

EAGLE STAR HOLDINGS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2004
REGISTERED NUMBER: 1416463



EAGLE STAR HOLDINGS LIMITED

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EAGLE STAR HOLDINGS LIMITED

COMPANY INFORMATION

Directors: D Etherington
N Evans
D Sims

Company Secretary: N Lowe

Registered Office: UK Life Centre
Station Road
Swindon
SN1 1EL

Auditors: PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

EAGLE STAR HOLDINGS LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements for Eagle Star Holdings Limited for the year ended 31 December 2004.

Principal Activities and Business Review

The principal activity of the Company is that of an investment holding company.

The loss for the year before taxation and dividends amounted to £43.5m (2003: £65.7m loss).

The Directors do not expect any material changes in the nature of the business in the foreseeable future.

The results for the year are set out on page 5.

Dividends and Share Capital

No interim ordinary dividend was declared or paid during the year (2003: £nil) and the Directors do not recommend a final dividend (2003: £nil).

Dividends in respect of the 'C' cumulative redeemable convertible preference shares totalling £33.8m (2003: £nil) have been recognised at the year end but not declared as the Company does not have any distributable reserves.

During 2004 the Company issued 151,620,006 'C' cumulative redeemable convertible preference shares for their par value of £1 each. These shares were issued to redeem the issued 225,000,000 'B' cumulative redeemable convertible preference shares of US \$1 each for £123.7m, their value at the foreign exchange rate in force at the time, and settle a loan with the holding company of £28.0m. Dividend arrears of £28.0m on the 'B' cumulative redeemable convertible preference shares were waived.

Directors

The names of the current directors are listed on page 1. The following changes in the Board took place during the year:

Resignations

A Leitch (20 February 2004)

The following changes have occurred since the end of the year:

Appointments

D Etherington (23 February 2005)
N Evans (20 June 2005)
D Sims (23 February 2005)

Resignations

M Harris (23 February 2005)
M Moule (25 April 2005)

EAGLE STAR HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

Directors' Interests

The Company is a wholly owned subsidiary of Zurich Financial Services, a company incorporated in Switzerland. As such, no director had any interests required to be disclosed under the Companies Act 1985.

No directors exercised options in Zurich Financial Services during the year.

No directors had material interests in contracts of significance with the Company or any subsidiary company of Zurich Financial Services during the year.

Statement of Directors' Responsibilities

The following statement sets out the responsibilities of the Directors in relation to the financial statements of the Company. The report of the auditors, shown on page 4, sets out their responsibilities in relation to the financial statements.

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

- select appropriate policies and apply them consistently, subject to any material departures being disclosed and explained;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for taking reasonable steps to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

The Directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

Auditors

The Directors have taken advantage of the Elective Regime, under section 386 of the Companies Act 1985, for the dispensation from the annual appointment of auditors. The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

By order of the Board

Director
24 October 2005
D. ETHERINGTON

UK Life Centre
Station Road
Swindon
SN1 1EL

EAGLE STAR HOLDINGS LIMITED

AUDITORS' REPORT

Independent Auditors' Report to the members of Eagle Star Holdings Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

Date *31 October 2005*

EAGLE STAR HOLDINGS LIMITED**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2004**

Amount in £'m	Note	2004	2003
Income from investments		14.6	14.6
Other interest receivable and similar income		13.0	21.7
Administrative expenses		(0.5)	(0.7)
Amounts written off investments	6	(32.0)	-
Interest payable and similar charges	3	(38.6)	(101.3)
Loss on ordinary activities before taxation		(43.5)	(65.7)
Tax on loss on ordinary activities	4	20.2	8.6
Loss on ordinary activities after tax		(23.3)	(57.1)
Dividends	5	(33.8)	-
Retained loss for the year		(57.1)	(57.1)

There was no difference between the result for the year and the retained loss above, and their historical cost equivalents.

All the amounts in the profit and loss account derive from UK continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Amount in £'m	Note	2004	2003
Loss on ordinary activities after taxation		(23.3)	(57.1)
Revaluation of shares in Group undertakings	6	(295.0)	(159.1)
Total recognised losses relating to the year		(318.3)	(216.2)

The notes on pages 7 to 13 form an integral part of the financial statements.

