

COMPANY NO. 2709527

REGISTERED OFFICE: Park Gate, 161-163 Preston Road, Brighton, BN1 6AU

RiverStone Holdings Limited

2012 Annual Report

RiverStone Holdings Limited (Company No. 2709527)
Annual Report
For the year ended 31st December 2012

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RiverStone Holdings Limited (Company No. 2709527)
Directors and Administration
For the year ended 31st December 2012

Directors

J. J. Bator
N. C. Bentley
L. A. Hemsley
L. R. Tanzer

Company Secretary

F. Henry

Registered Office

Park Gate
161-163 Preston Road
Brighton
BN1 6AU

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

RiverStone Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2012

The Directors have pleasure in presenting the Annual Report of RiverStone Holdings Limited ("RiverStone Holdings" or "the Company") comprising the Directors' Report together with the audited financial statements for the year ended 31st December 2012.

Ownership

RiverStone Holdings' ultimate parent company is Fairfax Financial Holdings Limited ("Fairfax") which is registered in Canada and is listed on the Toronto Stock Exchange. The registered office of Fairfax is 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada M5J 2N7.

Principal Activity

The main activity of RiverStone Holdings is that of a U.K. holding company for subsidiary undertakings (together "the Group") primarily engaged in the run-off of insurance and reinsurance business and the performance of related services. RiverStone Holding's primary focus is the settlement of its subsidiaries' policyholder obligations and recovery of reinsurance assets in an efficient and economic manner. Additionally, RiverStone Holdings continues to pursue opportunities to acquire further run-off portfolios.

RiverStone Holdings' has two primary run-off insurance subsidiaries, RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)") and RiverStone Insurance Limited ("RiverStone Insurance"). RiverStone Holdings acquired 100% of the share capital of RiverStone Insurance on 12th October 2012.

In addition, RiverStone Holdings participates in the Lloyd's market through RiverStone Corporate Capital Limited, which is the sole corporate member of Syndicate 3500. RiverStone Holdings owns another corporate member, RiverStone Corporate Capital 2 Limited, which was the sole corporate member of Syndicate 2112. Effective 1st January 2012 the liabilities of Syndicate 2112 were reinsured to close into Syndicate 3500.

RiverStone Holdings' operations are administered by two managing agents. RiverStone Holdings' non-Lloyd's business is managed by RiverStone Management Limited. Lloyd's related business is managed by RiverStone Managing Agency Limited. Additionally staff are employed directly by RiverStone Insurance Limited.

Business Review

Results and Performance

The results for the year set out in the profit and loss account on page 9 show a profit after taxation of £111.2 million (2011: £45.1 million). The Directors do not recommend the payment of a dividend (2011: Nil).

During the year, RiverStone Holdings increased its issued share capital by a net amount of £63.7 million. This net increase comprised the issue of 117,180,000 ordinary shares of \$1 each, the cancelling and extinguishing of 972,516 ordinary shares of \$1 each and the buyback of 14,409,091 ordinary shares of \$0.88 each.

Shareholders' funds have increased to £369.8 million from £214.5 million at the end of 2011. The increase in shareholders' funds comprises the net increase in share capital of £63.7 million and the gain after taxation of £111.2 million, offset by actuarial losses recognised on the pension scheme of £7.3 million and unrealised foreign exchange losses of £12.3 million.

In addition to acquiring RiverStone Insurance, RiverStone Holdings effected a number of other transactions during 2012 which resulted in the acquisition of further run-off business.

RiverStone Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2012

Effective 1st January 2012, Syndicate 3500 entered into a transaction to novate contracts related to the liabilities of Syndicates 535 and 1204, run-off syndicates with underwriting years of 2001 and prior and 1999 and prior, respectively. Also effective 1st January 2012, Syndicate 3500 accepted the reinsurance-to-close of the liabilities of Syndicate 3330, a run-off syndicate with underwriting years of 2002 and prior. The liabilities of Syndicates 535, 1204 and 3330 are reinsured into RiverStone Insurance (UK), along with all of the other liabilities of Syndicate 3500.

