NXP Semiconductors N.V.
Form SC TO-T/A
February 21, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE TO

Tender Offer Statement under Section 14(d)(1) or 13(e)(1)
of the Securities Exchange Act of 1934
(Amendment No. 23)

NXP Semiconductors N.V.

(Name of Subject Company (Issuer))

Qualcomm River Holdings B.V.

(Offeror)
an indirect, wholly-owned subsidiary of
QUALCOMM Incorporated

(Ultimate Parent of Offeror)

(Names of Filing Persons (identifying status as offeror, issuer or other person))

Common shares, par value €0.20 per share

(Title of Class of Securities)

N6596X109

(CUSIP Number of Class of Securities)

Donald J. Rosenberg
Executive Vice President, General Counsel and Corporate Secretary
QUALCOMM Incorporated
5775 Morehouse Drive
San Diego, California 92121
Telephone: (858) 587-1121

(Name, address and telephone number of person authorized to receive notices and communications on behalf of filing persons)

with copies to:

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Steven J. Williams
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CALCULATION OF FILING FEE

Transaction Valuation*	**Amount of Filing Fee****
$44,805,140,610.61	$5,247,572.95

*

Calculated solely for purposes of determining the filing fee. The calculation of the transaction value is determined by adding the sum of (i) 343,644,985 common shares, par value €0.20 per share (not including treasury shares), of NXP Semiconductors N.V. multiplied by the offer consideration of $127.50 per share, (ii) the net offer consideration for 3,033,079 shares issuable pursuant to outstanding options with an exercise price less than $127.50 per share (which is calculated by multiplying the number of shares underlying such outstanding options by an amount equal to $127.50 minus the weighted average exercise price for such options of $48.41 per share), (iii) 5,567,543 shares subject to issuance pursuant to restricted stock units multiplied by the offer consideration of $127.50 per share and (iv) 318,879 shares subject to issuance pursuant to outstanding performance-based restricted stock units multiplied by the offer consideration of $127.50 per share. The foregoing share figures have been provided by the issuer to the offeror and are as of February 16, 2018, the most recent practicable date.

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The filing fee was calculated in accordance with Rule 0-11 under the Securities Exchange Act of 1934, as amended, and (i) with respect to the fee paid with Amendment No. 22, equals the incremental increase in the transaction valuation multiplied by 0.0001245 based on Fee Rate Advisory #1 for Fiscal Year 2018, issued August 24, 2017, and (ii) with respect to fees paid prior to Amendment No. 22, equals the previously-disclosed transaction valuation multiplied by 0.0001159 based on Fee Rate Advisory #1 for Fiscal Year 2017, issued August 31, 2016.

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Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: $4,456,315.31	Filing Party: Qualcomm River Holdings B.V. and QUALCOMM Incorporated
Form or Registration No.: Schedule TO	Date Filed: November 18, 2016
Amount Previously Paid: $791,257.64	Filing Party: Qualcomm River Holdings B.V. and QUALCOMM Incorporated
Form or Registration No.: Schedule TO-T/A	Date Filed: February 20, 2018

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Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

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third-party tender offer subject to Rule 14d-1.

o

issuer tender offer subject to Rule 13e-4.

o

going-private transaction subject to Rule 13e-3.

o

amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: o

If applicable, check the appropriate box(es) below to designate the appropriate rule provision(s) relied upon:

o

Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

o

Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

This Amendment No. 23 (this "Amendment") amends and supplements the Tender Offer Statement on Schedule TO initially filed with the Securities and Exchange Commission on November 18, 2016 (together with any amendments and supplements thereto, the "Schedule TO") in relation to the tender offer by Qualcomm River Holdings B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) organized under the laws of The Netherlands ("Purchaser") and an indirect, wholly owned subsidiary of QUALCOMM Incorporated, a Delaware corporation ("Qualcomm" or "Parent"), for all outstanding common shares, par value €0.20 per share (the "Shares"), of NXP Semiconductors N.V., a public limited liability company (*naamloze vennootschap*) organized under the laws of The Netherlands ("NXP"). On February 20, 2018, Purchaser and NXP entered into an amendment (the "Purchase Agreement Amendment") to that certain Purchase Agreement, dated as of October 27, 2016 (as amended, the "Purchase Agreement"), by and between Purchaser and NXP. Pursuant to the Purchase Agreement Amendment, the offer price was increased from $110.00 per Share to $127.50 per Share, less any applicable withholding taxes and without interest to the holders thereof, payable in cash (the "Offer Consideration"), upon the terms and conditions set forth in the offer to purchase dated November 18, 2016 (as it may be amended or supplemented from time to time, including by the Amendment and Supplement to the Offer to Purchase, dated February 21, 2018 (the "Supplement", a copy of which is attached as Exhibit (a)(1)(G) to the Schedule TO), the "Offer to Purchase"), a copy of which is attached as Exhibit (a)(1)(A) to the Schedule TO, and in the related letter of transmittal (together with any amendments and supplements thereto, the "Letter of Transmittal"), a copy of which is attached as Exhibit (a)(1)(B) to the Schedule TO.

Except as otherwise set forth in this Amendment, the information set forth in the Schedule TO and the related Letter of Transmittal remains unchanged and is incorporated herein by reference to the extent relevant to the items in this Amendment. Capitalized terms used but not defined herein have the meanings ascribed to them in the Schedule TO.

All information contained in the Offer to Purchase, as amended by the Supplement (which is filed as Exhibit (a)(1)(G) hereto) and the accompanying Letter of Transmittal, including all appendices, schedules, exhibits and annexes thereto, is hereby incorporated herein by reference in response to Items 1 through 9 and Item 11 in the Schedule TO.

This Amendment No. 23 is being filed to amend and supplement Items 1, 4, 5, 6, 7 and 11 as reflected below and to amend and supplement Item 12 with an additional exhibit.

Amendments to the Schedule TO

Items 1, 4, 5, 6, 7 and 11. ***Summary Term Sheet; Terms of the Transaction; Past Contacts, Transactions, Negotiations and Agreements; Purposes of the Transaction and Plans or Proposals; Source and Amount of Funds or Other Consideration; and Additional Information.***

Items 1, 4, 5, 6, 7 and 11 of the Schedule TO are hereby amended and supplemented as set forth in the Supplement.

Item 12. ***Exhibits.***

Item 12 of the Schedule TO is hereby amended and supplemented by adding the following exhibits:

(a)(1)(G) Amendment and Supplement to the Offer to Purchase, dated February 21, 2018.

SIGNATURES

After due inquiry and to the best of their knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: February 21, 2018

Qualcomm River Holdings B.V.

By: /s/ Adam Schwenker

Name: Adam Schwenker
Title: *Managing Director B*

QUALCOMM Incorporated

By: /s/ Adam Schwenker

Name: Adam Schwenker
Title: *Authorized Signatory*

EXHIBIT INDEX

Exhibit No.	Description
(a)(1)(A)	Offer to Purchase, dated November 18, 2016.*
(a)(1)(B)	Form of Letter of Transmittal (including Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9).*
(a)(1)(C)	Form of Notice of Guaranteed Delivery.*
(a)(1)(D)	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.*
(a)(1)(E)	Form of Letter to Clients for Use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.*
(a)(1)(F)	Text of Summary Advertisement as published in *The Wall Street Journal* on November 18, 2016.*
(a)(1)(G)	Amendment and Supplement to the Offer to Purchase, dated February 21, 2018.
(a)(2)	Not applicable.
(a)(3)	Not applicable.
(a)(4)	Not applicable.
(a)(5)(A)	Joint Press Release issued by QUALCOMM Incorporated and NXP Semiconductors N.V., dated October 27, 2016 (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(a)(5)(B)	Investor Presentation, dated October 27, 2016 (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(a)(5)(C)	Text of Press Release issued by QUALCOMM Incorporated, dated November 18, 2016, announcing launch of Tender Offer.*
(a)(5)(D)	Transcript of Video Message from Steve Mollenkopf, Chief Executive Officer of QUALCOMM Incorporated, first made available to employees of NXP Semiconductors N.V. on October 27, 2016 (incorporated by reference to Exhibit 99.1 to the Schedule TO-C filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(a)(5)(E)	Transcript of Investor Conference Call held by QUALCOMM Incorporated and NXP Semiconductors N.V. on October 27, 2016 (incorporated by reference to Exhibit 99.2 to the Schedule TO-C filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(a)(5)(F)	Transcript of Remarks of George S. Davis, Executive Vice President and Chief Financial Officer, QUALCOMM Incorporated, at Nasdaq Investor Program held on November 29, 2016.*
(a)(5)(G)	Letter to QUALCOMM Incorporated Employees from Steve Mollenkopf, Chief Executive Officer, QUALCOMM Incorporated, dated December 2, 2016.*
(a)(5)(H)	Text of Press Release issued by QUALCOMM Incorporated, dated February 6, 2017, announcing extension of Tender Offer.*

Exhibit No.	Description
(a)(5)(I)	Text of Press Release issued by QUALCOMM Incorporated, dated March 7, 2017, announcing extension of Tender Offer.*
(a)(5)(J)	Text of Press Release issued by QUALCOMM Incorporated, dated April 4, 2017, announcing extension of Tender Offer.*
(a)(5)(K)	Excerpts from Edited Transcript of Q2 2017 Earnings Conference Call of QUALCOMM Incorporated, dated April 19, 2017.*
(a)(5)(L)	Text of Press Release issued by QUALCOMM Incorporated, dated May 2, 2017, announcing extension of Tender Offer.*
(a)(5)(M)	Text of Press Release issued by QUALCOMM Incorporated, dated May 31, 2017, announcing extension of Tender Offer.*
(a)(5)(N)	Text of Press Release issued by QUALCOMM Incorporated, dated June 15, 2017, announcing receipt of antitrust clearance by the Taiwan Fair Trade Commission.*
(a)(5)(O)	Text of Press Release issued by QUALCOMM Incorporated, dated June 28, 2017, announcing extension of Tender Offer.*
(a)(5)(P)	Text of Press Release issued by QUALCOMM Incorporated, dated July 27, 2017, announcing extension of Tender Offer.*
(a)(5)(Q)	Text of Press Release issued by QUALCOMM Incorporated, dated August 24, 2017, announcing extension of Tender Offer.*
(a)(5)(R)	Text of Press Release issued by QUALCOMM Incorporated, dated September 22, 2017, announcing extension of Tender Offer.*
(a)(5)(S)	Text of Press Release issued by QUALCOMM Incorporated, dated October 20, 2017, announcing extension of Tender Offer.*
(a)(5)(T)	Excerpts from Edited Transcript of Q4 and Fiscal 2017 Earnings Conference Call of QUALCOMM Incorporated, dated November 1, 2017.*
(a)(5)(U)	Text of Press Release issued by QUALCOMM Incorporated, dated November 17, 2017, announcing extension of Tender Offer.*
(a)(5)(V)	Text of Press Release issued by QUALCOMM Incorporated, dated December 11, 2017.*
(a)(5)(W)	Text of Press Release issued by QUALCOMM Incorporated, dated December 15, 2017, announcing extension of Tender Offer.*
(a)(5)(X)	Text of Press Release issued by QUALCOMM Incorporated, dated January 12, 2018, announcing extension of Tender Offer.*
(a)(5)(Y)	Text of Press Release issued by QUALCOMM Incorporated, dated January 18, 2018, announcing receipt of antitrust clearance by the European Commission and the Korea Fair Trade Commission.*
(a)(5)(Z)	Text of Press Release issued by QUALCOMM Incorporated, dated February 9, 2018, announcing extension of Tender Offer.*
(a)(5)(AA)	Press Release issued by QUALCOMM Incorporated, dated February 20, 2018 announcing Amendment and Supplement to the Offer to Purchase and extension of the Tender Offer (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).

Exhibit No.	Description
(a)(5)(BB)	Investor Presentation, dated February 20, 2018 (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(a)(5)(CC)	Letter to QUALCOMM Incorporated Employees from Steve Mollenkopf, Chief Executive Officer, QUALCOMM Incorporated, dated February 20, 2018.*
(b)(1)	364-Day Bridge Loan Facility Commitment Letter, dated October 27, 2016, by and among QUALCOMM Incorporated, Goldman Sachs Bank USA, Goldman Sachs Lending Partners LLC, JPMorgan Chase Bank, N.A.*
(b)(2)	Bridge Joinder Letter, dated November 8, 2016, by and among QUALCOMM Incorporated, Goldman Sachs Bank USA, Goldman Sachs Lending Partners LLC, JPMorgan Chase Bank, N.A. and the additional lenders party thereto.*
(b)(3)	Credit Agreement, dated November 8, 2016, by and among QUALCOMM Incorporated, the lenders party thereto and Goldman Sachs Bank USA, as administrative agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on November 9, 2016).
(b)(4)	Amended and Restated Credit Agreement, dated November 8, 2016, by and among QUALCOMM Incorporated, the lenders party thereto and Bank of America, N.A., as administrative agent, swing line lender and L/C issuer (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on November 9, 2016).
(b)(5)	Letter of Credit and Reimbursement Agreement between Qualcomm River Holdings B.V. and Mizuho Bank, Ltd., dated as of November 22, 2016 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on November 29, 2016).
(b)(6)	First Amendment to Letter of Credit and Reimbursement Agreement between Qualcomm River Holdings B.V. and Mizuho Bank, Ltd., dated as of November 23, 2016 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on November 29, 2016).
(b)(7)	Continuing Agreement for Standby Letters of Credit between Qualcomm River Holdings B.V. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., dated as of November 22, 2016 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on November 29, 2016).
(b)(8)	Reimbursement and Security Agreement between Qualcomm River Holdings B.V. and Sumitomo Mitsui Banking Corporation, dated as of November 22, 2016 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on November 29, 2016).
(b)(9)	Letter of Credit Application by QUALCOMM Incorporated to Bank of America, N.A., dated as of November 23, 2016 (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on November 29, 2016).

Exhibit No.	Description
(c)	Not applicable.
(d)(1)	Purchase Agreement, dated as of October 27, 2016, by and between Qualcomm River Holdings B.V. and NXP Semiconductors N.V. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(d)(2)	Letter Agreement, dated as of October 27, 2016, by and between QUALCOMM Incorporated and Qualcomm River Holdings B.V. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(d)(3)	Pledge, Assignment and Security Agreement, dated as of October 27, 2016, by and between NXP Semiconductors N.V. and Qualcomm River Holdings B.V. (incorporated by reference to Exhibit A of Exhibit 10.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(d)(4)	Disclosed Pledge of Receivables, dated as of October 27, 2016, by and between NXP Semiconductors N.V. and Qualcomm River Holdings B.V. (incorporated by reference to Exhibit B of Exhibit 10.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on October 27, 2016).
(d)(5)	Confidentiality Agreement, effective as of July 4, 2016, by and between QUALCOMM Incorporated and NXP B.V.*
(d)(6)	Exclusivity Agreement, dated as of October 6, 2016, by and between QUALCOMM Incorporated and NXP Semiconductors N.V.*
(d)(7)	Power of Attorney, dated as of November 18, 2016.*
(d)(8)	Amendment No. 1, dated February 20, 2018, to Purchase Agreement, dated as of October 27, 2016, by and between Qualcomm River Holdings B.V. and NXP (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(9)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., Arrowgrass Master Fund Ltd. and Arrowgrass Customised Solutions I Limited (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(10)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., D. E. Shaw Valence Portfolios, L.L.C., D. E. Shaw Kalon Portfolios, L.L.C., D. E. Shaw Orienteer Portfolios, L.L.C., D. E. Shaw Oculus Portfolios, L.L.C., D. E. Shaw Orienteer X Portfolios, L.L.C. and D. E. Shaw Asymptote Portfolios, L.L.C. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).