EAGLE STAR HOLDINGS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

Amount in £'m	Note	2004	2004	2003	2003
Fixed asset investments					
Shares in group undertakings	6	1,029.7		1,356.7	
Loans to long term funds of subsidiary undertakings	7	-		150.0	
			1,029.7		1,506.7
Debtors:					
Amounts due from holding company		-		225.8	
Amounts due from subsidiary undertakings		4.0		13.1	
Loans to long term funds of subsidiary undertakings	7	150.0		-	
Other debtors	8	48.0		29.3	
		202.0		268.2	
Creditors: amounts falling due within 1 year:					
Bank loans and overdrafts		(28.2)		(30.0)	
Amounts due to holding company		(410.0)		-	
Amounts due to subsidiary undertakings		(9.4)		(665.7)	
Other creditors		(14.3)		(16.7)	
		(461.9)		(712.4)	
Net current liabilities			(259.9)		(444.2)
Net assets			769.8		1,062.5
Shareholders' funds					
<i>Non-equity interests</i>					
Called up share capital	9	275.9		250.3	
Profit and loss account		33.8		-	
		309.7		250.3	
<i>Equity interests</i>					
Called up share capital	9	553.7		553.7	
Share premium account		1.6		1.6	
Revaluation reserve		16.1		311.1	
Profit and loss account		(111.3)		(54.2)	
		460.1		812.2	
Total shareholders' funds	10		769.8		1,062.5

The financial statements on page 5 to page 13 were approved by the Board on 24 October 2005 and were signed on its behalf by

Director

The notes on pages 7 to 13 form an integral part of the financial statements

EAGLE STAR HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with applicable UK accounting standards. In accordance with exemptions given in Financial Reporting Standards 1 and 2 respectively, the Company has not prepared either a cashflow statement or consolidated financial statements since it is a subsidiary undertaking of a parent company that prepares consolidated financial statements.

As permitted by Financial Reporting Standard 3 (revised 1999), the Company has not disclosed a note of historical profits and losses.

Investments

Fixed asset investments are stated at Directors' valuation being net asset value or, where there has been impairment in value, at their recoverable amount. Changes in valuation are taken to the revaluation reserve. Permanent impairments are taken to the profit and loss account.

Foreign currency

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling on 31 December. Items in the profit and loss account for the year are translated using average rates of exchange. Differences arising on translation to sterling are dealt with in the profit and loss account.

Derivative Instruments

Derivative instruments, including interest rate swaps, are used for hedging purposes. Interest payable and receivable is included within investment income.

The Company is exposed to interest rate fluctuations on certain intercompany borrowings. In order to manage the risk of future fluctuations in interest rates, the Company has entered into a series of swap arrangements. The Company receives a floating interest rate and pays a fixed interest rate. These swaps are included in the financial statements at fair value, with changes in the value being taken to the profit and loss account. Fair values are calculated as the present value of future cash payments and receipts, by reference to the current and expected interest rates.

Collateral held against interest rate swaps is being amortised over the remaining life of the agreement.

2 Profit and Loss Account

Four of the directors are also directors of the company's subsidiaries and parent company (2003: Three). They receive emoluments in their capacity as directors of the parent company, Zurich Financial Services (UKISA) Limited and their emoluments are disclosed in the parent company's accounts.

One director received emoluments in respect of services to the Company throughout the year (2003: One). The highest paid director is accruing benefits under a defined benefit and defined contribution pension scheme and a long-term incentive scheme.

The Company has no employees. Staff utilised by the Company are employed by fellow subsidiary companies. The principal disclosures in respect of these staff appear in the accounts of Zurich Financial Services (UKISA) Limited, copies of which can be obtained from The Secretary, UK Life Centre, Station Road, Swindon, SN1 1EL.

Audit fees for the Company are paid by Zurich Employment Services Limited, a subsidiary of Zurich Financial Services (UKISA) Ltd.

EAGLE STAR HOLDINGS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****3 Interest Payable and Similar Charges**

Amount in £'m	2004	2003
Interest on bank loans and overdrafts	(1.0)	-
Interest and charges on other loans	(37.6)	(101.3)
	<u>(38.6)</u>	<u>(101.3)</u>

4 Taxation

Taxation in the profit and loss account was as follows:

Amount in £'m	2004	2003
UK Corporation Tax at 30% (2003: 30%)	(20.2)	(6.5)
Adjustment in respect of prior years	-	(2.1)
	<u>(20.2)</u>	<u>(8.6)</u>