Effective 21st December 2012, RiverStone Insurance (UK) entered into an agreement to acquire the UK run-off portfolio of the Eagle Star Insurance group of companies. This is in the form of a reinsurance contract to be followed by a transfer of the business under Part VII of the Financial Services and Markets Act 2000, with the latter being subject to regulatory and court approval. The reinsurance contract effectively transfers the risk of the Eagle Star portfolio to RiverStone Insurance (UK) from 1st July 2012, with a roll forward mechanism to adjust the price for movements through to the contract inception date.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to approval by the board of directors of RiverStone Holdings ("the Board") and ongoing review by the Board, executive committees, risk management (including compliance) and assurance. Compliance with regulatory, legal and ethical standards is a high priority for RiverStone Holdings. Its compliance and finance departments take on an important oversight role in this regard. The RiverStone Holdings Group Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

RiverStone Holdings has developed a framework for identifying the risks that it is exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage the Group's capital requirements and to ensure that it has the financial strength and capital adequacy for its insurance subsidiaries to support the continued run off of the business and to meet the obligations to policyholders and regulators. The Directors consider that RiverStone Holdings' capital is adequate to meet its business needs.

The principal risks faced by RiverStone Holdings arise from fluctuations in the severity of claims within its subsidiaries compared with expectations, late reporting of claims and inadequate reinsurance protection (including the credit worthiness of major reinsurers) and inadequate reserving.

Strategy and Future Outlook

RiverStone Holdings' primary focus has been, and continues to be, to conduct a timely and efficient run-off of its existing portfolios. RiverStone Holdings continues to work towards a strategy to settle all of the Group's outstanding liabilities and recover its reinsurance assets.

Over the past number of years, RiverStone Holdings and its subsidiaries have acquired a number of run-off portfolios of business either associated with certain Fairfax operations in Europe or from unaffiliated parties. RiverStone Holdings' main focus continues to be the run-off of these portfolios, together with actively seeking to acquire further portfolios of run-off business.

As part of efforts to consolidate the structure of the RiverStone Holdings' group, RiverStone Holdings' subsidiary, Sphere Drake Insurance Limited, was placed in a voluntary, solvent liquidation in September 2011. The liquidation and subsequent dissolution were completed in January 2013.

The Board considers that its insurance operations are adequately capitalized based on the remaining risks and level of volatility inherent in its business.

RiverStone Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2012

Directors

Directors holding office during the period from 1st January 2012 to the date of this report were as follows:

J. J. Bator
N. C. Bentley
L. A. Hemsley
L. R. Tanzer

RiverStone Holdings has provided an indemnity for its directors which is a qualifying third party indemnity provision for the purposes of Section 234 of the Companies Act 2006.

Directors' Responsibilities Statement

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

Statement of Disclosure of Information to Auditors

So far as each person who is noted on page 3 as being a Director at the date of this report is aware, there is no relevant audit information of which RiverStone Holdings' auditors are unaware. Each person noted on page 3 as being a Director at the date of this report has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that RiverStone Holdings' auditors are aware of that information.

By Order of the Board



Park Gate
161-163 Preston Road
Brighton, BN1 6AU

F. Henry
Company Secretary
6th March 2013

RiverStone Holdings Limited (Company No. 2709527)

Independent Auditors' Report to the Members of RiverStone Holdings Limited

For the year ended 31st December 2012

We have audited the financial statements of RiverStone Holdings Limited for the year ended 31st December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

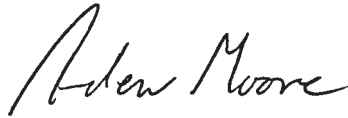
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2012

Matters on which we are required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Moore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6th March 2013

RiverStone Holdings Limited (Company No. 2709527)
Profit and Loss Account
For the year ended 31st December 2012

	Note	2012 £'000	2011 £'000
Change in value of subsidiaries		(103,771)	45,000
Other operating charges	3	496	-
Income from shares in group undertakings		214,382	-
Investment management expenses		<u>(15)</u>	<u>-</u>
Operating result on ordinary activities		111,092	45,000
Foreign exchange (loss) gains		<u>(435)</u>	<u>105</u>
Profit on ordinary activities before taxation		110,657	45,105
Taxation on profit on ordinary activities	7	<u>544</u>	<u>-</u>
Profit for the financial year		£ <u>111,201</u>	£ <u>45,105</u>

The results above are all derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year reported above and the historical cost equivalent.


