

ACE EUROPEAN HOLDINGS No 2 LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2007

COMPANY REGISTRATION NUMBER 5548342

TUESDAY



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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2007

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is that of an intermediate holding company within the ACE European group. The results for the company show a profit before taxation of £52,922,000 (2006 profit before taxation of £71,948,000) and the shareholder's funds of the company total £166,330,000 (2006 £158,332,000)

In March 2007 the company acquired a holding of 15.835% in CJSC Russian Reinsurance Company, a company incorporated in Russia

In April 2007 the company acquired a holding of 100% in CJSC ACE Insurance Company, a company incorporated in Russia from ACE European Markets Insurance Limited (a company within the ACE Group)

FUTURE DEVELOPMENTS

The company continues to act as an intermediate holding company for subsidiary undertakings and is expected to do so for the foreseeable future

On 19th March 2008 ACE Limited, the ultimate parent company, announced that its Board of Directors has approved a re-domestication of the company to move its place of incorporation from the Cayman Islands to Zurich, Switzerland. ACE Limited expects the re-domestication to be effective in July 2008 if approved by ACE Limited shareholders at the Annual General Meeting scheduled in July. It is expected that, following the re-domestication, the ACE Group of companies will continue to operate as they do currently.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainty affecting the company are in relation to movements in the valuation of its investment in subsidiary undertakings

KEY PERFORMANCE INDICATORS (KPIs)

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

RESULTS AND DIVIDENDS

The profit for the year to 31 December 2007 after taxation amounted to £54,421,000, (2006 profit after taxation of £73,540,000). An interim dividend of £46,423,000 (2006 £68,028,000) was paid during the year. The directors do not recommend the payment of a final dividend (2006 £Nil).

DIRECTORS

The following have been directors from 1 January 2007 to the date of this report unless otherwise indicated

R L Cigelnik	(Resigned 31 January 2007)
P M Curtis	
A J Kendrick	
R V Pryce	

The company has the benefit of a group insurance company management activities policy effected by ACE Limited. No charge was made to the company during the year for this policy.

DIRECTORS' INTERESTS

In accordance with The Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802), the directors' interests in ACE Limited, the ultimate holding company, are not disclosed in these financial statements.

STATEMENT AS TO DISCLOSURE OF INFORMATION

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

1. So far as each of them is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 December 2007 of which the auditors are unaware, and
2. The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007 - continued

AUDITORS

The company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. On 9 August 2006 the company passed an elective resolution to dispense with the obligation to appoint auditors annually.

By Order of the Board



for and on behalf of
ACE London Services Limited
Secretary, 16 May 2008

ACE Building
100 Leadenhall Street
London
EC3A 3BP

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period 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 of the company for the financial period.

The directors confirm that suitable accounting policies have been used and applied consistently, with the exception of changes arising on the adoption of new accounting standards in the year, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 2007. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

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

INDEPENDENT AUDITORS' REPORT

to the members of ACE European Holdings No 2 Limited

We have audited the financial statements of ACE European Holdings No 2 Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 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 report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its 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.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

**PROFIT AND LOSS ACCOUNT
FOR YEAR ENDED 31 DECEMBER 2007**

		2007	2006
	Note	£'000	£'000
TURNOVER	2	57,917	77,427
Operating expenses	4	-	(174)
OPERATING PROFIT		57,917	77,253
Interest payable	5	(4,995)	(5,305)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		52,922	71,948
Tax on profit on ordinary activities	6	1,499	1,592
RETAINED PROFIT FOR THE FINANCIAL YEAR		54,421	73,540

All of the above results derive from continuing operations

The company has no recognised gains or losses other than those presented and hence no separate Statement of Total Recognised Gains and Losses is presented

There is no difference between the loss on ordinary activities before taxation and the retained loss for the financial period stated above and their historical cost equivalents

BALANCE SHEET AT 31 DECEMBER 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Investments	8	259,884	255,968
CURRENT ASSETS			
Debtors – amounts falling due within one year	9	6,553	2,727
Prepayments and accrued income		-	-
		6,553	2,727
CURRENT LIABILITIES			
Creditors – amounts falling due within one year	10	(107)	(363)
NET CURRENT ASSETS			
		6,446	2,364
TOTAL ASSETS LESS CURRENT LIABILITIES			
		266,330	258,332
Creditors – amounts falling due after more than one year	11	(100,000)	(100,000)
NET ASSETS			
		166,330	158,332
CAPITAL AND RESERVES			
Called-up share capital	12	152,983	152,983
Profit and loss account	13	13,347	5,349
TOTAL SHAREHOLDER'S FUNDS			
	14	166,330	158,332

The financial statements on pages 5 to 10 were approved by the board of directors on 22 April 2008 and were signed on its behalf by



P M Curtis
Director
16 May 2008

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The company is a wholly owned subsidiary within the ACE Limited group and is included in the consolidated financial statements of ACE Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised) "Cash Flow Statements".

The company is exempt under Section 228A of the Companies Act 1985 from the requirement to prepare and deliver consolidated financial statements as it and its subsidiary undertakings are wholly-owned subsidiaries within the ACE Limited group and are included within the consolidated financial statements of ACE Limited.

Dividends

Dividends receivable are recognised when receivable.

Interest receivable

Interest receivable is accounted for on an accruals basis.