Exhibit No.	Description
(d)(11)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., Davidson Kempner International Ltd., Davidson Kempner Institutional Partners, L.P., Davidson Kempner Partners and M.H. Davidson & Co. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(12)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., Elliott Associates, L.P., Elliott Associates International, L.P. and Elliott International Capital Advisors Inc. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(13)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., Farallon Capital Partners, L.P., Farallon Capital Institutional Partners, L.P., Farallon Capital Institutional Partners V, L.P., Farallon Capital Institutional Partners II, L.P., Farallon Capital Offshore Investors II, L.P., Farallon Capital F5 Master I, L.P., Farallon Capital (AM) Investors, L.P. and Farallon Capital Institutional Partners III, L.P. (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(14)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., HBK Master Fund L.P. and HBK Merger Strategies Master Fund L.P. (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(15)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., Pentwater Capital Management LP. (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(16)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., Soroban Master Fund LP and Soroban Opportunities Master Fund LP. (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(d)(17)	Tender and Support Agreement, dated as of February 20, 2018, by and among Qualcomm River Holdings B.V., TIG Advisors, LLC. (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K filed by QUALCOMM Incorporated with the United States Securities and Exchange Commission on February 20, 2018).
(g)	Not applicable.
(h)	Not applicable.

* Previously filed.

QuickLinks

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EXPENSES

Net Reduction in Loss and Loss Adjustment Expense Liabilities
(4,323) (3,873) (6,780) (5,423) (96,007) (13,706) (24,044)
Salaries and Benefits
6,491 7,522 14,440 12,396 40,821 26,290 15,661
General and Administrative Expenses
4,995 3,457 8,133 6,140 10,962 10,677 6,993
Interest Expense
532 0 532 0 0 0 0
Net Foreign Exchange (Gain)/Loss
(7,497) 1,138 (7,967) 2,195 4,602 (3,731) (2,362)
TOTAL EXPENSES
198 8,244 8,358 15,308 (39,622) 19,530 (3,752)
Net Earnings before Minority Interest
16,119 3,868 23,968 6,320 91,132 14,675 35,570
Share of Net Earnings of Partly-Owned Companies
151 32 263 79 192 6,881 1,623
Income Tax Expense
581 (151) 795 (1,327) (914) (1,924) (1,490)
Minority Interest
(4,974) (612) (5,186) (991) (9,700) (3,097) (5,111)
Net Earnings before Extraordinary Gain
11,877 3,137 19,840 4,081 80,710 16,535 30,592
Extraordinary Gain -

Negative Goodwill (net of minority interest)
0 0 4,347 0 0 21,759 0
NET EARNINGS
$ 11,877 $ 3,137 $ 24,187 $ 4,081 $ 80,710 $ 38,294 $ 30,592

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Comparison of Three Months Ended June 30, 2006 and 2005

Castlewood reported consolidated net earnings of approximately $11.9 million for the three months ended June 30, 2006 compared to approximately $3.1 million for the same period in 2005. The increase was primarily a result of higher investment income, increased foreign exchange gains, income tax recoveries and lower salaries and benefits costs offset by increased minority interest expense and loan interest expense.

Consulting Fees:

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 10,487	$ 7,836	$ 2,651
Reinsurance	(5,236)	(3,979)	(1,257)
Total	$ 5,251	$ 3,857	$ 1,394

Castlewood earned consulting fees of approximately $5.3 million and $3.9 million for the three months ended June 30, 2006 and 2005, respectively. Included in these amounts were approximately $0.3 million in consulting fees charged to wholly-owned subsidiaries of B.H. Acquisition, a partly-owned company, in both 2006 and 2005. The increase in consulting fees is primarily due to the increased fees generated by the consulting companies from both new internal and external clients along with increases in incentive-based fees for the period.

Internal management fees of $5.2 million and $4.0 million were paid in the three months ended June 30, 2006 and 2005, respectively, by Castlewood s reinsurance companies to its consulting companies. The increase in fees paid by the reinsurance segment was due primarily to the fees paid by Brampton in the quarter. Brampton was acquired by Castlewood on March 30, 2006.

Net Investment Income and Net Realized Gains/(Losses):

	Three Months Ended June 30,					
	Net Investment Income			Net Realized Gains/(Losses)		
	2006	2005	Variance	2006	2005	Variance
	(in thousands of U.S. dollars)					
Consulting	$ 336	$ 135	$ 201	$ 0	$ 0	$ 0
Reinsurance	10,809	7,516	3,293	(79)	604	(683)
Total	$ 11,145	$ 7,651	$ 3,494	$ (79)	$ 604	$ (683)

Net investment income for the three-month period ended June 30, 2006 increased by $3.5 million to $11.2 million, as compared to $7.7 million for the three-month period ended June 30, 2005. The increase was attributable to the increase in prevailing interest rates quarter on quarter along with an increase in average cash and investment balances

from $925.4 million to $1,132.6 million for the quarters ended June 30, 2005 and 2006, respectively. The increase in cash and investment balances was due primarily to the acquisition of Brampton which was completed on March 30, 2006.

The average return on the cash and fixed maturities investments for the three month period ended June 30, 2006 was 3.91%, as compared to the average return of 3.57% for the three-month period ended June 30, 2005. The increase in yield was primarily the result of increasing interest rates in the last six months of 2005 and the first six months of 2006. The average Standard & Poor s credit rating of Castlewood s fixed income investments at June 30, 2006 was AAA.

Net realized gains/(losses) for the three month periods ended June 30, 2006 and 2005 were $(0.1) and $0.6 million, respectively. Based on Castlewood s current investment strategy, Castlewood does not expect net realized gains and losses to be significant in the foreseeable future.

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Net Reduction in Loss and Loss Adjustment Expense Liabilities:

Net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2006 and 2005 were $4.3 million and $3.9 million, respectively. The net reduction in loss and loss adjustment expense liabilities for both three-month periods was primarily attributable to the reduction in estimates of loss adjustment expense liabilities to reflect 2006 and 2005 run-off activity partially offset by reductions in estimates of reinsurance balances receivable. The following table shows the components of the movement in net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2006 and 2005.

	Three Months Ended June 30,	
	2006	2005
	(in thousands of U.S. dollars)	
Net Losses Paid	$ (23,244)	$ (9,842)
Net Change in Case and LAE Reserves	8,229	21,286
Net Change in IBNR	19,338	(7,571)
Net Reduction in Loss and Loss Adjustment Expense Liabilities	$ 4,323	$ 3,873

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three months ended June 30, 2006 and 2005. Losses incurred and paid are reflected net of reinsurance recoverables.

	Three Months Ended June 30,	
	2006	2005
	(in thousands of U.S. dollars)	
Net Reserves for Losses and Loss Adjustment Expenses, April 1	$ 791,607	$ 698,229
Incurred Related to Prior Years	(4,323)	(3,873)
Paids Related to Prior Years	(23,244)	(9,842)
Effect of Exchange Rate Movement	7,970	(7,084)
Acquired on Acquisition of Subsidiaries	0	17,862
Net Reserves for Losses and Loss Adjustment Expenses, June 30	$ 772,010	$ 695,292

Salaries and Benefits:

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		

Consulting	$ 4,723	$ 6,670	$ 1,947
Reinsurance	1,768	852	(916)
Total	$ 6,491	$ 7,522	$ 1,031

Salaries and benefits, which include expenses relating to Castlewood s discretionary bonus and employee share plans, were $6.5 million and $7.5 million for the three-month periods ended June 30, 2006 and 2005, respectively. On May 23, 2006, Castlewood Holdings entered into a merger agreement and a recapitalization agreement, which agreements provide for the cancellation of the current incentive compensation plan and replace it with a new incentive compensation plan. As a result of the execution of these agreements, the accounting treatment for share-based awards issued under Castlewood s employee share plan changed from book value to fair value. As a result of the cancellation of the current annual incentive compensation plan, $21.2 million of prior years unpaid bonus accrual was reversed during the quarter. The expense associated with the new annual incentive compensation plan was $2.1 million for the three months ended June 30, 2006.

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The modification of the employee share plan increased its cost by $15.6 million to $19.2 million for the three months ended June 30, 2006 as compared to $1.8 million for the three months ended June 30, 2005.

Castlewood expects that staff costs will continue to increase in 2006 as it continues to grow and add staff. Bonus accrual expenses will be variable and dependent on the overall profit of Castlewood.

General and Administrative Expenses:

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 3,543	$ 2,868	$ (675)
Reinsurance	1,452	589	(863)
Total	$ 4,995	$ 3,457	$ (1,538)

General and administrative expenses attributable to the consulting segment increased by $0.7 million during the three months ended June 30, 2006, as compared to the three months ended June 30, 2005. This increase was due primarily to increases in rent and rent related costs due to an increase in office space along with an increase in professional fees and travel relating to due diligence work on potential acquisition opportunities. Castlewood expects that general and administrative expenses attributable to the consulting segment will increase in 2006 due to growth in its U.S. operations, continued growth in staff resources and additional costs associated with its reporting obligations as a public company if the merger is completed.

General and administrative expenses attributable to the reinsurance segment increased by $0.9 million during the three months ended June 30, 2006, as compared to the three months ended June 30, 2005. The increased costs for the current quarter relate primarily to general and administrative expenses in relation to the integration of Brampton into Castlewood. Castlewood does not expect a significant level of costs in the reinsurance segment as the majority of costs incurred are covered by the management agreements in place with the consulting segment, including those related to new acquisitions.

Foreign Exchange Gain/(Loss):

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ (1,275)	$ 11	$ (1,286)
Reinsurance	8,772	(1,149)	9,921
Total	$ 7,497	$ (1,138)	$ 8,635

Castlewood recorded a foreign exchange gain of $7.5 million for the three-month period ended June 30, 2006, as compared to a foreign exchange loss of $1.1 million for the same period in 2005. The gain for the three-month period

ended June 30, 2006 arose as a result of having surplus British Pounds as a result of Castlewood s acquisition of Brampton along with the strengthening of the British Pound against the U.S. Dollar. On May 8, 2006 Brampton converted its surplus British Pounds to U.S. Dollars. For the three months ended June 30, 2005, the foreign exchange loss arose primarily as a result of the holding of surplus net Euros in one of the reinsurance subsidiaries along with the weakening of the Euro against the U.S. Dollar.

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Share of Income of Partly-Owned Companies:

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	151	32	119
Total	$ 151	$ 32	$ 119

Castlewood s share of equity in earnings of partly-owned companies for the three-month periods ended June 30, 2006 and 2005, was $151,000 and $32,000, respectively. These amounts represent Castlewood s proportionate share of equity in the earnings of B.H. Acquisition.

On consummation of the merger, B.H. Acquisition will become a wholly-owned subsidiary of Castlewood and, as a result, Castlewood will consolidate the results of B.H. Acquisition rather than report its proportionate share of B.H. Acquisition s income.

Income Tax (Expense)/Recovery:

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 574	$ (135)	$ 709
Reinsurance	7	(16)	23
Total	$ 581	$ (151)	$ 732

The consulting segment realized a $0.6 million tax recovery in the three-months ended June 30, 2006, as compared to a $0.1 million tax expense for the same period in 2005. The variance between the two periods arose as a result of Castlewood applying available loss carryforwards from its U.K. insurance companies to relieve profits from its U.K. consulting companies in 2005.

Minority Interest:

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	(4,974)	(612)	(4,362)

Total	$ (4,974)	$ (612)	$ (4,362)

Castlewood recorded a minority interest in earnings of $5.0 million and $0.6 million for the three-month periods ended June 30, 2006 and 2005, respectively, reflecting the 49.9% minority economic interest held by a third party in the earnings from Hillcot and Brampton. The large increase in 2006 over 2005 is attributable to the net earnings of Brampton which was acquired on March 30, 2006.

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Interest Expense:

	Three Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	532		(532)
Total	$ 532	$	$ (532)

Interest expense of $0.5 million was recorded for the quarter ended June 30, 2006. This amount relates to the interest on the funds that were borrowed from an international bank to partially assist with the financing of the Brampton acquisition as well as interest on the promissory note that formed part of the acquisition cost for Brampton. Prior to June 30, 2006 the promissory note was repaid in full and the bank loan was reduced. As a result it is expected that future interest expense will be lower.

Comparison of Six Months Ended June 30, 2006 and 2005

Castlewood reported consolidated net earnings of approximately $24.2 million for the six months ended June 30, 2006 compared to approximately $4.1 million for the same period in 2005. The increase was primarily a result of higher investment income, increased foreign exchange gains, income tax recoveries and the recording of $4.4 million in negative goodwill, partially offset by higher salaries and benefits costs, minority interest expense and loan interest expense.

Consulting Fees:

	Six Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 20,422	$ 16,408	$ 4,014
Reinsurance	(8,822)	(8,063)	(759)
Total	$ 11,600	$ 8,345	$ 3,255

Castlewood earned consulting fees of approximately $11.6 million and $8.3 million for the six months ended June 30, 2006 and 2005, respectively. Included in these amounts were approximately $0.6 million in consulting fees charged to wholly-owned subsidiaries of B.H. Acquisition, a partly-owned company, in both 2006 and 2005. The increase in consulting fees is primarily due to the increased fees generated by the consulting companies from both new internal and external clients along with increases in incentive-based fees for the period. In particular, Castlewood (US) Inc., which commenced operations on April 1, 2005, had fee income for the six months ended June 30, 2006 $2.6 million higher than for the same period in 2005.

Internal management fees of $8.8 million and $8.1 million were paid in the six months ended June 30, 2006 and 2005, respectively, by Castlewood s reinsurance companies to its consulting companies. The increase in fees paid by the reinsurance segment for the six months ended June 30, 2006 was due primarily to the management fees paid by Brampton in the period offset by a reduction in fees paid by Hillcot Re. Brampton was acquired by Castlewood on March 30, 2006.

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Net Investment Income and Net Realized Gains/(Losses):

	Six Months Ended June 30,					
	Net Investment Income			Net Realized Gains/(Losses)		
	2006	2005	Variance	2006	2005	Variance
	(in thousands of U.S. dollars)					
Consulting	$ 577	$ 243	$ 334	$ 0	$ 0	$ 0
Reinsurance	20,228	12,936	7,292	(79)	104	(183)
Total	$ 20,805	$ 13,179	$ 7,626	$ (79)	$ 104	$ (183)

Net investment income for the six-month period ended June 30, 2006 increased by $7.6 million to $20.8 million, as compared to $13.2 million for the six-month period ended June 30, 2005. The increase was attributable to the combination of an increase in prevailing interest rates between June 30, 2005 and June 30, 2006 as well as an increase in average cash and investment balances from $931.0 million to $996.9 million for the six months ended June 30, 2005 and 2006, respectively. The increase in cash and investment balances was due primarily to the acquisition of Brampton which was completed on March 30, 2006.

The average return on the cash and fixed maturities investments for the six-month period ended June 30, 2006 was 4.16%, as compared to the average return of 2.85% for the six-month period ended June 30, 2005. The increase in yield was primarily the result of increasing interest rates in the last six months of 2005 and the first six months of 2006. The average Standard & Poor s credit rating of Castlewood s fixed income investments at June 30, 2006 was AAA.

