Directors
Robin Anthony Gildart Jackson
Chairman and Independent Non-executive Director

Gilles Marie Jacques Erulin
Chief Executive Officer

Colin Graham Bird
Chief Financial Officer

David Andrew Vaughan
Chief Operating Officer

Anthony John Hamilton
Independent Non-executive Director

John Joseph Hendrickson
Independent Non-executive Director

Patricia Marie Marguerite Barbizet
Non-executive Director

Gilles François Pagniez
Non-executive Director

Loïc Philippe Marie-Joseph Brivezac
Non-executive Director

Registered Office
The Isis Building
193 Marsh Wall
London E14 9SG

Secretary
Christopher Harold Edward Jones

Nominated Advisor and Broker
KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

Auditors and Reporting Accountants
Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR

Solicitors
Dewey & LeBoeuf LLP
No. 1 Minster Court
Mincing Lane
London EC3R 7YL

Principal Bankers
Barclays Bank plc
1 Churchill Place
Canary Wharf
London E14 5HP

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

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Tawa plc
The Isis Building
193 Marsh Wall
London E14 9SG

T +44 (0)20 7068 8000
F +44 (0)20 7068 8001
www.tawaplc.com