Interest payable

Interest payable is accounted for on an accruals basis.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling on the date of the transaction. Exchange differences arising from the retranslation of monetary assets and liabilities denominated in foreign currencies are included in the profit and loss account.

Investments

Investments in group undertakings and participating interests are stated at the lower of cost and net realisable value.

2. TURNOVER

Turnover consists of dividends received from subsidiary companies.

3. DIRECTORS AND EMPLOYEES

The company has no employees. The directors received no emoluments for their services to the company.

4. OPERATING EXPENSES

The following fees are payable to the company's auditors and are borne by ACE INA Services U.K. Limited.

	2007	2006
	£'000	£'000
Audit fees:		
Fees payable for the audit of the financial statements	4	8
Non audit fees:		
Fees in respect of audit and other services provided to subsidiary undertakings, pursuant to legislation, including that of countries and territories outside Great Britain	344	446
Other services pursuant to legislation	327	563
Other services relating to taxation	168	202
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	843	1,219
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NOTES TO THE FINANCIAL STATEMENTS

5. INTEREST PAYABLE

	2007	2006
	£'000	£'000
Bank interest payable	4,995	5,305

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of credit in year

	2007	2006
	£'000	£'000
Current tax		
UK Corporation tax on profit of the period	17,375	23,176
Amounts payable to other ACE group companies in respect of group relief	(1,499)	(1,592)
Double tax relief	(17,375)	(23,176)
Total current tax (note 6(b))	(1,499)	(1,592)

(b) Factors affecting tax credit for year

The tax assessed for the period is at the standard rate of corporation tax in the UK of 30%

	2007	2006
	£'000	£'000
Profit on ordinary activities before taxation	52,922	71,948
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	15,876	21,584
Effects of		
UK Double tax relief	(17,375)	(23,176)
Current tax credit for year (note 6(a))	(1,499)	(1,592)

7. DIVIDENDS

	2007	2006
	£'000	£'000
Interim dividend paid of 30 3p (2006 44 4p) per £1 ordinary share	46,423	68,028

NOTES TO THE FINANCIAL STATEMENTS

8. INVESTMENTS

Unlisted undertakings	% holding	Country of incorporation	2007 £'000	2006 £,000
Investment in ACE Insurance S A -N V	99.95%	Belgium	252,983	252,983
Investment in CJSC ACE Life Insurance	100%	Russia	2,985	2,985
Investment in CJSC ACE Insurance	100%	Russia	3,205	-
Investment in CJSC Russian Reinsurance	15.835%	Russia	711	-
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			259,884	255,968
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In the opinion of the directors, the investments in subsidiary and associate undertakings are worth not less than their carrying values

9. DEBTORS – amounts falling due within one year

	2007 £'000	2006 £'000
Amounts due from group undertakings in respect of group relief	3,091	1,592
Amounts due from group undertakings	3,462	1,135
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	6,553	2,727
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10. CREDITORS – amounts falling due within one year

	2007 £'000	2006 £'000
Amounts due to group undertakings	107	107
Loan interest	-	256
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	107	363
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11. CREDITORS – amounts falling due after more than one year

	2007 £'000	2006 £'000
Bank loan	100,000	100,000
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The bank loan facility has a maturity date of 16 December 2010 and is repayable in full on that date. Interest is calculated at a rate based on the guarantor's long term public debt rating and is payable at six monthly interval following the date of utilisation. ACE Limited, the ultimate group holding company, acts as guarantor of the loan.

12. CALLED UP SHARE CAPITAL

	2007 £'000	2006 £'000
Authorised 600,000,000 Ordinary £1 shares	600,000	600,000
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Allotted, issued and fully paid 152,983,214 Ordinary £1 shares	152,983	152,983
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NOTES TO THE FINANCIAL STATEMENTS

13. RESERVES

	Profit and loss account £'000
At 1 January 2007	5,349
Retained profit for the year	54,421
Dividends paid (note 7)	(46,423)
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At 31 December 2007	13,347
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14. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2007 £'000	2006 £'000
Profit for the financial year	54,421	73,540
Dividends paid (note 7)	(46,423)	(68,028)
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Net addition to shareholder's funds	7,998	5,512
Opening shareholder's funds	158,332	152,820
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Closing shareholder's funds	166,330	158,332
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15. ADDITIONAL INFORMATION IN RELATION TO NOTE 8 TO THE FINANCIAL STATEMENTS

Subsidiary undertakings as at 31 December 2007 were as follows

Subsidiaries		Country of Incorporation	Percentage of nominal value held by the company
CJSC ACE Life Insurance	Insurance company	Russia	100% Direct
CJSC ACE Insurance	Insurance company	Russia	100% Direct
ACE Insurance S A -N V	Intermediate holding company	Belgium	99.95% Direct
ACE European Group Limited	Insurance company	England and Wales	69.13% Indirect

The group is the beneficial owner of all of the share capital and voting rights of all of the above undertakings

16. TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption provided in FRS 8 "Related Party Disclosures" from disclosing details of transactions with ACE Limited and its subsidiary undertakings

17. ULTIMATE HOLDING COMPANY

The company's immediate holding company is ACE European Holdings Limited. The ultimate holding company is ACE Limited, a company registered in the Cayman Islands, with its headquarters in Bermuda and quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at ACE Global Headquarters, 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.