Net realized gains/(losses) for the six months ended June 30, 2006 and 2005 were $(0.1) and $0.1 million, respectively. Based on Castlewood s current investment strategy, Castlewood does not expect net realized gains and losses to be significant in the foreseeable future.

Net Reduction in Loss and Loss Adjustment Expense Liabilities:

Net reduction in loss and loss adjustment expense liabilities for the six months ended June 30, 2006 and 2005 were $6.8 million and $5.4 million, respectively. The net reduction in loss and loss adjustment expense liabilities for both six month periods was primarily attributable to the reduction in estimates of loss adjustment expense liabilities to reflect 2006 and 2005 run-off activity partially offset by reductions in estimates of reinsurance balances receivable. The following table shows the components of the movement in net reduction in loss and loss adjustment expense liabilities for the six months ended June 30, 2006 and 2005.

	Six Months Ended June 30,	
	2006	2005
	(in thousands of U.S. dollars)	
Net Losses Paid	$ (27,456)	$ (40,051)
Net Change in Case and LAE Reserves	16,121	35,278
Net Change in IBNR	18,115	10,196

Net Reduction in Loss and Loss Adjustment Expense Liabilities	$ 6,780	$ 5,423

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the six months ended June 30, 2006 and 2005. Losses incurred and paid are reflected net of reinsurance recoverables.

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	Six Months Ended June 30, 2006	2005
	(in thousands of U.S. dollars)	
Net Reserves for Losses and Loss Adjustment Expenses, January 1	$ 593,160	$ 736,660
Incurred Related to Prior Years	(6,780)	(5,423)
Paids Related to Prior Years	(27,456)	(40,051)
Effect of Exchange Rate Movement	4,838	(13,756)
Acquired on Acquisition of Subsidiaries	208,248	17,862
Net Reserves for Losses and Loss Adjustment Expenses, June 30	$ 772,010	$ 695,292

Salaries and Benefits:

	Six Months Ended June 30, (in thousands of U.S. dollars)		
	2006	2005	Variance
Consulting	$ 10,821	$ 11,544	$ 723
Reinsurance	3,619	852	(2,767)
Total	$ 14,440	$ 12,396	$ (2,044)

Salaries and benefits, which include expenses relating to Castlewood s discretionary bonus and employee share plans, were $14.4 million and $12.4 million for the six months ended June 30, 2006 and 2005, respectively. On May 23, 2006, Castlewood entered into a merger agreement and a recapitalization agreement, which agreements provide for the cancellation of the current incentive compensation plan and replaces it with a new incentive compensation plan. As a result of the execution of these agreements, the accounting treatment for share-based awards under Castlewood s employee share plan changed from book value to fair value. As a result of the cancellation of the current annual incentive compensation plan, $21.2 million of prior years unpaid bonus accrual was reversed during the six months ended June 30, 2006. The expense associated with the new annual incentive compensation plan was $4.3 million for the six months ended June 30, 2006 as compared to an expense of $0.7 million relating to the prior plan for the six months ended June 30, 2005. The entering into the agreement was considered a modification of awards granted under the employee share plan, which required that expense equal to the estimated fair value of the shares be recorded. This increased its cost by $15.6 million to $19.6 million for the six months ended June 30, 2006 as compared to $2.2 million for the six months ended June 30, 2005.

Castlewood expects that staff costs will continue to increase in 2006 as it continues to grow and add staff. Bonus accrual expenses will be variable and dependent on the overall profit of Castlewood as they will, in accordance with the annual incentive plan, be equal to 15% of after tax earnings of Castlewood.

General and Administrative Expenses:

	Six Months Ended June 30,

	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 6,004	$ 4,878	$ (1,126)
Reinsurance	2,129	1,262	(867)
Total	$ 8,133	$ 6,140	$ (1,993)

General and administrative expenses attributable to the consulting segment increased by $1.1 million during the six months ended June 30, 2006, as compared to the six months ended June 30, 2005. This increase was due primarily to increases in rent and rent related costs due to an increase in office space along with an increase in professional fees and travel relating to due diligence work on potential acquisition opportunities. Castlewood expects that general and administrative expenses attributable to the consulting segment will

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increase in 2006 due to growth in its U.S. operations, continued growth in staff resources and additional costs associated with its reporting obligations as a public company if the merger is completed.

General and administrative expenses attributable to the reinsurance segment increased by $0.9 million during the six months ended June 30, 2006, as compared to the six months ended June 30, 2005. The increased costs for the current year relate primarily to general and administrative expenses in relation to the integration of Brampton into Castlewood. On an ongoing basis, Castlewood does not expect a significant level of costs in the reinsurance segment as the majority of costs incurred are covered by the management agreements in place with the consulting segment, including those related to new acquisitions.

Foreign Exchange Gain/(Loss):

	Six Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ (1,249)	$ (37)	$ (1,212)
Reinsurance	9,216	(2,158)	11,374
Total	$ 7,967	$ (2,195)	$ 10,162

Castlewood recorded a foreign exchange gain of $8.0 million for the six months ended June 30, 2006, as compared to a foreign exchange loss of $2.2 million for the same period in 2005. The gain for the six-month period ended June 30, 2006 arose primarily as a result of having surplus British Pounds as a result of Castlewood s acquisition of Brampton along with the strengthening of the British Pound against the U.S. Dollar. On May 8, 2006 Brampton converted its surplus British Pounds to U.S. Dollars. For the six months ended June 30, 2005, the foreign exchange loss arose primarily as a result of the holding of surplus net Euros in one of the reinsurance subsidiaries along with the weakening of the Euro against the U.S. Dollar.

Share of Income of Partly-Owned Companies:

	Six Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	263	79	184
Total	$ 263	$ 79	$ 184

Castlewood s share of equity in earnings of partly-owned companies for the six months ended June 30, 2006 and 2005, were $0.3 million and $0.1 million, respectively. These amounts represent Castlewood s proportionate share of equity in the earnings of B.H. Acquisition as well as, for the six months ended June 30, 2005, Castlewood s proportionate share of equity in the earnings of Cassandra, a twenty-seven percent owned equity investment that was disposed of in March 2005.

On consummation of the merger, B.H. Acquisition will become a wholly-owned subsidiary of Castlewood and, as a result, Castlewood will consolidate the results of B.H. Acquisition rather than report its proportionate share of B.H. Acquisition s income.

Income Tax (Expense)/Recovery:

	Six Months Ended June 30,		
	2006	**2005**	**Variance**
	(in thousands of U.S. dollars)		
Consulting	$ 751	$ (855)	$ 1,606
Reinsurance	44	(472)	516
Total	$ 795	$ (1,327)	$ 2,122

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The consulting segment realized a $0.8 million tax recovery for the six months ended June 30, 2006, as compared to a $0.9 million tax expense for the same period in 2005. The variance between the two periods arose as a result of Castlewood applying available loss carryforwards from its U.K. insurance companies to relieve profits from its U.K. consulting companies for the 2005 and 2004 years.

The reinsurance segment incurred $nil of tax expense in the six months ended June 30, 2006, as compared to a $0.5 million tax expense for the same period in 2005. The tax expense for the six months ended June 30, 2005 was an adjustment of prior year taxes.

Minority Interest:

	Six Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	(5,186)	(991)	(4,195)
Total	$ (5,186)	$ (991)	$ (4,195)

Castlewood recorded a minority interest in earnings of $5.2 million and $1.0 million for the six months ended June 30, 2006 and 2005, respectively, reflecting the 49.9% minority economic interest held by a third party in the earnings from Hillcot and Brampton. The large increase in 2006 over 2005 is attributable to the net earnings of Brampton which was acquired on March 30, 2006.

Interest Expense:

	Six Months Ended June 30,		
	2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	532		(532)
Total	$ 532	$	$ (532)

Interest expense of $0.5 million was recorded for the six months ended June 30, 2006. This amount relates to the interest on the funds that were borrowed from an international bank to partially assist with the financing of the Brampton acquisition as well as interest on the promissory note that formed part of the acquisition cost for Brampton. Prior to June 30, 2006 the promissory note was repaid in full and the bank loan was reduced. As a result it is expected that future interest expense will be lower.

Negative Goodwill:

	Six Months Ended June 30, 2006	2005	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	4,347		4,347
Total	$ 4,347	$	$ 4,347

Negative goodwill of $4.3 million, net of minority interest of $4.3 million, was recorded for the six months ended June 30, 2006 in connection with Castlewood s acquisition of Brampton. This amount represents the excess of the fair value of net assets acquired of $117.9 million over the cost of $109.2 million. This excess has, in accordance with SFAS 141 Business Combinations, been recognized as an extraordinary gain in 2006. The negative goodwill arose primarily as a result of the income earned by Brampton between the date of the balance sheet on which the agreed purchase price was based, December 31, 2004, and the date the acquisition closed, March 30, 2006.

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Comparison of the Year Ended December 31, 2005 and 2004

Castlewood reported consolidated net earnings of approximately $80.7 million in 2005 compared to approximately $38.3 million in 2004. The increase was primarily a result of higher income arising from the net reduction in loss and loss adjustment expense liabilities and higher investment income, partially offset by higher salaries and benefits expenses and foreign exchange losses. Net income for 2004 also included an extraordinary gain of $21.8 million for negative goodwill.

Consulting Fees:

	Year Ended December 31,		
	2005	2004	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 38,046	$ 32,992	$ 5,054
Reinsurance	(16,040)	(9,289)	(6,751)
Total	$ 22,006	$ 23,703	$ (1,697)

Castlewood earned consulting fees of approximately $22.0 million and $23.7 million for the years ended December 31, 2005 and 2004, respectively. Included in these amounts were approximately $1.3 million in consulting fees charged to B.H. Acquisition, a partly-owned company, in both 2005 and 2004. The reduction in consulting fees during 2005 of $1.7 million was primarily due to a reduction in incentive-based fee engagements partially offset by an increase in fees from new fixed fee recurring engagements.

Internal management fees of $16.0 million and $9.3 million were paid in 2005 and 2004, respectively, by Castlewood s reinsurance companies to its consulting companies. The increase in fees paid in 2005 by the reinsurance segment to the consulting segment was due primarily to the acquisition of new reinsurance entities by Castlewood in 2005 and late 2004.

Net Investment Income and Net Realized Gains/(Losses):

	Year Ended December 31,					
	Net Investment Income			Net Realized Gains/(Losses)		
	2005	2004	Variance	2005	2004	Variance
	(in thousands of U.S. dollars)					
Consulting	$ 576	$ 460	$ 116	$ 0	$ 0	$ 0
Reinsurance	27,660	10,642	17,018	1,268	(600)	1,868
Total	$ 28,236	$ 11,102	$ 17,134	$ 1,268	$ (600)	$ 1,868

Net investment income for the year ended December 31, 2005 increased $17.1 million to $28.2 million, as compared to $11.1 million for the year ended December 31, 2004. The increase was primarily attributable to having a larger

average cash and investment balance in 2005 ($913.5 million) versus 2004 ($497.1 million) along with an increase in prevailing interest rates period on period.

The average return on the cash and fixed maturities investments for the year ended December 31, 2005 was 3.2%, as compared to the average return of 2.1% for the year ended December 31, 2004. The increase in yield was primarily the result of increasing interest rates in 2005. The weighted average Standard & Poor s credit rating of Castlewood s fixed income investments at December 31, 2005 was AAA.

Net realized gains for the year ended December 31, 2005 increased $1.9 million to $1.3 million, as compared to a net realized loss of $0.6 million for the year ended December 31, 2004. Based on Castlewood s current investment strategy, Castlewood does not expect net realized gains and losses to be significant in the foreseeable future.

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Net Reduction in Loss and Loss Adjustment Expense Liabilities:

Net reduction in loss and loss adjustment expense liabilities for the years ended December 31, 2005 and 2004 were $96.0 million and $13.7 million, respectively. The net reduction in loss and loss adjustment expense liabilities for 2005 was primarily attributable to a reduction in estimates of ultimate losses of $65.3 million that arose from the completion of approximately 68 commutations of assumed and ceded exposures, the settlement of losses in the year below carried reserves, lower than expected incurred adverse loss development and the resulting reductions in actuarial estimates of IBNR losses. In 2004, the estimate of net ultimate losses increased by $1.0 million primarily as a result of adverse development of incurred asbestos and environmental losses partially offset by the completion of approximately 36 commutations of assumed and ceded exposures and settlement of losses below carried reserves. As a result of the collection of certain reinsurance receivables, against which bad debt provisions had been provided in earlier periods, Castlewood reduced its aggregate provisions for bad debt by $20.2 million in 2005. There was no change to the provisions for bad debts in 2004. During 2005, Castlewood reduced its estimate of loss adjustment expense liabilities to reflect 2005 run-off activity by $10.5 million compared to a reduction of $14.7 million in 2004. The lower reduction in 2005 was due to an increase in the ultimate length of time, and therefore cost, by which management expects to conclude the run-off of certain liabilities.

The following table shows the components of the movement in net reduction in loss and loss adjustment expense liabilities for the years ended December 31, 2005 and 2004.

	Year Ended December 31,	
	2005	2004
	(in thousands of U.S. dollars)	
Net Losses Paid	$ (69,007)	$ (19,019)
Net Change in Case and LAE Reserves	95,156	33,745
Net Change in IBNR	69,858	(1,020)
Net Reduction in Loss and Loss Adjustment Expense Liabilities	$ 96,007	$ 13,706

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the years ended December 31, 2005 and 2004. Losses incurred and paid are reflected net of reinsurance receivables.

	Year Ended December 31,	
	2005	2004
	(in thousands of U.S. dollars)	
Net Reserves for Losses and Loss Adjustment Expenses, January 1	$ 736,660	$ 230,155
Incurred Related to Prior Years	(96,007)	(13,706)
Paids Related to Prior Years	(69,007)	(19,019)
Effect of Exchange Rate Movement	3,652	4,124
Acquired on Acquisition of Subsidiaries	17,862	535,106

Net Reserves for Losses and Loss Adjustment Expenses, December 31	$ 593,160	$ 736,660

Salaries and Benefits:

	Year Ended December 31,		
	2005	**2004**	**Variance**
	(in thousands of U.S. dollars)		
Consulting	$ 26,864	$ 20,312	$ (6,552)
Reinsurance	13,957	5,978	(7,979)
Total	$ 40,821	$ 26,290	$ (14,531)

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Salaries and benefits, which include accrued bonuses, were $40.8 million and $26.3 million for the years ended December 31, 2005 and 2004, respectively. This increase was due to the combination of increased staff costs of $4.8 million due to an increase in employee headcount from 124 to 166 from December 31, 2004 to December 31, 2005, and $9.7 million of expense relating to Castlewood s discretionary bonus and employee share plans. The employee share plan was implemented in August 2004 and the associated compensation expense was accounted for using the intrinsic value method under APB Opinion No. 25. In 2005 and 2004, the total costs associated with both plans were $19.8 million and $10.1 million, respectively The salary costs for the reinsurance segment relate to the discretionary bonus plan and equal 15% of after-tax income earned by the reinsurance segment.

Castlewood expects that staff costs will continue to increase in 2006 as Castlewood continues to grow and add staff. Bonus accrual expenses will be variable and dependent on the overall profit of the Company.

General and Administrative Expenses:

	Year Ended December 31,		
	2005	2004	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 9,246	$ 6,874	$ (2,372)
Reinsurance	1,716	3,803	2,087
Total	$ 10,962	$ 10,677	$ (285)

General and administrative expenses attributable to the consulting segment increased by approximately $2.4 million during 2005, as compared to 2004. This increase was due primarily to an increase in professional fees of $1.0 million and rent and rent-related costs of $0.8 million due to Castlewood s continued growth in the United Kingdom. Castlewood expects that general and administrative expenses attributable to the consulting segment will continue to increase in 2006 due to growth in its U.S. operations, continued growth in staff resources and additional costs associated with its reporting obligations as a public company if the merger is consummated.