Factors affecting the tax credit for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Amount in £'m	2004	2003
Loss on ordinary activities before tax	<u>(43.5)</u>	<u>(65.7)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	(13.0)	(19.7)
Expenses not deductible for tax purposes	10.4	13.2
Adjustment to tax charge in respect of previous periods	(17.6)	(2.1)
Current credit for the year	<u>(20.2)</u>	<u>(8.6)</u>

5 Dividends

Amount in £'m	2004	2003
Cumulative accrued dividends on preference shares:		
'C' cumulative 6.25% redeemable convertible preference shares	33.8	-
	<u>33.8</u>	<u>-</u>

No ordinary dividend was declared during the year (2003: £nil)

Dividend arrears of £28.0m on the 'B' cumulative 6.25 % redeemable convertible preference shares were waived.

EAGLE STAR HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Shares in Group Undertakings

Amount in £'m	2004	2003
	£m	£m
Shares in Group undertakings	1,029.7	1,356.7

The Directors have considered the value of each of the Company's investments in subsidiary undertakings as at 31 December 2004 and are satisfied that the value of each investment is not less than the amount at which it is stated in the balance sheet.

The movement in the year comprises:

Amount in £'m	
As at 1 January 2004	1,356.7
Revaluation	(295.0)
Permanent Impairment	(32.0)
As at 31 December 2004	1,029.7

As at the 31 December 2004 the value of the investment in Eagle Star Group Services Limited was impaired by £32.0m.

7 Loans to Long Term Funds of Subsidiary Undertakings

Amount in £'m	2004	2003
Fixed Assets		
9.75% Subordinated loan to Zurich Assurance Ltd, 2005 –Tranche A	-	75.0
9.65% Subordinated loan to Zurich Assurance Ltd – Tranche B	-	75.0
	-	150.0
Current Assets		
9.75% Subordinated loan to Zurich Assurance Ltd, 2005 –Tranche A	75.0	-
9.65% Subordinated loan to Zurich Assurance Ltd – Tranche B	75.0	
	150.0	150.0

The 9.65% subordinated loan is undated.

The only event of default in relation to the subordinated loans is non-payment of principal or interest for a period of two years or more after the relevant due date. In the event of default the Company may institute or join proceedings for the winding up of Zurich Assurance Ltd (formerly Eagle Star Life Assurance Limited). In a winding up, no amount will be paid by Zurich Assurance Ltd in respect of the subordinated loans until all its policyholders and other creditors have been paid in full.

Repayment Tranche A

Tranche A was repaid on 18 April 2005.

Repayment Tranche B

Tranche B was repaid on 1 August 2005.

EAGLE STAR HOLDINGS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****8 Other Debtors**

Amount in £'m	2004	2003
Amounts due from group undertakings	31.0	11.3
Interest rate swaps	17.0	18.0
	<u>48.0</u>	<u>29.3</u>

9 Called up Share Capital

Amount in £'m	2004	2003
Authorised:		
815,418,749 ordinary shares of £1 each	815.4	815.4
138,325,004 deferred shares of 25p each	34.6	34.6
	<u>850.0</u>	<u>850.0</u>
Nil (2003: 225,000,000) 'B' cumulative redeemable convertible preference shares of US \$1 each	-	126.0
275,883,303 (2003: 124,263,297) 'C' cumulative redeemable convertible preference shares of £1 each	275.9	124.3
	<u>275.9</u>	<u>250.3</u>
	<u>1,125.9</u>	<u>1,100.3</u>

Issued and fully paid:

519,075,675 ordinary shares of £1 each	519.1	519.1
138,325,004 deferred shares of 25p each	34.6	34.6
	<u>553.7</u>	<u>553.7</u>
Nil (2003: 225,000,000) 'B' cumulative redeemable convertible preference shares of US \$1 each	-	126.0
275,883,303 (2003: 124,263,297) 'C' cumulative redeemable convertible preference shares of £1 each	275.9	124.3
	<u>275.9</u>	<u>250.3</u>
	<u>829.6</u>	<u>804.0</u>

EAGLE STAR HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Called up Share Capital (continued)

The Company may at its election redeem all or any of the preference shares at any time between the following dates:

'B' 1st March 1994 – 30th December 2007.

All outstanding 'B' shares were redeemed on 18th August 2004.

'C' 18th September 2000 – 30th December 2007.

All outstanding 'C' shares must be redeemed by 31st December 2007.