RiverStone Holdings Limited (Company No. 2709527)
Statement of Total Recognised Gains and Losses
For the year ended 31st December 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		111,201	45,105
Actuarial (loss) gain recognised in the year on pension scheme	6	(7,294)	937
Foreign exchange (losses) gains	13	<u>(12,255)</u>	<u>2,687</u>
Total gains recognised during the year		£ 91,652	£ 48,729

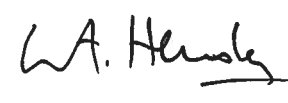
RiverStone Holdings Limited (Company No. 2709527)**Balance Sheet****As at 31st December 2012**

	Note	2012 £'000	2011 £'000
Assets			
Fixed Assets			
Investments in subsidiary undertakings	8	405,614	313,755
Other financial investments	9	<u>2,336</u>	<u>-</u>
		407,950	313,755
Current Assets			
Debtors: amounts falling due within one year	10	903	-
Cash at bank and in hand		<u>291</u>	<u>7</u>
Total assets excluding pension asset		409,144	313,762
Pension asset	6	<u>-</u>	<u>2,663</u>
Total assets including pension asset		£ 409,144	£ 316,425
Liabilities			
Capital and reserves			
Called up share capital	12	297,991	242,925
Share premium	13	62,993	65,815
Profit and loss account	13	8,826	(94,272)
Total shareholders' funds	13	369,810	214,468
Creditors			
Amounts falling due within one year	14	38,225	100,021
Accruals and deferred income		<u>-</u>	<u>1,936</u>
Total liabilities excluding pension liability		408,035	316,425
Pension liability	6	<u>1,109</u>	<u>-</u>
Total liabilities including pension liability		£ 409,144	£ 316,425

The financial statements on pages 9 to 20 were approved by the Board of Directors on 6th March 2013 and were signed on its behalf by:



L. R. Tanzer
Director



L. A. Hemsley
Finance Director

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2012

1. Accounting Policies

(a) Basis of Accounting

The financial statements are prepared on the going concern basis, under the historical cost convention as modified by the revaluation of investments in subsidiary undertakings and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

The financial statements contain information about RiverStone Holdings Limited ("RiverStone Holdings") as an individual company and do not contain consolidated financial information as the parent of a group. RiverStone Holdings is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings (together "the Group") are included by full consolidation in the consolidated financial statements of its parent, Fairfax Financial Holdings Limited ("Fairfax"), a company incorporated in Canada.

(b) Cash flows

RiverStone Holdings is a wholly owned subsidiary of Fairfax and the cash flows of RiverStone Holdings are included in the consolidated group cash flow statement of Fairfax which is publicly available. Consequently RiverStone Holdings is exempt under the terms of Financial Reporting Standard No.1 (revised 1996) 'Cash flow Statements' from publishing a cash flow statement.

(c) Translation of Foreign Currencies

Items included in RiverStone Holdings' financial statements are measured using the currency of the primary economic environment in which it operates. RiverStone Holdings' functional currency is the US Dollar. The financial statements are stated in RiverStone Holdings' presentational currency which is Pounds Sterling. The Sterling to US Dollar rate at year end was 1.5541.

Foreign currency transactions are translated into the functional currency using the average rate of exchange during the year. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account for the period. All exchange differences arising from the translation from functional currency to presentation currency are recognised through the Statement of Total Recognised Gains and Losses as a separate component of equity.

(d) Pensions

RiverStone Holdings is the principal employer for the Group's defined benefit pension scheme. The cost of the pension scheme is analysed between current service cost, past service cost and net return on the pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits, are recognised on a straight-line basis over the period in which the increase in benefits vest.

Net expected return on the pension scheme comprises the expected return on the pension scheme assets less interest on scheme liabilities.

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2012

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the Statement of Total Recognised Gains and Losses for the period. The attributable deferred taxation is shown separately in the Statement of Total Recognised Gains and Losses. The pension surplus or deficit recognised in the balance sheet is the value of the pension scheme's assets less the present value of the scheme's liabilities.

Further details of the pension scheme are given in Note 6.

(e) Deferred Taxation

Deferred tax assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in RiverStone Holdings' annual corporation tax returns, including revaluation gains and losses on investments. Deferred taxes are calculated at the rates at which it is expected that the tax liability or benefit will arise. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable. Deferred tax balances are not discounted. Movements on deferred tax assets and liabilities are recognised in the profit and loss account, except to the extent that they arise in relation to movements in the Statement of Total Recognised Gains and Losses.