General and administrative expenses attributable to the reinsurance segment decreased by approximately $2.1 million in 2005, as compared to 2004. This decrease was due primarily to a decrease in provisions for rent and rent related costs of $1.8 million relating to property based in London leased by River Thames. The provision was established based on the difference between the rent River Thames pays under its lease and what it was receiving for the sublease to a third party of the property. During 2005, the property, after expiration of the third-party sub-lease, was sublet to a related party for a higher rent which enabled River Thames to reduce its provision.

Foreign Exchange Gain/(Loss):

	Year Ended December 31,		
	2005	2004	Variance
	(in thousands of U.S. dollars)		
Consulting	$ (10)	$ 89	$ (99)
Reinsurance	(4,592)	3,642	(8,234)

Total	$ (4,602)	$ 3,731	$ (8,333)

Castlewood recorded a foreign exchange loss of $4.6 million for 2005, as compared to a foreign exchange gain of $3.7 million for 2004. The loss in the current year arose as a result of having surplus British Pounds and Euros at various points in the year. For 2004, the foreign exchange gain arose primarily as a result of surplus Swiss Franc cash balances that were acquired as a result of an acquisition. The 2005 and 2004 currency mismatches were addressed and corrected by converting the surplus foreign currency to U.S. Dollars at the time the mismatch was identified. As Castlewood s functional currency is the U.S. Dollar, it seeks to manage its exposure to foreign currency exchange by broadly matching foreign currency assets against foreign currency liabilities.

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Share of Income of Partly-Owned Companies:

	Year Ended December 31,		
	2005	2004	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	192	6,881	(6,689)
Total	$ 192	$ 6,881	$ (6,689)

Castlewood s share of equity in earnings of partly-owned companies for the years ended December 31, 2005 and 2004, was $0.2 million and $6.9 million, respectively. For 2005, this amount represents Castlewood s proportionate share of equity in the earnings of B.H. Acquisition and Cassandra. Included in 2004, in addition to earnings relating to B.H. Acquisition and Cassandra, is Castlewood s proportionate share of earnings of the JCF CFN Entities, a forty-percent owned equity investment that was disposed of in 2004.

Income Tax (Expense)/Recovery:

	Year Ended December 31,		
	2005	2004	Variance
	(in thousands of U.S. dollars)		
Consulting	$ (883)	$ (1,939)	$ 1,056
Reinsurance	(31)	15	(46)
Total	$ (914)	$ (1,924)	$ 1,010

Income taxes of $0.9 million and $1.9 million were recorded for the years ended December 31, 2005 and 2004, respectively. The income tax expense was incurred primarily on earnings of Castlewood s U.K. and U.S. subsidiaries.

Minority Interest:

	Year Ended December 31,		
	2005	2004	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	9,700	3,097	6,603
Total	$ 9,700	$ 3,097	$ 6,603

Castlewood recorded a minority interest in earnings of $9.7 million and $3.1 million in 2005 and 2004, respectively, reflecting the 49.9% minority economic interest held by a third party in the earnings from Hillcot.

Negative Goodwill:

	Year Ended December 31,		
	2005	**2004**	**Variance**
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	0	21,759	(21,759)
Total	$ 0	$ 21,759	$ (21,759)

Negative goodwill of $21.8 million was recorded for the year ended December 31, 2004. This amount represents the excess of the fair value of net assets acquired of $26.2 million over the cost of $4.4 million in relation to Castlewood s acquisition of Mercantile Indemnity Company Ltd., Harper Insurance Limited and Longmynd Insurance Company Ltd. The negative goodwill arose primarily as the result of a negotiated

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discount between the cost of acquisition and the fair value of net assets acquired for an acquisition where indemnities for aggregate adverse loss development were received. The aggregate adverse loss development indemnities provide coverage capped at the worst plausible loss and loss adjustment expense reserve levels. This excess has, in accordance with FAS 141 Business Combinations, been recognized as an extraordinary gain in 2004.

Comparison of the Year Ended December 31, 2004 and 2003

Castlewood reported consolidated net earnings of approximately $38.3 million in 2004 compared to approximately $30.6 million in 2003. The increase was primarily a result of an extraordinary gain of $21.8 million and higher investment income in 2004, partially offset by a substantial decrease in the change in net reduction in loss and loss adjustment expense liabilities and a substantial increase in salaries and benefit expense and general and administrative expenses.

Consulting Fees:

	Year Ended December 31,		
	2004	2003	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 32,992	$ 31,112	$ 1,880
Reinsurance	(9,289)	(6,366)	(2,923)
Total	$ 23,703	$ 24,746	$ (1,043)

Castlewood earned consulting fees of approximately $23.7 million and $24.7 million for the years ended December 31, 2004 and 2003, respectively. Included in these amounts were approximately $1.3 million in consulting fees charged to B.H. Acquisition, a partly-owned company, in both 2004 and 2003. The reduction in consulting fees during 2004 of $1.0 million was primarily due to the reduction of fixed fee engagements and the sale, in 2003, of Castlewood s captive management subsidiary, partially offset by an increase in incentive-based fee engagements.

Internal management fees of $9.3 million and $6.4 million were paid in 2004 and 2003, respectively, by Castlewood s reinsurance companies to its consulting companies. The increase in fees paid in 2004 by the reinsurance segment to the consulting segment was due to the acquisition of Harper Insurance Limited, or Harper, by Castlewood in 2004 and an increase in incentive-based fees.

Net Investment Income and Net Realized Gains/(Losses):

	Year Ended December 31,					
	Net Investment Income			Net Realized Gains/(Losses)		
	2004	2003	Variance	2004	2003	Variance
	(in thousands of U.S. dollars)					
Consulting	$ 460	$ 265	$ 195	$ 0	$ (862)	$ 862
Reinsurance	10,642	7,767	2,875	(600)	(98)	(502)

Total	$ 11,102	$ 8,032	$ 3,070	$ (600)	$ (960)	$ 360

Net investment income, for the years ended December 31, 2004 increased $3.1 million to $11.1 million, as compared to $8.0 million for the year ended December 31, 2003. The increase was attributable to the combination of the acquisition of Harper s investment portfolio of $526.6 million in October 2004 and the increase in the investment yield during 2004.

The average return on the cash and fixed maturities investments for the year ended December 31, 2004 was 2.1%, as compared to the average return of 1.9% for the year ended December 31, 2003. The increase in yield was primarily the result of increasing interest rates in 2004. The weighted average Standard & Poor s credit rating of Castlewood s fixed income investments at December 31, 2004 was AAA–.

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Net realized losses for the year ended December 31, 2004 decreased by $0.4 million to $0.6 million, as compared to a net realized loss of $1.0 million for the year ended December 31, 2003. Based on Castlewood s current investment strategy, Castlewood does not expect net realized gains and losses to be significant in the foreseeable future.

Net Reduction in Loss and Loss Adjustment Expense Liabilities:

Net reduction in loss and loss adjustment expense liabilities for the years ended December 31, 2004 and 2003 were $13.7 million and $24.0 million, respectively. In 2004, the estimate of net ultimate losses increased by $1.0 million primarily as a result of adverse development of incurred asbestos and environmental losses partially offset by completing approximately 36 commutations of assumed and ceded exposures and settlement of losses below carried reserves. In 2003, the estimate of net ultimate losses reduced by $13.6 million as a result of the completion of 13 commutations of assumed and ceded exposures, the settlement of losses below carried reserves and the resulting reductions in actuarial estimates of IBNR losses. During 2004, Castlewood reduced its estimate of loss adjustment expense liabilities by $14.7 million to reflect 2004 run-off activity compared to a reduction of $10.4 million in 2003. The higher reduction in 2004 was due to the re-estimate of the ultimate cost and length of time by which management expects to conclude the run-off of liabilities of Hillcot, which was acquired by Castlewood in March 2003.

The following table shows the components of the movement in net reduction in loss and loss adjustment expense liabilities for the years ended December 31, 2004 and 2003.

	Year Ended December 31,	
	2004	2003
	(in thousands of U.S. dollars)	
Net Losses Paid	$ (19,019)	$ (4,094)
Net Change in Case and LAE Reserves	33,745	9,946
Net Change in IBNR	(1,020)	18,192
Net Reduction in Losses and Loss Adjustment Expense Liabilities	$ 13,706	$ 24,044

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the years ended December 31, 2004 and 2003. Losses incurred and paid are reflected net of reinsurance receivables.

	Year Ended December 31,	
	2004	2003
	(in thousands of U.S. dollars)	
Net Reserves for Losses and Loss Adjustment Expenses, January 1	$ 230,155	$ 184,518
Incurred Related to Prior Years	(13,706)	(24,044)
Paids Related to Prior Years	(19,019)	(4,094)
Effect of Exchange Rate Movement	4,124	10,575
Acquired on Acquisition of Subsidiaries	535,106	63,200

Net Reserves for Losses and Loss Adjustment Expenses, December 31	$ 736,660	$ 230,155

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Salaries and Benefits:

	Year Ended December 31,		
	2004	2003	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 20,312	$ 12,234	$ (8,078)
Reinsurance	5,978	3,427	(2,551)
Total	$ 26,290	$ 15,661	$ (10,629)

Salaries and benefits, which include accrued bonuses, were $26.3 million and $15.7 million for the years ended December 31, 2004 and 2003, respectively. This increase was due to the combination of increased staff costs of $3.6 million due to an increase in employee headcount from 106 to 124 from December 31, 2003 to December 31, 2004, and $7.0 million of expense relating to Castlewood s discretionary bonus and employee share plans. The employee share plan was implemented in August 2004 with a portion of the awards being vested at the date of the grant and the associated employee compensation expense was accounted for using the intrinsic value method under APB Opinion No. 25. In 2004 and 2003, the total costs associated with both plans were $10.1 million and $3.1 million, respectively. The salary costs for the reinsurance segment relate to the discretionary bonus plan and equal 15% of after-tax income earned by the reinsurance segment.

General and Administrative Expenses:

	Year Ended December 31,		
	2004	2003	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 6,874	$ 6,821	$ (53)
Reinsurance	3,803	172	(3,631)
Total	$ 10,677	$ 6,993	$ (3,684)

General and administrative expenses attributable to the consulting segment decreased by approximately $0.1 million during 2004, as compared to 2003.

General and administrative expenses attributable to the reinsurance segment increased by approximately $3.6 million in 2004, as compared to 2003. The 2003 general and administrative expenses included the release of an accrued pension liability of $3.1 million. This provision was established prior to Castlewood completing the acquisition of the company. In late 2003, Castlewood received confirmation from the pension actuary that the pension was fully funded and that there would not be any future shortfall that would have to be funded by Castlewood.

Foreign Exchange Gain/(Loss):

	Year Ended December 31,

	2004	2003	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 89	$ 219	$ (130)
Reinsurance	3,642	2,143	1,499
Total	$ 3,731	$ 2,362	$ 1,369

Castlewood recorded foreign exchange gains of $3.7 million and $2.4 million for the years ended December 31, 2004 and 2003, respectively. The foreign exchange gain in 2004 arose primarily as a result of surplus Swiss Franc cash balances that were acquired as a result of an acquisition. For 2003, the gain was attributable to Castlewood s British Pound denominated available-for-sale investment portfolio. The 2004 and 2003 currency mismatches were addressed and corrected by converting the surplus Swiss Franc and British Pounds to U.S. Dollars at the time the mismatch was identified. As Castlewood s functional currency is the

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U.S. Dollar, it seeks to manage its exposure to foreign currency exchange by broadly matching currency assets against foreign currency liabilities.

Share of Income of Partly-Owned Companies:

	Year Ended December 31,		
	2004	2003	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	6,881	1,623	5,258
Total	$ 6,881	$ 1,623	$ 5,258

Castlewood s share of equity in earnings of partly-owned companies for the years ended December 31, 2004 and 2003, was $6.9 million and $1.6 million, respectively. For 2004 and 2003, this amount represents Castlewood s proportionate share of equity in the earnings of B.H. Acquisition and the JCF CFN Entities.

Income Tax (Expense)/Recovery:

	Year Ended December 31,		
	2004	2003	Variance
	(in thousands of U.S. dollars)		
Consulting	$ (1,939)	$ (1,490)	$ (449)
Reinsurance	15	0	15
Total	$ (1,924)	$ (1,490)	$ (434)

Income taxes of $1.9 million and $1.5 million were recorded for the years ended December 31, 2004 and 2003, respectively. This income tax expense was incurred on earnings of Castlewood s U.K. and U.S. subsidiaries.

Minority Interest:

	Year Ended December 31,		
	2004	2003	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	3,097	5,111	(2,014)
Total	$ 3,097	$ 5,111	$ (2,014)

Castlewood recorded a minority interest in earnings of $3.1 million and $5.1 million in 2004 and 2003, respectively, reflecting the 49.9% minority economic interest held by a third party in the earnings from Hillcot.

Negative Goodwill:

	Year Ended December 31,		
	2004	2003	Variance
	(Unaudited)		
	(in thousands of U.S. dollars)		
Consulting	$ 0	$ 0	$ 0
Reinsurance	21,759	0	21,759
Total	$ 21,759	$ 0	$ 21,759

Negative goodwill of $21.8 million was recorded for the year ended December 31, 2004. This amount represents the excess of the fair value of net assets acquired of $26.2 million over the cost of $4.4 million in relation to Castlewood s acquisition of Mercantile Indemnity Company Ltd., Harper Insurance Limited and Longmynd Insurance Company Ltd. The negative goodwill arose primarily as the result of a negotiated

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discount between the cost of acquisition and the fair value of net assets acquired for an acquisition where indemnities for aggregate adverse loss development were received. The aggregate loss development indemnities provide coverage capped at worst possible loss and loss adjustment expenses reserve levels. This excess has, in accordance with FAS 141 Business Combinations, been recognized as an extraordinary gain in 2004.

Liquidity and Capital Resources

As Castlewood is a holding company and has no substantial operations of its own, its assets consist primarily of its investments in subsidiaries. The potential sources of the cash flows to the holding company consist of dividends, advances and loans from its subsidiary companies.

Castlewood s future cash flows depend upon the availability of dividends or other statutorily permissible payments from Castlewood s subsidiaries. The ability to pay dividends and make other distributions is limited by the applicable laws and regulations of the jurisdictions in which Castlewood s insurance and reinsurance subsidiaries operate, including Bermuda, The United Kingdom, Belgium, Luxembourg and Switzerland, which subject these subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, some of Castlewood s insurance and reinsurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends and other payments that these subsidiaries can pay to Castlewood, which in turn may limit Castlewood s ability to pay dividends and make other payments. As of December 31, 2005 and 2004, the insurance and reinsurance subsidiaries solvency and liquidity were in excess of the minimum levels required. Retained earnings of Castlewood s insurance and reinsurance subsidiaries are not currently restricted as minimum capital solvency margins are covered by share capital and additional paid-in-capital. However, as of both December 31, 2005 and 2004, retained earnings of $8.5 million of one of B.H. Acquisition s subsidiaries requires regulatory approval prior to distribution. B.H. Acquisition will become a wholly-owned subsidiary of Castlewood following the recapitalization and the merger.