The Company will pay in respect of each share to be redeemed the sum of £1 per share in respect of the 'C' preference shares (together with a sum equal to any arrears of dividend). On a return of assets on liquidation, the assets of the Company remaining after payment of its liabilities should be applied in priority to the holders of the preference shares the sum of US \$1 per share in respect of the 'B' preference shares and £1 per share in respect of the 'C' preference shares together with a sum equal to any arrears of dividend. After making these payments, the balance of assets remaining should be paid to the holders of the ordinary shares. Holders of 'B' and 'C' shares are entitled to receive notice of general meetings but are not entitled to attend or vote at such meetings. Unless dividends due are outstanding for more than six months, the holders of the deferred shares have no right to receive notice of or to attend and vote at any general meeting.

Changes in Share Capital

During 2004 the Company issued a further 151,620,006 'C' cumulative redeemable convertible preference shares of £1 each. These shares were issued to redeem the issued 225,000,000 'B' cumulative redeemable convertible preference shares of US \$1 each and settle a loan with the holding company of £28.0m.

EAGLE STAR HOLDINGS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****10 Reconciliation of Movement in Shareholders' Funds and Statement of Reserves**

Amount in £'m	Share Capital	Share premium account	Revaluation reserve	Profit & loss account	Total 2004	Total 2003
Loss for the financial year	-	-	-	(23.3)	(23.3)	(57.1)
Dividends	-	-	-	(33.8)	(33.8)	-
Unpaid preference share dividends	-	-	-	33.8	33.8	-
Ordinary shares issued in the financial year	-	-	-	-	-	16.6
'C' cumulative redeemable convertible preference shares issued in the financial year	151.6	-	-	-	151.6	-
'B' cumulative redeemable convertible preference shares redeemed in the financial year	(123.7)	-	-	-	(123.7)	-
Other recognised gains and losses relating to the year	-	-	(295.0)	-	(295.0)	(159.1)
Exchange movement on preference share capital	(2.3)	-	-	-	(2.3)	(13.7)
Net movement in shareholders' funds	25.6	-	(295.0)	(23.3)	(292.7)	(213.3)
Shareholders' funds brought forward	804.0	1.6	311.1	(54.2)	1,062.5	1,275.8
Shareholders' funds carried forward	829.6	1.6	16.1	(77.5)	769.8	1,062.5

11 Ultimate Parent Company

The Company's ultimate parent company is Zurich Financial Services, which is incorporated in Switzerland. Copies of the consolidated financial statements of Zurich Financial Services can be obtained from Mythenquai 2, 8002 Zurich, Switzerland.

Zurich Financial Services (UKISA) Limited is the parent company of the smallest group of companies, of which the Company is a wholly owned subsidiary, for which group accounts are drawn up. Copies of the consolidated financial statements of Zurich Financial Services (UKISA) Limited can be obtained from The Secretary, UK Life Centre, Station Road, Swindon, SN1 1EL.

EAGLE STAR HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Related Party Transactions

The Company has taken advantage of an exemption from FRS 8 not to disclose transactions with Zurich Financial Services' Group undertakings. Balances with Zurich Financial Services' group undertakings are shown on the balance sheet.

The Directors had no material transactions with any related parties of the Zurich Financial Services Group. The term 'Director' includes Directors and members of their families.

13 Principal Subsidiary Undertakings as at the End of the Year

Company and country of registration or incorporation	Share class	Percentage of Nominal value held By the company	Percentage of Nominal value held By subsidiaries
England and Wales			
Eagle Star Group Services Limited	ordinary	100	
Eagle Star Group Services Limited	cum. red. preference	100	
Zurich Assurance Ltd (formerly Eagle Star Life Assurance Company Limited)	ordinary	100	
Zurich Assurance Ltd (formerly Eagle Star Life Assurance Company Limited)	Non-cum red. conv. preference	100	
Zurich Assurance Ltd (formerly Eagle Star Life Assurance Company Limited)	redeemable	100	
Eagle Star Securities Limited	ordinary		100
Bahamas			
Sceptre Trust Limited	ordinary		100
Isle of Man			
Zurich International Life Limited	ordinary		100
Republic of Ireland			
Eagle Star Life Assurance Company of Ireland Limited	ordinary		100
Eagle Star International Services (Ireland) Limited	ordinary	100	
Irish National Insurance Company Plc	ordinary		100

The principal country in which each of the above named subsidiary undertakings operates is its country of registration or incorporation. A complete list of investments in subsidiary and associated undertakings will be attached to the Company's Annual Return made to the Registrar of Companies.