(f) Investment in subsidiary undertakings

Unlisted investments in subsidiary undertakings are initially recorded at cost and subsequently carried stated at current net asset value. Any changes in value are recognised in the profit and loss account in the year in which they occur.

(g) Dividend income

Dividends receivable from subsidiary undertakings are recognised in the Profit and Loss Account when declared.

2. Acquisition

On 12th October 2012, RiverStone Holdings acquired all of the ordinary share capital of Brit Insurance Limited. Brit Insurance Limited changed its name to RiverStone Insurance Limited immediately after the acquisition by RiverStone Holdings.

The consideration given by RiverStone Holdings was £208.3 million. The book and fair value of the assets and liabilities acquired as at the date of acquisition are as follows:

	Book Value £million	Fair Value £million
Cash and investments	813.2	813.2
Reinsurance recoverable reserves	518.9	494.6
Other assets	213.1	165.3
Total assets	£ 1,545.2	£ 1,473.1

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2012

	Book Value £million	Fair Value £million
Gross claims reserves	1,123.6	1,076.8
Other liabilities	<u>232.9</u>	<u>183.7</u>
Total liabilities	£ <u>1,356.5</u>	£ <u>1,260.50</u>

As the investment is initially recorded at cost, there is no goodwill related to the acquisition.

3. Other Operating Charges

	2012 £'000	2011 £'000
Brit Insurance Limited acquisition costs	1,401	-
Release of prior year provision	<u>(1,897)</u>	<u>-</u>
	£ <u>(496)</u>	£ <u>-</u>

4. Auditors' Remuneration

	2012 £'000	2011 £'000
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:		
Audit	466	406
Audit related assurance services	149	77
Other taxation advisory services	18	5
Taxation compliance services	<u>9</u>	<u>8</u>
	£ <u>642</u>	£ <u>496</u>

5. Directors

No amounts were charged to RiverStone Holdings in the period in respect of directors' services (2011: Nil).

6. Pension Costs

RiverStone Holdings is the principal employer for the Group's defined benefit scheme ("the Plan"). The Plan was closed to new entrants with effect from 1st January 2003 and its funds are administered by trustees. The Plan is non-contributory for members. Company contributions are paid to the Plan in

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2012

accordance with the recommendations of an independent actuarial advisor. As the Plan is closed to new entrants, under the method used to calculate pension costs in accordance with FRS17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

The amount included in the balance sheet arising from the Group's obligations in respect of the Plan is as follows:

	31st December 2012 £'000	31st December 2011 £'000
Present value of defined benefit obligation	(67,511)	(61,880)
Fair value of plan assets	<u>66,402</u>	<u>64,543</u>
(Deficit) asset included in balance sheet	(1,109)	2,663
Related unrecognised deferred tax asset (liability)	<u>255</u>	<u>(666)</u>
Pro forma (liability) asset net of deferred tax	£ <u>(854)</u>	£ <u>1,997</u>

The total amounts recognised in the Profit and Loss Accounts of RiverStone Holdings and the participating employers are as follows:

	2012 £'000	2011 £'000
Employer's part of current service cost	999	890
Gain on settlements and curtailments	-	-
Interest cost	2,955	3,163
Expected return on plan assets	<u>(3,418)</u>	<u>(3,491)</u>
Total expense included in profit and loss	£ <u>536</u>	£ <u>562</u>

The current allocation of the Plan's assets is as follows:

	31st December 2012	31st December 2011
Equity instruments	50%	42%
Debt instruments	50%	57%
Cash	<u>-</u>	<u>1%</u>
	<u>100%</u>	<u>100%</u>

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2012

Changes in the present value of the defined benefit obligation are as follows:

	2012	2011
	£'000	£'000
Opening defined benefit obligation	61,880	58,137
Employer's part of current service cost	999	890
Interest cost	2,955	3,163
Contributions from plan members	-	-
Actuarial loss	3,321	1,836
Benefits paid	(1,644)	(2,146)
Curtailment (gain) loss	-	-
Closing defined benefit obligation	£ 67,511	£ 61,880

Changes in the fair value of the Plan assets are as follows:

	2012	2011
	£'000	£'000
Opening fair value of plan assets	64,543	56,496
Expected return on plan assets	3,418	3,491
Actuarial (loss) gain	(3,973)	2,773
Contributions by the employer	4,058	3,929
Contributions by plan members	-	-
Benefits paid	(1,644)	(2,146)
Closing fair value of plan assets	£ 66,402	£ 64,543

The actual return on the Plan's assets over the year was a loss of £555,000 (2011: £6.3 million gain).