Castlewood s capital management strategy is to preserve sufficient capital to enable it to make future acquisitions while maintaining a conservative investment strategy. Castlewood believes that restrictions on liquidity resulting from restrictions on the payments of dividends by Castlewood s subsidiary companies will not have a material impact on Castlewood s ability to meet its cash obligations.

Castlewood s sources of funds primarily consist of the cash and investment portfolios acquired on the completion of the acquisition of an insurance or reinsurance company in run-off. These acquired cash and investment balances are classified as cash provided by investing activities. Castlewood will use these funds acquired, together with collections from reinsurance debtors, consulting income, investment income and proceeds from sales and redemption of investments, to pay losses and loss expenses, salaries and benefits and general and administrative expenses, with the remainder used for acquisitions, additional investments and, in the past, for dividend payments to shareholders. Castlewood expects that its reinsurance segment will have a net use of cash from operations as total net claim settlements and operating expenses will generally be in excess of investment income earned. Castlewood expects that its consulting segment operating cash flows will generally be breakeven. Castlewood expects its operating cash flows, together with its existing capital base and cash and investments acquired on the acquisition of its insurance and reinsurance subsidiaries, to be sufficient to meet cash requirements and to operate its business going forward. Castlewood does not intend to pay cash dividends on its ordinary shares following the merger.

Castlewood maintains a short duration conservative investment strategy whereby 77.1% of its invested assets are held with a maturity of less than one year and 97.0% have maturities of less than five years. Excluding the impact of commutations, Castlewood expects that approximately 11% of the net reserves are expected to be settled within one year and approximately 41% of the reserves settled within five years. However, Castlewood s strategy of commuting its liabilities has the potential to accelerate the natural payout of losses to less than five years. Therefore, the relatively short-duration investment portfolio is maintained in order to provide liquidity for commutation

opportunities and preclude Castlewood from having to liquidate longer dated securities thereby allowing Castlewood to maintain its fixed income securities on a held-to-maturity basis. As such, Castlewood does not anticipate having to sell longer dated investments in order to meet future policyholder liabilities. However, if Castlewood had to sell a portion of its held-to-maturity

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portfolio to meet policyholder liabilities it would, at that point, amend the classification of the held-to-maturity portfolio to that of an available-for-sale portfolio. This reclassification would require the investment portfolio to be recorded at market value as opposed to amortized cost. As at June 30, 2006 such a reclassification would result in a reduction in the value of Castlewood s cash and investments of $7.6 million, reflecting the unrealized loss position of the held to maturity portfolio as at June 30, 2006.

At December 31, 2005, total cash and investments were $884.9 million, compared to $942.1 million at December 31, 2004. The decrease of $57.2 million was primarily due to an increase of paid losses of $69.5 million, relating to Harper, one of Castlewood s reinsurance subsidiaries. Harper was acquired on October 29, 2004 and the 2005 loss payments reflect a full year of Castlewood owning Harper. This was offset by the combination of investment income earned of $28.2 million and cash acquired on acquisition of a subsidiary of $18.0 million less a payment of $22 million in final settlement of distribution rights from certain acquired companies.

At December 31, 2004, total cash and investments were $942.1 million, compared to $395.6 million at December 31, 2003. The increase of $546.5 million was primarily due to the acquisition by Castlewood of Harper s cash and investments of $526.6 million.

Source of Funds

Castlewood primarily generates its cash from the acquisitions it completes. These acquired cash and investment balances are classified as cash provided by investing activities.

Castlewood expects that for the reinsurance segment there will be a net use of cash from operations, due to total claim settlements and operating expenses being in excess of investment income earned, and that for the consulting segment operating cash flows will be breakeven. As a result, the net operating cash flows for Castlewood are expected to be negative as it pays out cash in claims settlements and expenses in excess of cash generated via investment income and consulting fees.

Operating

Net cash provided by operating activities for the six-month period ended June 30, 2006 was $15.4 million compared to $34.9 million for the six-month period ended June 30, 2005. This decrease in cash flows is primarily attributable to funds realized of $76.7 million for the six-month period ended June 30, 2005 (for the same period in 2006 there was none) on the sale of trading securities in 2005 offset by a reduction in net paid losses in the first six months of 2006 compared to the same period in 2005 (net losses paid in the six months ended June 30, 2006 were $12.0 million compared to $42.5 million for the six months ended June 30, 2005) along with higher investment and consulting income for the six months ended June 30, 2006 as compared to the same period in 2005.

Net cash (used in) provided by operating activities for the year ended December 31, 2005 was $(6.3) million compared to $0.9 million for the year ended December 31, 2004. An increase in net losses paid of $50.0 million offset by the funds realized on the sale of trading securities was the main source for the year over year decrease. Net loss payments made in the year ended December 31, 2005 were $69.0 million compared to $19.0 million for the year ended December 31, 2004.

During 2004 Castlewood, through a subsidiary, acquired Harper Insurance Limited, or Harper (formerly Turegum Insurance Company). As part of the acquisition, Castlewood acquired Harper s fixed income portfolio. Upon completion of the acquisition, Harper s fixed income investment portfolio was reviewed by management, taking into account Castlewood s run-off strategy for Harper s liabilities. Fixed income maturities were selected to provide, together with the short-term cash investments, sufficient cash flow to fund expected claims payments, while

maximizing interest income. As a result of this analysis, Castlewood classified certain fixed income securities as held to maturity. Fixed income securities that were not part of Castlewood s run-off strategy were classified as trading as management intended to sell these securities in the near term. The securities designated as trading were completely sold in the first quarter of 2005.

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Investing

Investing cash flows consist primarily of cash acquired and used on acquisitions and proceeds on the sale of investments and payments for investments acquired. Net cash provided by investing activities was $207.4 million during the six months ended June 30, 2006 compared to $3.4 million during the six months ended June 30, 2005. The increase in the current period was due to an increase in cash balances acquired on the purchase of subsidiaries along with proceeds from the sale and maturity of investments held by Castlewood.

Net cash (used) provided by investing activities during the year ended December 31, 2005 was $(14.1) million as compared to $197.0 million during the year ended December 31, 2004. The decrease for 2005 was attributable to the decrease in cash available to be invested due to increase in cash requirements to pay losses along with a reduction in cash acquired on acquisitions in 2005 as compared to 2004. Net cash provided by investing activities during the year ended December 31, 2004 was $197.0 million as compared to $40.8 million during 2003.

Financing

Net cash used in financing activities was $41.2 million during the six months ended June 30, 2006 compared to $0.8 million during the six months ended June 30, 2005. The increase in cash used in financing activities for Castlewood was primarily attributable to the combination of redemption of shares, dividends paid and repayment of bank and vendor loans offset by capital contributions by the minority interest shareholder of a subsidiary.

Net cash used in financing activities was $0.8 million during the year ended December 31, 2005 compared to $12.4 million for the year ended December 31, 2004. The cash used for both years was exclusively for distributions to shareholders. Net cash used by financing activities was $12.4 million during the year ended December 31, 2004 compared to $29.3 million for the year ended December 31, 2003. For 2003 cash of $66.8 million was returned to shareholders and $37.5 million was contributed by shareholders and minority interests.

At December 31, 2005, Castlewood s investments included $296.6 million in a fixed income portfolio that is classified as held-to-maturity, compared to $228.2 million at December 31, 2004. The maturity distribution of this portfolio as of December 31, 2005 and 2004 was as follows:

	2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within 1 year	$ 81,552	$ 80,886	$ 59,250	$ 59,069
After 1 through 5 years	181,826	178,152	121,213	120,222
After 5 through 10 years	15,170	14,887	7,323	7,262
After 10 years	18,036	17,345	40,446	40,118
	$ 296,584	$ 291,270	$ 228,232	$ 226,671

Long-Term Debt

On April 12, 2006, Castlewood, through Hillcot, entered into a facility loan agreement for $44.4 million with an international bank. On April 13, 2006, Hillcot drew down $44.4 million from the facility, the proceeds of which were used to repay shareholder funds advanced for the acquisition of Aioi Europe. The interest rate on the facility is LIBOR

plus 2% and the facility is repayable within 4 years. The facility is secured by a first charge over Hillcot s shares in Aioi Europe together with a floating charge over Hillcot s assets. On May 5, 2006, Hillcot repaid $25.2 million of the principal, plus accumulated interest, leaving $19.2 million of the facility outstanding.

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Aggregate Contractual Obligations

The following table shows Castlewood s aggregate contractual obligations by time period remaining to due date as of December 31, 2005:

Payments due by period

	Total	< 1 year	1-3 Years	3-5 Years	> 5 Years
			(Dollars in millions)		
Contractual Obligations					
Investment commitments	$ 83.2	$ 15.8	$ 57.4	$ 9.2	$ 0.8
Operating lease obligations	4.7	1.4	1.6	0.7	1.0
Gross reserves for losses and loss expenses	806.6	86.8	137.8	108.2	473.8
	$ 894.5	$ 104.0	$ 196.8	$ 118.1	$ 475.6

The amounts included for net reserve for losses and loss adjustment expenses reflect the estimated timing of expected loss payments on known claims and anticipated future claims. Both the amount and timing of cash flows are uncertain and do not have contractual payout terms. For a discussion of these uncertainties, see Critical Accounting Policies Loss and Loss Adjustment Expenses beginning on page 122. Due to the inherent uncertainty in the process of estimating the timing of these payments, there is a risk that the amounts paid in any period will differ significantly from those disclosed. Total estimated obligations will be funded by existing cash and investments.

Off-Balance Sheet Arrangements

As of June 30, 2006, Castlewood did not have any off-balance sheet arrangements.

Commitments

In 2005, Castlewood made a capital commitment of up to $10 million in GSC European Mezzanine Fund II, L.P., or the GCS Fund. The GSC Fund invests in mezzanine securities of middle and large market companies throughout Western Europe. As of December 31, 2005, the capital contributed to the GSC Fund was $1.8 million with the remaining of the commitment being $8.2 million.

In June 2006, the commitment of Castlewood to invest up to $75.0 million in J.C. Flowers II, L.P., or the Flowers Fund, was accepted by the Flowers Fund. Castlewood intends to use cash on hand to fund this commitment. The Flowers Fund is a private investment fund for which JCF Associates II L.P. is the general partner and J.C. Flowers & Co. LLC is the investment advisor. JCF Associates II L.P. and J.C. Flowers & Co. LLC are controlled by Mr. Flowers. No fees or other compensation will be payable by Castlewood to the Flowers Fund, JCF Associates II L.P., J.C. Flowers & Co. LLC, or Mr. Flowers in connection with this investment. John J. Oros, who will be New Enstar s Executive Chairman and a member of its board of directors, is a managing director of J.C. Flowers & Co. LLC. Mr. Oros will split his time between J.C. Flowers & Co. LLC and New Enstar.

Quantitative and Qualitative Information about Market Risk

Interest Rate Risk

Castlewood is exposed to interest rate risk on its investments in mutual funds. Castlewood has calculated the effect that an immediate parallel shift in the U.S. interest rate yield curve would have on its cash and investments at December 31, 2005. The modeling of this effect was performed on Castlewood s mutual funds as a shift in the yield curve would not have an impact on its fixed income investments classified as held to

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maturity as they are carried at purchase cost adjusted for amortization of premiums and discounts. The results of this analysis are summarized in the table below.

Interest Rate Movement Analysis on Market Value of Mutual Funds

	Interest Rate Shift in Basis Points				
	−100	**−50**	**0**	**+50**	**+100**
	(in thousands of U.S. dollars)				
Total Market Value	$ 217,913	$ 217,266	$ 216,624	$ 215,988	$ 215,357
Market Value Change from Base	0.60%	0.3%	0.0%	(0.29)%	0.59%
Change in Unrealized Value	$ 1,289	$ 642	$ 0	$ (636)	$ (1,267)

As a holder of fixed income securities and mutual funds, Castlewood also has exposure to credit risk. In an effort to minimize this risk, its investment guidelines have been defined to ensure that the fixed income held to maturity portfolio is invested in high-quality securities. At December 31, 2005, approximately 95.8% of Castlewood s fixed income held to maturity portfolio was rated AA-or better by Standard & Poor s.

At December 31, 2005, reinsurance receivables of $164.3 million were associated with a single reinsurer which represented 65.7% of reinsurance balances receivable. This reinsurer is rated A by Standard & Poor s. In the event that all or any of the reinsuring companies are unable to meet their obligations under existing reinsurance agreements, Castlewood will be liable for such defaulted amounts.

Effects of Inflation

Castlewood does not believe that inflation has had a material effect on its consolidated results of operations. Loss reserves are established to recognize likely loss settlements at the date payment is made. Those reserves inherently recognize the anticipated effects of inflation. The actual effects of inflation on Castlewood s results cannot be accurately known, however, until claims are ultimately resolved.

Foreign Currency Risk

Through its subsidiaries, Castlewood conducts business in a variety of non-U.S. currencies, the principal exposures being in Euros and British pounds. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. As Castlewood s functional currency is the U.S. Dollar, exchange rate fluctuations may materially impact Castlewood s results of operations and financial position. Castlewood currently does not use foreign currency hedges to manage its foreign currency exchange risk. With the exception of its $20.4 million Euro denominated investment in New NIB Partners LP, Castlewood manages its exposure to foreign currency exchange risk by broadly matching its non-U.S. Dollar denominated assets against its non-U.S. Dollar denominated liabilities. This matching process is done quarterly in arrears and therefore any mismatches occurring in the period may give rise to foreign exchange gains and losses, which could adversely affect its operating results.

The table below summarizes Castlewood s gross and net exposure as at June 30, 2006 to foreign currencies (in millions of U.S. dollars):

	GPB	**Euro**	**Cdn**	**Other**	**Total**

Total Assets	$ 209.7	$ 86.9	$ 3.2	$ 53.3	$ 353.1
Total Liabilities	188.6	73.3	1.9	49.3	313.1
Net Foreign Currency Exposure	$ 21.1	$ 13.6	$ 1.3	$ 4.0	$ 40.0

Excluding any tax effects, as of June 30, 2006, a 10% change in the U.S. Dollar relative to the other currencies held by Castlewood would have resulted in a $4.0 million change in the net assets held by Castlewood. Subsequent to June 30, 2006, the above Net Foreign Currency exposures were eliminated with the exception of Castlewood s 20.4 million Euro denominated investment in New NIB Partners LP as Castlewood has decided to retain the currency exposure with respect to this investment.

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INFORMATION ABOUT ENSTAR

Enstar is a publicly traded Georgia corporation engaged in the operation of several partially-owned affiliates in financial services businesses. Enstar also continues its active search for one or more additional operating businesses which meet its acquisition criteria. Through the operations of its partially-owned affiliates, Castlewood and B.H. Acquisition, and their subsidiaries, Enstar acquires and manages insurance and reinsurance companies in run-off. The management of these businesses includes claims administration, adjustment and settlement together with the collection of reinsurance recoveries.

Enstar Executive Officers

Certain information concerning the executive officers of Enstar is set forth below:

Name	Age	Position	Executive Officer Since
Nimrod T. Frazer	76	Director, Chairman of the Board and Chief Executive Officer	1990
John J. Oros	59	Director, President and Chief Operating Officer	2000
Cheryl D. Davis	46	Chief Financial Officer, Vice President of Corporate Taxes and Secretary	1991
Amy M. Dunaway	49	Treasurer and Controller	1991

Mr. Frazer is Chairman of the Board and Chief Executive Officer of Enstar. Mr. Frazer was named Chairman of the Board, Acting President and Chief Executive Officer on October 26, 1990 and served as President from May 26, 1992 to June 6, 2001.