The amount recognised in RiverStone Holdings' Statement of Total Recognised Gains and Losses for 2012 is a loss of £7,294,000 (2011: gain of £937,000). The cumulative amount recognised through RiverStone Holdings' Statement of Total Recognised Gains and Losses at 31st December 2012 is a loss of £8,276,000.

Amounts for the current and previous four periods are as follows:

	31st	31st	31st	31st	31st
	December	December	December	December	December
	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Present value of defined benefit obligation	(67,511)	(61,880)	(58,137)	(56,015)	(40,700)
Fair value of plan assets	66,402	64,543	56,496	44,668	38,541
(Deficit) Surplus	£ (1,109)	£ 2,663	£ (1,641)	£ (11,347)	£ (2,159)

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2012

History of Experience Gains and Losses:

	31 st December 2012 £'000	31 st December 2011 £'000	31 st December 2010 £'000	31 st December 2009 £'000	31 st December 2008 £'000
Experience adjustments on plan assets					
Amount of gain (loss)	(3,973)	2,773	6,173	1,228	(1,230)
Percentage of plan assets	(6%)	4%	11%	3%	(3%)
Experience adjustments on plan liabilities					
Amount of (loss) gain	(244)	(287)	343	(590)	1,259
Percentage of the present value of the plan liabilities	(1%)	(1%)	1%	(1%)	3%

7. Taxation on Profit on Ordinary Activities

	2012 £'000	2011 £'000
Current taxation		
UK corporation tax at 24.5% (2011: 26.5%) based on the profit for the year	(1,291)	(828)
Group relief surrendered for nil consideration	286	-
Current year losses carried forward	461	828
	<u>£ (544)</u>	<u>£ -</u>

Factors affecting the tax charge for the year

The corporation tax assessed for the year differs to the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	<u>£ 110,657</u>	<u>£ 45,105</u>
Profit on ordinary activities before taxation multiplied by the UK corporation tax rate of 24.5% (2011: 26.5%)		
Non-taxable change in value of subsidiaries	27,111	11,953
Non-taxable dividend income	25,424	(11,925)
Non-taxable other income	(52,525)	-
Group relief surrendered for nil consideration	(1,301)	(856)
Tax losses not recognised	286	-
	461	828
Current tax (credit) charge for the year	<u>£ (544)</u>	<u>£ -</u>

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2012

8. Investments in Subsidiary Undertakings

RiverStone Holdings owns, directly or indirectly, all of the ordinary issued share capital of the following companies (none of which are listed). In the opinion of the directors, RiverStone Holdings' investments in subsidiary undertakings are worth not less than the amounts at which they are stated in RiverStone Holdings' company balance sheet.

	Shareholders' Equity at 31 Dec 2011 £'000	Acquisition (Book Value)/ Liquidation £'000	Profit And Loss £'000	Foreign Exchange £'000	Dividend £'000	Other £'000	Shareholders' Equity at 31 Dec 2012 £'000
Sphere Drake Insurance Ltd General Insurance	75,095	(75,095)	-	-	-	-	-
Sphere Drake Acquisitions (UK) Ltd Dormant	50	-	-	-	-	-	50
RiverStone Management Ltd Run-off Agency	25	-	536	-	-	-	561
Sphere Drake Leasing Ltd Leasing Company	-	-	38	-	-	-	38
RiverStone Corporate Capital Ltd Corporate member at Lloyd's	28,220	-	(2,806)	(564)	(21,302)	-	3,548
RiverStone Corporate Capital 2 Ltd Corporate member at Lloyd's	-	-	358	-	-	-	358
RiverStone Insurance (UK) Ltd General Insurance	211,517	-	128,194	(9,542)	(119,027)	(1,336)	209,806
RiverStone France SA Run-off Administration	(1,163)	-	2,518	(5)	-	-	1,350
RiverStone Managing Agency Ltd Lloyd's Agency	11	-	-	-	-	-	11
RiverStone Insurance Limited General Insurance	-	186,790	2,513	589	-	-	189,892
	313,755	111,695	131,351	(9,522)	(140,329)	(1,336)	405,614

All subsidiaries are registered in England and Wales with the exception of RiverStone France S.A. which is registered in France.

9. Other Financial Investments

	2012 £'000	2011 £'000
Treasury bills	£ <u>2,336</u>	£ <u>-</u>

10. Debtors: Accounts Falling Due within One Year

	2012 £'000	2011 £'000
Due from group undertaking	£ <u>903</u>	£ <u>-</u>

RiverStone Holdings Limited (Company No. 2709527)
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11. Deferred Taxation

No deferred tax asset has been recognised in these financial statements as the Directors cannot be certain of an actual tax benefit crystallizing. The potential deferred tax asset not recognised amounts to:

	2012 £'000	2011 £'000
Trading losses available to carry forward	1,691	1,456
Short term timing differences	-	483
	<u>£ 1,691</u>	<u>£ 1,939</u>

12. Called up Share Capital

	2012	2011
46,606,341 Ordinary Shares of £1 (2011: 46,606,341)	£ <u>46,606,341</u>	£ <u>46,606,341</u>
348,404,620 Ordinary Shares of \$1 (2011: 232,197,136)	\$ <u>348,404,620</u>	\$ <u>232,197,136</u>
68,432,731 Ordinary Shares of \$0.88 (2011: 82,841,822)	\$ <u>60,220,803</u>	\$ <u>72,900,803</u>

In all respects Ordinary US Dollar Shares of \$1 each and Ordinary US Dollar Shares of \$0.88 each rank pari passu with the Ordinary Sterling Shares.

On 24th July 2012, 972,516 Ordinary Shares of \$1 each were cancelled at par for the satisfaction of certain intercompany debt.

On 26th September 2012, 74,500,000 Ordinary Shares of \$1 each were issued for cash.

On 26th September 2012, 14,409,091 Ordinary Shares of \$0.88 each were bought back at par for cash.

On 2nd October 2012, 42,680,000 Ordinary Shares of \$1 each were issued for cash.

	2012 £'000	2011 £'000
<u>Total allotted and fully paid</u>		
46,606,341 Ordinary Shares of £1	46,606	46,606
348,404,620 Ordinary Shares of \$1	214,338	149,410
68,432,731 Ordinary Shares of \$0.88	37,047	46,909
	<u>£ 297,991</u>	<u>£ 242,925</u>

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13. Reconciliation of Movements in Total Shareholders' Funds

	Share Capital £'000	Share Premium £'000	Profit and Loss Account £'000	2012 Total £'000	2011 Total £'000
As at 1 st January	242,925	65,815	(94,272)	214,468	165,739
Profit for the financial year	-	-	111,201	111,201	45,105
Actuarial (loss) gain recognised in the year on pension scheme	-	-	(7,294)	(7,294)	937
New share capital subscribed	72,088	-	-	72,088	-
Share capital bought back/cancelled	(8,398)	-	-	(8,398)	-
Exchange movements	(8,624)	(2,822)	(809)	(12,255)	2,687
As at 31st December	£ 297,991	£ 62,993	£ 8,826	£ 369,810	£ 214,468

14. Other Creditors Including Taxation and Social Security

	2012 £'000	2011 £'000
Due to group undertakings	36,643	100,021
Other creditors	1,582	-
Due to group undertakings	£ 38,225	£ 100,021

15. Litigation and Contingent Liabilities

RiverStone Holdings has provided a letter of support to RiverStone Managing Agency Limited whereby funds will be made available to this company to ensure liabilities are met as they fall due for payment.

16. Related Party Transactions and Ultimate Parent Company

RiverStone Holdings is ultimately wholly owned by Fairfax which is registered in Canada and listed on the Toronto Stock Exchange.

Advantage has been taken of the exemption from the requirement to disclose transactions with related parties within the same group as provided by Financial Reporting Standard No. 8 "Related Party Disclosures". This exemption is available for RiverStone Holdings as consolidated financial statements are publicly available for Fairfax.

The financial statements of Fairfax can be obtained from the Corporate Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.