Mr. Oros was named Executive Vice President of Enstar in March of 2000, and President and Chief Operating Officer of Enstar on June 6, 2001. Before joining Enstar, Mr. Oros was an investment banker at Goldman, Sachs & Co. in the Financial Institutions Group. Mr. Oros joined Goldman, Sachs & Co. in 1980, and was made a General Partner in 1986. Mr. Oros resigned from Goldman Sachs & Co. in March 2000 to join Enstar. In February 2006, Mr. Oros became a Managing Director of J.C. Flowers & Co. LLC, which serves as investment advisor to J.C. Flowers II L.P., a newly-formed private equity fund affiliated with J. Christopher Flowers. Mr. Oros splits his time between J.C. Flowers & Co. LLC and Enstar.

Ms. Davis was named Chief Financial Officer and Secretary of Enstar in April of 1991 and Vice President of Corporate Taxes of Enstar in 1989. Ms. Davis has been employed with Enstar since April of 1988.

Ms. Dunaway was named Treasurer and Controller of Enstar in April of 1991. Ms. Dunaway has been employed with Enstar since September of 1990.

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Executive Compensation Enstar Executive Officers

The following sets forth summary information concerning the compensation paid by Enstar to Messrs. Frazer and Oros and Mlles. Davis and Dunaway during the last three fiscal years.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	**Year**	**Salary ($)(1)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Securities Underlying Options**	**All Other Compensation ($)**
Nimrod T. Frazer	2005	$ 350,000				$ 2,892(2)
Chairman of the Board	2004	$ 363,462				$ 2,655(2)
and Chief Executive Officer	2003	$ 347,308			60,000	$ 2,632(2)
John J. Oros	2005	$ 350,000				$ 51,350(3)
President and Chief	2004	$ 363,462				$ 50,373(3)
Operating Officer	2003	$ 347,308			100,000	$ 9,201(3)
Cheryl D. Davis	2005	$ 175,000				$ 12,358(4)
Chief Financial Officer,	2004	$ 181,731				$ 11,125(4)
Vice-President of Corp.	2003	$ 174,665				$ 10,101(4)
Taxes and Secretary						
Amy M. Dunaway	2005	$ 103,000				$ 11,856(4)
Treasurer and Controller	2004	$ 106,962				$ 10,942(4)
	2003	$ 102,796				$ 10,281(4)

(1) Base salaries for executive officers have not changed since 2003. However, the amounts paid vary based upon the number of pay periods during the year.

(2) Amount shown represents premiums paid by Enstar for health and dental insurance for Mr. Frazer.

(3) Amount shown represents premiums paid by Enstar for health and dental insurance for Mr. Oros, and for 2004 and 2005, excess of expense allowance over actual expenses paid to Mr. Oros.

(4) Amounts shown for Mlles. Davis and Dunaway are for premiums paid by Enstar for term life insurance and health and dental insurance.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option Values

None of the executive officers of Enstar exercised any stock options during 2005. The table below shows the number of shares of Enstar common stock covered by both exercisable and unexercisable stock options held by the executive officers of Enstar as of December 31, 2005. The table also reflects the values for in-the-money options based on the

positive spread between the exercise price of such options and the last reported sale price of the Enstar common stock on December 31, 2005 of $66.25 per share.

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at December 31, 2005 (#) Exercisable	Unexercisable	Value of Unexercised In-The-Money Options at December 31, 2005 ($) Exercisable	Unexercisable
Nimrod T. Frazer			280,000	30,000	$ 13,912,500	$ 787,500
John J. Oros			250,000	50,000	$ 11,425,000	$ 1,312,500
Cheryl D. Davis						
Amy M. Dunaway						

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Equity Compensation Plan Information

The following summarizes Enstar s equity compensation plans as of December 31, 2005.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by shareholders(1)	725,000	$ 20.47	52,500
Equity compensation plans not approved by shareholders(2)	N/A(3)	N/A(3)	27,908
Total	725,000	$ 20.47	80,408

(1) Equity compensation plans approved by Enstar shareholders are the 2001 Outside Directors Stock Plan, the 1997 Amended Outside Directors Stock Option Plan, the 1997 Amended CEO Stock Option Plan, and the 1997 Amended Omnibus Incentive Plan.

(2) Equity compensation plans not approved by Enstar shareholders are the Deferred Compensation and Stock Plan for Non-Employee Directors and two stock purchase agreements entered into by Enstar with Messrs. Frazer and Oros in June 2001 to sell a total of 200,000 shares (100,000 per individual) of Enstar common stock to Messrs. Frazer and Oros.

(3) Excludes a total of 34,936 stock units granted to non-employee directors under the Deferred Compensation and Stock Plan for Non-Employee Directors and the 200,000 shares of Enstar common stock purchased by Messrs. Frazer and Oros pursuant to the stock purchase agreements referenced in note 2 above.

Enstar Compensation Committee Interlocks

Mr. Flowers served on Enstar s Compensation Committee until June 2005. As described in the section Certain Relationships and Related Transactions beginning on page 178, Mr. Flowers and Enstar have entered into numerous transactions, directly and indirectly. Enstar believes that the terms of such transactions are no less favorable to Enstar than would have been the case had such transactions been consummated with unrelated parties.

No member of the compensation committee of Enstar s board of directors is or was during 2005 an employee, or is or ever has been an officer, of Enstar or its subsidiaries, except for Mr. Flowers who served as Enstar s Chairman from October 2001 to June 2003. No executive officer of Enstar served as a director or a member of the compensation committee of another company, one of whose executive officers serves as a member of Enstar s board of directors or compensation committee.

Report of Enstar Compensation Committee

The Compensation Committee of Enstar s board of directors, or the Compensation Committee, was created in 1996 and currently consists of Messrs. Davis, Armstrong and Curl. The Compensation Committee is responsible for (i) establishing the compensation of the executive officers of Enstar, upon the recommendation of the Chief Executive Officer (with the exception of the compensation of the Chief Executive Officer) and (ii) considering the issuance of stock options for executive officers and directors. Mr. Frazer, Enstar s Chief Executive Officer, is responsible for recommending to the Compensation Committee the compensation for the other executive officers of Enstar. The Compensation Committee has reviewed the applicability of section 162(m) of the Code. Section 162(m) may in certain circumstances deny a federal income tax deduction for compensation to an executive officer that is in excess of $1 million per year. Because the Compensation Committee has determined that the compensation for all executive officers for 2006 will remain the same as for 2005, it is not anticipated that compensation to any executive officer of Enstar during 2006 will exceed the $1 million threshold.

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Compensation Policy and Overall Objectives. Enstar s executive compensation policy is designed to attract, retain and motivate executive officers needed to achieve Enstar s strategic objectives and to maximize Enstar s performance and shareholder value.

Enstar supports these goals through a compensation strategy principally involving competitive salaries and long-term incentive opportunities. Compensation consists of both fixed pay elements (base salary and benefits) and long-term incentives to encourage and reward distinctive contributions to the success of the organization. Salary and benefit levels reflect position responsibilities and strategic importance and are targeted at market median base salary levels. Total cash compensation has been below market median levels because Enstar has not paid annual bonuses. Long-term incentive opportunities reward key executives for financial and non-financial performance that enhances shareholder value. Long-term incentive opportunities have been at or above market median levels.

In 1997, Enstar retained an independent compensation consulting firm to assist it in analyzing its executive compensation program. The consulting firm recommended that Enstar adopt a policy of providing a significant percentage of certain executive officers total compensation based on Enstar s performance. In addition, the consultant provided the Compensation Committee with an analysis of senior executive compensation using published survey data for the financial services industry. In 2003, the Compensation Committee again retained an independent compensation consulting firm, which provided it with an updated analysis of senior executive compensation using published industry data. The Compensation Committee considered these recommendations and the compensation analyses in establishing the base salaries for Enstar s Chief Executive Officer, the Chief Operating Officer and the other executive officers for 2005. The base salaries for Enstar s Chief Executive Officer, Chief Operating Officer and other executive officers have not changed since 2003.

Base Salary. Each executive officer s base salary, including Mr. Frazer s base salary, is determined based upon a number of factors including the executive officer s responsibilities, contribution to the achievement of Enstar s business plan goals, demonstrated leadership skills and overall effectiveness and length of service. Base salaries are also designed to be competitive with those offered in the various markets in which Enstar competes for executive talent and are analyzed with a view towards desired base salary levels over a three-year to five-year time period. Although these and other factors are considered in setting base salaries, no specific weight is given to any one factor.

Cash Bonuses. Enstar did not pay any cash bonuses to its executive officers during 2005.

Long-Term Incentives. Long-term incentives are provided pursuant to the 2001 Outside Directors Stock Plan, the 1997 Amended Outside Directors Stock Option Plan, the 1997 Amended CEO Stock Option Plan, the 1997 Amended Omnibus Incentive Plan and the Deferred Compensation and Stock Plan for Non-Employee Directors. Stock option plans are designed to encourage and reward distinctive contributions to Enstar s success and to align executives and shareholders interest in the enhancement of shareholder value. Stock options are used by Enstar to encourage long-term service by executives. No stock options were granted to the executive officers of Enstar in 2005.

Severance and Employment Agreements. The Compensation Committee approved severance agreements for Nimrod T. Frazer, Cheryl D. Davis and Amy M. Dunaway in March 1998, or the Severance Agreements. The Severance Agreements provide that Nimrod T. Frazer, Cheryl D. Davis and Amy M. Dunaway will receive their base salary for a period of twelve months following a termination of employment, other than for cause, as defined in the Severance Agreements, or a voluntary termination.

The Compensation Committee also approved an employment agreement with John J. Oros in March 2000, or the Employment Agreement. The Employment Agreement provides for an initial one-year term and automatic renewal for successive one-year terms thereafter, subject to earlier termination as provided in the Employment Agreement. The Employment Agreement provides an annual base salary to Mr. Oros to be determined by the board of directors and

reimbursement of up to $50,000 annually for office-related expenses incurred by Mr. Oros in connection with the performance of his duties with Enstar. The Employment Agreement also provides that the board of directors may award to Mr. Oros such bonuses, and in such amounts, as the board of directors shall determine in its sole discretion. In fiscal 2005, Mr. Oros received an

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annual base salary of $350,000. In determining Mr. Oros compensation for 2006, the Compensation Committee specifically considered that, beginning in February 2006, Mr. Oros was employed by, and devoting time to, J.C. Flowers & Co. LLC. Nevertheless, given that his priorities remain with Enstar, the overlapping nature of his duties, and the significant value that Mr. Oros brings to Enstar, the Compensation Committee determined that Mr. Oros compensation should remain unchanged.

Chief Executive Officer Compensation. Mr. Frazer does not have an employment agreement with Enstar. The Compensation Committee is responsible for determining Mr. Frazer s compensation annually. In fiscal 2005, Mr. Frazer received an annual base salary of $350,000. Mr. Frazer s base salary was based on, among other things, his responsibilities, his length of service, his contributions to the business and his overall leadership skills.

Enstar s Compensation Committee:

T. Wayne Davis, Chairman
T. Whit Armstrong
Gregory L. Curl

The foregoing report should not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement/prospectus into any filing under the Securities Act or the Exchange Act, except to the extent that Enstar specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

Enstar Audit Committee Report

Enstar s Audit Committee is responsible for, among other things, appointing (subject to shareholder ratification) the accounting firm that will serve as independent auditors for Enstar and reviewing and pre-approving all audit and non-audit services provided to Enstar by its independent auditors. Enstar s Audit Committee is also responsible for overseeing Enstar s financial reporting and accounting practices and monitoring the adequacy of internal accounting, compliance and control systems. Management is responsible for Enstar s system of internal controls, the financial reporting process and the assessment of the effectiveness of internal controls over financial reporting. The independent auditors are responsible for reviewing Enstar s quarterly financial statements, for expressing an opinion on the conformity of the audited financial statements with accounting principles generally accepted in the United States and for issuing reports and opinions on the operating effectiveness of Enstar s internal controls over financial reporting and management s assessment of the effectiveness of Enstar s internal controls over financial reporting.

Members of Enstar s Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the opinions and communications of Enstar s independent auditors. Accordingly, the Audit Committee s review does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s activities do not ensure that the audit of Enstar s financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with accounting principles generally accepted in the United States or that Enstar s independent auditors are in fact independent.

In fulfilling its responsibilities:

> Enstar s Audit Committee reviewed and discussed the audited financial statements, including management s report on internal controls over financial reporting, contained in the 2005 Annual Report on Form 10-K with Enstar s management and the independent auditors prior to the filing of the Form 10-K with the Commission.

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Enstar s Audit Committee reviewed and discussed the unaudited financial statements contained in Enstar s Quarterly Reports on Form 10-Q for each of the quarters ended in 2005 with Enstar s management and the independent auditors prior to the filing thereof with the Commission.

Enstar s Audit Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees) and Rule 2-07 of Regulation S-X.

Enstar s Audit Committee received from the independent auditors written disclosures regarding the auditors independence, as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and discussed with the auditors their independence from Enstar and its management.

In reliance on the reviews and discussions noted above and subject to the limitations set forth above, Enstar s Audit Committee approved the inclusion of the audited financial statements and management s report on internal controls over financial reporting in Enstar s Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Commission.

Enstar s Audit Committee:

T. Whit Armstrong, Chairman
T. Wayne Davis
Gregory L. Curl
Paul J. Collins

The foregoing report should not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement/prospectus into any filing under the Securities Act or the Exchange Act, except to the extent that Enstar specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

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Enstar Stock Performance Graph

The graph below reflects the cumulative shareholder return (assuming the reinvestment of dividends) on Enstar common stock compared to the return on the Center for Research in Security Prices Total Return Index for the Nasdaq Stock Market (U.S. Companies), or the Nasdaq Composite, U.S., and Enstar s peer group index, or the Peer Group Index, for the periods indicated. The graph reflects the investment of $100.00 on December 31, 2000 in Enstar common stock, the Nasdaq Composite, U.S., and the Peer Group Index. The Peer Group Index consists of Annuity and Life Re Holdings, Berkshire Hathaway Inc. (Class A), ESG Re Ltd., Everest Re Group Ltd., IPC Holdings Ltd., Max Re Capital Ltd., Odyssey Re Holdings Corp., PXRE Group Ltd., RenaissanceRe Holdings Ltd. and Transatlantic Holdings, Inc., which are publicly traded companies selected by Enstar, as they were identified by Bloomberg L.P. in 2003 as comparable to Enstar based on certain similarities in their principal lines of business with Enstar s reinsurance operations.

	Dec-00	**Dec-01**	**Dec-02**	**Dec-03**	**Dec-04**	**Dec-05**
Enstar Group Inc.	$ 100	$ 158	$ 198	$ 312	$ 415	$ 440
NASDAQ US	$ 100	$ 79	$ 55	$ 82	$ 89	$ 91
Peer Group Index (10 Stocks)	$ 100	$ 107	$ 102	$ 120	$ 125	$ 126

Source: Georgeson Shareholder Communications Inc.

The performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement/prospectus into any filing under the Securities Act or the Exchange Act, except to the extent that Enstar specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.

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Other Matters Related to Enstar

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires officers and directors of Enstar and persons who beneficially own more than ten percent of Enstar s common stock to file with the Commission certain reports, with respect to each such person s beneficial ownership of Enstar s equity securities. In 2005, based solely upon a review of copies of reports and certain representations of Enstar s executive officers and directors, all of Enstar s reporting persons filed their Section 16(a) reports on a timely basis.

Annual Report on Form 10-K/A

Enstar has provided herewith to each shareholder as of the Record Date a copy of Enstar s Annual Report on Form 10-K/A for the year ended December 31, 2005, or the 2005 10-K/A, including the financial statements and financial statement schedules, as filed with the Commission, except exhibits thereto. The 2005 10-K/A and the exhibits filed with it are available through Enstar s website at *www.enstargroup.com.* Upon request by an eligible shareholder to the following address, Enstar will furnish a copy of the 2005 10-K/A, without exhibits, without charge, and a copy of any or all of the exhibits to the 2005 10-K/A will be furnished for a reasonable fee:

The Enstar Group, Inc.
401 Madison Avenue
Montgomery, Alabama 36104
Attention: Amy M. Dunaway
Treasurer and Controller

Shareholder Nominations for Election of Directors

Under Enstar s articles of incorporation and bylaws, only persons nominated in accordance with the procedures set forth therein will be eligible for election as directors. Shareholders are entitled to nominate persons for election to the board of directors only if the shareholder is otherwise entitled to vote generally in the election of directors and only if timely notice in writing is sent to the Secretary of Enstar. To be timely, a shareholder s notice must be received at the principal executive offices of Enstar at least 60 days but not more than 90 days prior to the Annual Meeting. Such shareholder s notice should set forth (1) the qualifications of the nominee and the other information that would be required to be disclosed in connection with the solicitation of proxies for the election of directors pursuant to Regulation 14(a) under the Exchange Act and (2) with respect to such shareholder giving such notice, (a) the name and address of such shareholder and (b) the number of shares of common stock beneficially owned by such shareholder. Enstar may require any proposed nominee to furnish such other information as may reasonably be required by Enstar to determine the eligibility of such proposed nominee to serve as a director of Enstar.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

You should read the following unaudited pro forma condensed combined financial information below together with Castlewood s and Enstar s historical financial statements and related notes included in or incorporated by reference into this proxy statement/prospectus and the information set forth under Information about Castlewood Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 116 and the information set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations in Enstar s Quarterly Report on Form 10-Q/A for the six months ended June 30, 2006 and Annual Report on Form 10-K/A for the year ended December 31, 2005, which are incorporated by reference in this proxy statement/prospectus.

The unaudited pro forma condensed combined balance sheet at June 30, 2006 combines the historical consolidated balance sheets of Castlewood and Enstar, giving effect to the merger as if it had been consummated on June 30, 2006. The unaudited pro forma condensed combined income statements for the year ended December 31, 2005 and for the six months ended June 30, 2006 combine the historical consolidated statements of income of Castlewood and Enstar giving effect to the merger as if it had occurred on January 1, 2005.

The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not necessarily indicative of what New Enstar s actual financial position or results of operations would have been had the merger and the recapitalization been consummated on the dates indicated above, nor is it necessarily indicative of the future financial position or results of operations of New Enstar. The unaudited pro forma adjustments are based on estimates and assumptions, which are preliminary and have been made solely for the purpose of developing such pro forma information. The purchase accounting allocations made by management in connection with the unaudited pro forma condensed combined financial information are based on the assumptions and estimates of management and are subject to reallocation when the final purchase accounting takes place after consummation of the merger.

The following unaudited pro forma condensed combined financial information includes:

Adjustments for the merger and the recapitalization of Castlewood including:

the purchase by Castlewood of the 22% ownership interest of B.H. Acquisition beneficially owned by an affiliate of Trident II, L.P.;

the consolidation of B.H. Acquisition and the elimination of Castlewood and Enstar s investment in B.H. Acquisition previously recorded using the equity method of accounting;

the exchange of Enstar s 6,000 Class A Castlewood shares for 2,972,892 newly issued non-voting convertible New Enstar shares;

the repurchase by Castlewood of 1,797.555 of Trident s Class B Castlewood shares for $20.0 million;

the exchange of all remaining Class B, C and D Castlewood shares for 6,139,425 newly issued ordinary shares of New Enstar;

the payment by Enstar to Castlewood, and by Castlewood to certain key employees of Castlewood, of $5.1 million;

the payment of a dividend by Enstar to its shareholders immediately prior to consummation of the merger; and

the acquisition of Enstar s net assets by Castlewood in return for the issuance to Enstar shareholders of 5,775,654 newly issued ordinary shares of Castlewood.

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Enstar Group Limited

Pro Forma Condensed Combined Balance Sheet as of June 30, 2006

	Castlewood Historical(a)	Enstar Historical(b)	Pro Forma Adjustments (Unaudited) (in thousands of U.S. dollars)		Enstar Group Limited Pro Forma as Adjusted
ASSETS					
Total investments	$ 592,213	$ 3,486	$ 66,299	(f)	$ 661,998
Cash and cash equivalents	462,088	95,699	(24,800)	(c)	532,987
Restricted cash and cash equivalents	51,805		8,221	(f)	60,026
Reinsurance balances receivable	316,571		3,533	(f)	320,104
Investment in partly-owned companies	17,743	96,041	(105,130)	(j)	8,654
Other assets	43,119	628	1,757	(f)	45,504
TOTAL ASSETS	$ 1,483,539	$ 195,854	$ (50,120)		$ 1,629,273
LIABILITIES					
Losses and loss adjustment expenses	$ 1,025,971	$	$ 58,432	(f)	$ 1,084,403
Reinsurance balances payable	74,818		4,672	(f)	79,490
Accounts payable and accrued liabilities	33,234	2,605	6,130	(g)	41,969
Bank loan payable	19,404				19,404
Income taxes payable and deferred income tax liabilities		14,503			14,503
Other liabilities	11,140	1,422			12,562
TOTAL LIABILITIES	1,164,567	18,530	69,234		1,252,331
MINORITY INTEREST	61,212				61,212
SHAREHOLDERS EQUITY					
Ordinary shares	19	62	11,742	(k)	11,823
Additional paid-in capital	110,188	198,198	234,153	(l)	542,539
Accumulated other comprehensive income	3,057	614	(614)	(o)	3,057
Retained earnings	144,496	(15,470)	10,127	(p)	139,153
Treasury stock		(6,080)	(374,762)	(r)	(380,842)
TOTAL SHAREHOLDERS EQUITY	257,760	177,324	(119,354)		315,730

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,483,539	$ 195,854	$ (50,120)	$ 1,629,273

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

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Enstar Group Limited

Pro Forma Condensed Combined Income Statement for the Year Ended December 31, 2005

	Castlewood Historical(a)	Enstar Historical(b)	Pro Forma Adjustments (Unaudited)		Enstar Group Limited Pro Forma
	(in thousands of U.S. dollars, except per share data)				
INCOME					
Consulting fees	$ 22,006	$	$ (1,250)	(d)	$ 20,756
Net investment income	28,236	4,559	2,006	(e)	34,801
Net realized gains (losses)	1,268				1,268
	51,510	4,559	756		56,825
EXPENSES					
Net reduction in loss and loss adjustment expense liabilities	(96,007)		552	(c)	(95,455)
Salaries and benefits	40,821				40,821
General and administrative expenses	10,962	3,110	(42)	(f)	14,030
Net foreign exchange loss	4,602		67	(c)	4,669
	(39,622)	3,110	577		(35,935)
Earnings before income taxes, minority interest and share of net earnings of partly-owned companies	91,132	1,449	179		92,760
Income taxes	(914)	(8,917)	8,398	(g)	(1,433)
Minority interest	(9,700)				(9,700)
Share of net earnings of partly-owned companies	192	26,513	(26,473)	(h)	232
NET EARNINGS	$ 80,710	$ 19,045	$ (17,896)		$ 81,859
Basic Earnings Per Share	$ 4,397.89				$ 6.95
Diluted Earnings Per Share	$ 4,304.30				$ 6.59
Weighted average shares outstanding basic	18,352		11,768,163		11,786,515
Weighted average shares outstanding diluted	18,751		12,396,328		12,415,079

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

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Enstar Group Limited

Pro Forma Condensed Combined Income Statement for the Six Month Period Ended June 30, 2006

	Castlewood Historical(a)	Enstar Historical(b)	Pro Forma Adjustments (Unaudited)		Enstar Group Limited Pro Forma
	(in thousands of U.S. dollars, except per share data)				
INCOME					
Consulting fees	$ 11,600	$	$ (625)	(f)	$ 10,975
Net investment income	20,726	2,257	1,629	(e)	24,612
	32,326	2,257	1,004		35,587
EXPENSES					
Net reduction in loss and loss adjustment expense liabilities	(6,780)		673	(c)	(6,107)
Salaries and benefits	14,440				14,440
General and administrative expenses	8,133	3,500	(172)	(f)	11,461
Interest expense	532				532
Net foreign exchange (gain)	(7,967)		(81)	(c)	(8,048)
	8,358	3,500	420		12,278
Earnings before income taxes, minority interest and share of net earnings of partly-owned companies	23,968	(1,243)	584		23,309
Income taxes	795	(2,552)	2,964	(g)	1,207
Minority interest	(5,186)				(5,186)
Share of net earnings of partly-owned companies	263	6,755	(6,858)	(h)	160
NET EARNINGS BEFORE EXTRAORDINARY ITEM	$ 19,840	$ 2,960	$ (3,310)		$ 19,490
Basic earnings per share	$ 1,075.86				$ 1.65
Diluted earnings per share	$ 1,057.68				$ 1.57
Weighted average shares outstanding basic	18,441		11,768,074		11,786,515
Weighted average shares outstanding diluted	18,758		12,396,321		12,415,079

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

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Enstar Group Limited

Notes to Pro Forma Condensed Combined Financial Statements (Unaudited)
(in thousands of U.S. dollars, except share amounts)

1. Adjustment to the Pro Forma Condensed Combined Balance Sheet

a. Reflects Castlewood s unaudited historical consolidated balance sheet as of June 30, 2006.

b. Reflects Enstar s unaudited historical consolidated balance sheet as of June 30, 2006. Certain amounts were reclassified to conform to Castlewood s balance sheet presentation.

c. Reflects adjustments for cash and cash equivalents (outflows) inflows summarized as follows:

Consolidation of B.H. Acquisition cash and cash equivalents	23,803	(see note f)
Proposed $3.00 per share dividend to be paid by Enstar immediately prior to merger	(17,327)	(see note h)
Payment to be made to certain key employees of Castlewood on completion of the recapitalization	(5,076)	(see note i)
Repurchase of 1,797.555 Castlewood Class B shares from Trident	(20,000)	(see note d)
Purchase by Castlewood of the 22% ownership interest of B.H. Acquisition beneficially owned by an affiliate of Trident II, L.P.	(6,200)	(see note e)
Total pro forma cash and cash equivalents adjustments	$ (24,800)	

d. In accordance with the recapitalization agreement, Castlewood will, immediately prior to the consummation of the merger, purchase 1,797.555 Castlewood Class B shares from Trident for $20,000.

e. In accordance with the recapitalization agreement, an affiliate of Trident, L.P. will, immediately prior to the closing of the merger, sell its 22% ownership interest in B.H. Acquisition to Castlewood for $6,200.

f. Immediately upon completion of the purchase of the 22% ownership interest in B.H. Acquisition and the consummation of the merger, Castlewood will own 100% of B.H. Acquisition. As a result, Castlewood will consolidate the assets and liabilities of B.H. Acquisition and will eliminate Castlewood s and Enstar s respective equity investments in B.H. Acquisition of $17,743 and $13,099 at June 30, 2006. (See note q below.) The assets and liabilities of B.H. Acquisition that are incorporated into Castlewood s pro forma condensed combined balance sheet as of June 30, 2006 are as follows:

ASSETS	
Cash and cash equivalents	$ 23,803
Total investments	66,299
Restricted cash and cash equivalents	8,221
Reinsurance balances receivable	3,533
Other assets	1,757
TOTAL ASSETS	$ 103,613

LIABILITIES	
Losses and loss adjustment expenses	$ 58,432
Reinsurance balances payable	4,672
Accounts payable and accrued liabilities	1,080
TOTAL LIABILITIES	64,184
SHAREHOLDERS EQUITY	39,429
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 103,613

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Enstar Group Limited

Notes to Pro Forma Condensed Combined Financial Statements (Unaudited) (Continued)

g. Reflects the following pro forma adjustments to accounts payable and accrued liabilities:

Accounts payable and accrued liabilities acquired in connection with the consolidation of B.H. Acquisition	$ 1,080	(see note f)
Estimated transaction costs of Castlewood ($1,700) and Enstar ($3,000)	4,700	
Severance costs relating to certain Enstar employee	350	
	$ 6,130	

h. Enstar has announced that it expects to pay a special dividend of $3.00 per share, or approximately $17,327 in the aggregate, immediately prior to the merger.

i. In accordance with the recapitalization agreement, Enstar will pay, at the closing of the recapitalization, $5,076 to Castlewood, and Castlewood, in turn, will pay $5,076 to certain key employees of Castlewood. The payment of this amount by Enstar will be treated as a charge to income.

j. Reflects the elimination on consolidation of Castlewood s and Enstar s equity investment in B.H. Acquisition (see note f above) and the elimination of Enstar s equity investment in Castlewood as of June 30, 2006 as follows:

Castlewood s equity investment in B.H. Acquisition	$ 17,743
Enstar s equity investment in B.H. Acquisition	13,099
Enstar s equity investment in Castlewood	74,288
Total elimination of equity investments	$ 105,130

k. Reflects the share exchange in accordance with the merger agreement and recapitalization agreement.

As of June 30, 2006, the total number of issued and outstanding shares, par value $1.00, of Castlewood were as follows:

Class A	6,000
Class B	6,000
Class C	6,000
Class D (excluding 205.802 unvested shares)	732
Total Castlewood shares issued and outstanding	18,732

Under the recapitalization agreement, Enstar s Class A shares of Castlewood will be exchanged for 2,972,892 non-voting convertible ordinary shares, par value $1.00, of New Enstar.

Under the recapitalization agreement, 1,797.555 of Trident s Class B shares of Castlewood will be repurchased by Castlewood (see note d above). The remaining 4,202.445 Class B shares will be exchanged for 2,082,236 ordinary shares, par value $1.00, of New Enstar.

The 6,000 Class C shares of Castlewood will be exchanged for 3,636,612 ordinary shares, par value $1.00, of New Enstar.

The total number of Class D shares of Castlewood awarded to certain key employees as of June 30, 2006 amounted to 937.827, of which 732.025 had vested as of that date. The 937.827 Class D shares will be exchanged for 420,577 ordinary shares, par value $1.00, of New Enstar, of which 328,283 will be fully vested and 92,294 shares will vest in installments between April 2007 and April 2010.

Under the merger agreement, each share of Enstar common stock issued and outstanding immediately prior to the consummation of the merger will be converted into the right to receive one ordinary share,

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Enstar Group Limited

Notes to Pro Forma Condensed Combined Financial Statements (Unaudited) (Continued)

par value $1.00, of New Enstar. As of May 23, 2006, the total number of issued and outstanding shares of Enstar common stock, par value $0.01, was 5,739,384 and the total number of restricted stock units outstanding in respect of Enstar common stock was 36,270. Therefore, the total number of shares, par value $1.00, and restricted stock units of Castlewood that Enstar shareholders will receive will amount to 5,775,654 which, together with the 2,082,236, 3,636,612 and 328,283 ordinary shares that the Class B, C and D shareholders will receive, respectively, will result in a total of 11,822,785 ordinary shares as issued and outstanding upon the consummation of the merger and recapitalization.

l. Reflects the following increases (decreases) to additional paid-in capital:

Castlewood Additional paid-in capital:

Excess of Class B shares repurchase price, of $20,000, over par value $2	$ (19,998)	(see note d)
Excess of fair value of Enstar net assets acquired on consummation of the merger over par value of shares issued to Enstar shareholders	452,349	(see note m)
Elimination of Enstar historical additional paid-in capital as of June 30, 2006	(198,198)	(see note n)
Adjustment to additional paid-in capital	$ 234,153	

m. Based on the average market value of Enstar stock three days before and after the announcement of the merger on May 23, 2006 of $79.32 per share and the total number of outstanding shares of Enstar common stock and restricted stock units as of May 23, 2006 of 5,775,654, the fair value of the net assets of Enstar as of May 23, 2006 is estimated to be $458,125. In accordance with the merger agreement, Enstar shareholders will receive one $1.00 par value ordinary share of New Enstar for each $0.01 par value share held in Enstar. The excess of the fair value of the net assets of Enstar over the par value of the shares issued to Enstar shareholders is $452,349 and is credited to additional paid-in capital.

Fair value of Enstar	$	458,125	(see note m)
Plus estimated acquisition costs of Castlewood		1,700	(see note g)
Total purchase price	$	459,825	

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Enstar Group Limited

Notes to Pro Forma Condensed Combined Financial Statements (Unaudited) (Continued)

The purchase price allocation is as follows

	Enstar Historical (b)	Purchase price Adjustments	Purchase price Allocation
Assets			
Total investments	$ 3,486	$	$ 3,486
Cash and cash equivalents	95,699		95,699
Other assets	628		628
Investment in other partly owned companies	96,041	282,501	378,542
Total Assets	$ 195,854	$ 282,501	$ 478,355
Liabilities			
Accounts payable and accrued liabilities	$ (2,605)	$	$ (2,605)
Income taxes and deferred income tax liabilities	(14,503)		(14,503)
Other liabilities	(1,422)		(1,422)
Total liabilities	$ (18,530)	$	$ (18,530)
Net Assets acquired	$ 177,324	$ 282,501	$ 459,825

With the exception of Enstar s investment in Castlewood, the recorded book value of all of Enstar s recorded historical assets and liabilities as of June 30, 2006 approximates fair value.

Reconciliation of purchase price adjustments to note r		
Fair value adjustment as a result of purchase price allocation per above	$ 282,501	
Pro forma adjustment to Enstar s June 30, 2006 balance sheet	17,327	(see note h)
Pro forma adjustment to Enstar s June 30, 2006 balance sheet	5,076	(see note i)
Pro forma adjustment to Enstar s June 30, 2006 balance sheet	3,350	(see note g)
Estimated Castlewood costs of acquisition	(1,700)	(see note g)
	$ 306,554	(see note r)

Bermuda law requires that the excess of the value of the shares issued over the par value of those shares be credited to an equity account called share premium. Section 40(1) of the Bermuda Companies Act (1981) states: Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account.... U.S. GAAP nomenclature for share premium is additional paid-in capital.

Accounting Principles Board Opinion 6, Status of Accounting Research Bulletins, paragraph 12(a) contemplates the allocation of any excess of the purchase price of retired stock over the par of stated value of that stock to additional paid-in capital to the extent, inter alia, of additional paid-in capital on the same issue, which would seem to contemplate that any excess of issue price over par of stated value would be credited to additional paid-in capital.

n. On consummation of the merger, Enstar s historical additional paid-in capital as of June 30, 2006 of $198,198 will be eliminated on consolidation.

o. On consummation of the merger, Enstar s historical accumulated other comprehensive income as of June 30, 2006 of $614 will be eliminated on consolidation.

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Enstar Group Limited

Notes to Pro Forma Condensed Combined Financial Statements (Unaudited) (Continued)

p. Reflects the following adjustments to retained earnings:

Gain on purchase of the 22% ownership interest of B.H. Acquisition	$ 2,385	(see note q)
Accrued transaction costs of Castlewood	(1,700)	
Difference in par value of Class B, C & D shares exchanged for new ordinary shares	(6,028)	
Elimination of Enstar deficit on consolidation	15,470	
	$ 10,127	

q. Reflects the difference of $2,385 between the purchase price of $6,200 to be paid by Castlewood for the 22% ownership interest of B.H. Acquisition and a 22% share of the net book value of B.H. Acquisition of $8,585 as of June 30, 2006, based on its unaudited financial statements as of that date. The fair value of B.H. Acquisition is estimated to be approximately equal to its net book value.

r. Reflects the recording of treasury stock on the balance sheet of New Enstar to eliminate the fair value of Enstar s equity investment in Castlewood.

Immediately prior to consummation of the merger, Enstar s pro forma net book value as of June 30, 2006 will amount to $151,571 determined as follows:

Enstar historical net book value as of June 30, 2006	$ 177,324	
Pro forma adjustments to Enstar s June 30, 2006 balance sheet:		
Proposed dividend to be paid by Enstar on consummation of the merger	(17,327)	(see note h)
Payment to Castlewood key employees	(5,076)	(see note i)
Accrued transaction and severance costs	(3,350)	(see note g)
Pro forma net book value as of June 30, 2006	$ 151,571	

The estimated fair value of Enstar s net assets as of June 30, 2006 is $458,125 (see note m above). With the exception of Enstar s equity investment in Castlewood, the recorded book value of all of Enstar s pro forma assets and liabilities as of June 30, 2006 approximates fair value. Therefore, the fair value adjustment of $306,554 (the difference in the net book value and the estimated fair value of Enstar) relates to Enstar s equity investment in Castlewood and provides a fair value of this equity investment of $380,842 (book value of $74,288 plus fair value adjustment of $306,554).

In order to eliminate Enstar s equity investment in Castlewood, New Enstar will record treasury stock based on the fair value of Enstar s investment in Castlewood of $380,842.

The pro forma adjustment to treasury stock is summarized as follows:

Enstar s equity investment in Castlewood at fair value	$ 380,842
Elimination of Enstar s treasury stock on consolidation	(6,080)
Pro forma adjustment to Treasury Stock	$ 374,762

2. Adjustments to the Pro Forma Condensed Combined Income Statement for the year ended December 31, 2005

a. Reflects Castlewood s historical consolidated income statement for the year ended December 31, 2005.

b. Reflects Enstar s historical consolidated income statement for the year ended December 31, 2005. Certain amounts were reclassified to conform to Castlewood s income statement presentation.

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Enstar Group Limited

Notes to Pro Forma Condensed Combined Financial Statements (Unaudited) (Continued)

c. Represents the consolidation of the B.H. Acquisition.

d. Represents elimination of management fees paid by B.H. Acquisition to Castlewood.

e. Represents the consolidation of the B.H. Acquisition net investment income of $2,406 and the elimination of $400 of investment management fees paid by Castlewood and B.H. Acquisition to Enstar.

f. Represents the consolidation of the B.H. Acquisition general and administrative expenses of $1,608; the elimination of $400 of investment management fees paid by Castlewood and B.H. Acquisition to Enstar (see note e above); and the elimination of management fees paid by B.H. Acquisition to Castlewood of $1,250 (see note d above).

g. Reflects the elimination of Enstar s tax expense on Enstar s share of Castlewood s earnings. After the merger Castlewood does not intend to pay any dividends and certain of its subsidiaries will not be considered controlled foreign corporations for U.S. tax purposes. Therefore, Enstar does not expect to record U.S. tax on its share of Castlewood s earnings.

h. Represents the elimination of Enstar s and Castlewood s share of net earnings in B.H. Acquisition of $139 and the elimination of Enstar s share of net earnings in Castlewood of $26,334.

3. Adjustments to the Pro Forma Condensed Combined Income Statement for the six month period ended June 30, 2006

a. Reflects Castlewood s unaudited historical consolidated income statement for the six month period ended June 30, 2006.

b. Reflects Enstar s unaudited historical consolidated income statement for the six month period ended June 30, 2006. Certain amounts were reclassified to conform to Castlewood s income statement presentation.

c. Represents the consolidation of the balances for B.H. Acquisition.

d. Represents elimination of management fees paid by B.H. Acquisition to Castlewood.

e. Represents the consolidation of the B.H. Acquisition net investment income of $1,829 and the elimination of $200 of investment management fees paid by Castlewood and B.H. Acquisition to Enstar.

f. Represents the consolidation of the B.H. Acquisition general and administrative expenses of $653; the elimination of $200 of investment management fees paid by Castlewood and B.H. Acquisition to Enstar (see note e above); and the elimination of management fees paid by B.H. Acquisition to Castlewood of $625 (see note d above).

g. Reflects the elimination of Enstar s tax expense on Enstar s share of Castlewood s earnings. After the merger, Castlewood does not intend to pay any dividends and certain of its subsidiaries will not be considered controlled foreign corporations for U.S. tax purposes. Therefore, Enstar does not expect to record U.S. tax on

its share of Castlewood s earnings.

h. Represents the elimination of Enstar s and Castlewood s share of net earnings in B.H. Acquisition of $456 and the elimination of Enstar s share of net earnings in Castlewood of $6,402.

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MANAGEMENT OF NEW ENSTAR FOLLOWING THE MERGER AND OTHER INFORMATION

Directors and Executive Officers of New Enstar

Directors of New Enstar

Pursuant to the recapitalization agreement, Castlewood, Enstar, Trident and certain other shareholders of Castlewood have agreed that New Enstar s board of directors will consist of ten members following the merger. Four of these individuals Messrs. T. Whit Armstrong, Paul J. Collins, Gregory L. Curl and T. Wayne Davis are current directors of Enstar, three of these individuals Messrs. J. Christopher Flowers, Nimrod T. Frazer and John J. Oros are current directors of both Enstar and Castlewood, and the other three individuals Messrs. Nicholas A. Packer, Paul J. O Shea and Dominic F. Silvester are current directors and/or executive officers of Castlewood. In the event any director is unable to serve as a director, a replacement director will be appointed by a majority of the remaining directors.

Following the merger, New Enstar will have a classified board of directors. Directors will be designated as Class I, Class II or Class III directors. Class I, II and III directors will serve until the 2007, 2008 and 2009 annual meetings of shareholders, respectively. Each year thereafter, directors will be elected for a full term of three years to succeed the directors of the class whose terms expire at that annual meeting.

The names, ages and positions of the directors of New Enstar following the merger are set forth below.

Name	Age	Position(s) with New Enstar
Dominic F. Silvester	46	Chief Executive Officer and Director
John J. Oros	59	Executive Chairman and Director
Paul J. O Shea	48	Executive Vice President and Director
Nicholas A. Packer	43	Executive Vice President and Director
T. Whit Armstrong	58	Director
Paul J. Collins	69	Director
Gregory L. Curl	57	Director
T. Wayne Davis	59	Director
Nimrod T. Frazer	76	Director
J. Christopher Flowers	48	Director

Each of these individuals has consented to serve as a director of New Enstar if the merger is consummated.

The following is a brief summary of the background of the persons expected to serve as directors of New Enstar following the merger:

Dominic F. Silvester has served as a director and the Chief Executive Officer of Castlewood since its formation in 2001. In 1993, Mr. Silvester began a business venture in Bermuda to provide run-off services to the insurance and reinsurance industry. In 1995, the business was assumed by Castlewood Limited. Mr. Silvester was engaged as Chief Executive Officer of Castlewood Limited. From 1988 until 1993, Mr. Silvester served as the Chief Financial Officer of Anchor Underwriting Managers Limited. Prior to joining Anchor, he was a Vice President at Adams and Porter (Bermuda) Limited and was a senior auditor in the Bermuda office of Deloitte & Touche. Mr. Silvester will serve as a

Class III director of New Enstar.

John J. Oros has served as a director of Enstar since March of 2000. Mr. Oros was named to the position of Executive Vice President of Enstar in March of 2000 and on June 6, 2001, Mr. Oros was named President and Chief Operating Officer. Before joining Enstar, Mr. Oros was an investment banker at Goldman, Sachs & Co. in the Financial Institutions Group. Mr. Oros joined Goldman, Sachs & Co. in 1980 and was made a General Partner in 1986. Mr. Oros resigned from Goldman, Sachs & Co. in March 2000 to join Enstar. In February 2006, Mr. Oros became a Managing Director of J.C. Flowers & Co. LLC, which serves as investment advisor to J.C. Flowers II L.P., a newly-formed private equity fund

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affiliated with J. Christopher Flowers. Mr. Oros will split his time between J.C. Flowers & Co. LLC and New Enstar. Mr. Oros will serve as a Class II director of New Enstar.

Paul J. O Shea has served as a director, Executive Vice President and joint Chief Operating Officer of Castlewood since its formation in 2001. Mr. O Shea served as a director and Executive Vice President of Castlewood Limited from 1995 until 2001. In 1994, Mr. O Shea joined Messrs. Silvester and Packer in their run-off business venture in Bermuda. From 1985 until 1994, he served as the Executive Vice President, Chief Operating Officer and a director of Belvedere Group/Caliban Group. Prior to 1985, Mr. O Shea was an accounts manager at Mentor Insurance Company Limited and a senior auditor in the Bermuda office of KPMG Peat Marwick. Mr. O Shea will serve as a Class I director of New Enstar.

Nicholas A. Packer has served as Executive Vice President and the joint Chief Operating Officer of Castlewood since its formation in 2001. From 1996 to 2001, Mr. Packer was Chief Operating Officer of Castlewood (EU) Ltd., a wholly-owned subsidiary of Castlewood Limited. Mr. Packer served as Castlewood Limited s Chief Operating Officer from 1995 until 1996. From 1993 to 1995, Mr. Packer joined Mr. Silvester in forming a run-off business venture in Bermuda. Mr. Packer served as Vice President of Anchor Underwriting Managers Limited from 1991 until 1993. Prior to joining Anchor, he was a joint deputy underwriter at CH Bohling & Others, an affiliate of Lloyd s of London. Mr. Packer will serve as a Class II director of New Enstar.

T. Whit Armstrong was elected to the position of director of Enstar in June of 1990. Mr. Armstrong has been President, Chief Executive Officer and Chairman of the Board of The Citizens Bank, Enterprise, Alabama, and its holding company, Enterprise Capital Corporation, Inc. for more than five years. Mr. Armstrong is also a director of Alabama Power Company of Birmingham, Alabama. Mr. Armstrong will serve as a Class II director of New Enstar.

Paul J. Collins was elected to the position of director of Enstar in May of 2004. Mr. Collins retired as a Vice Chairman and member of the Management Committee of Citigroup Inc. in September 2000. From 1985 to 2000, Mr. Collins served as a director of Citicorp and its principal subsidiary, Citibank; from 1988 to 1998, he also served as Vice Chairman of such entities. Mr. Collins currently serves as a director of Nokia Corporation and BG Group, as a member of the supervisory board of Actis Capital LLP and as a trustee of the University of Wisconsin Foundation and the Glyndebourne Arts Trust. He is also a member of the Advisory Board of Welsh, Carson, Anderson & Stowe, a private equity firm. Mr. Collins will serve as a Class III director of New Enstar.

Gregory L. Curl was elected to the position of director of Enstar in July of 2003. Mr. Curl has been Director of Corporate Planning and Strategy for Bank of America since December 1998. Previously, Mr. Curl was Vice Chairman of Corporate Development and President of Specialized Lending for Bank of America from 1997 to 1998. Mr. Curl will serve as a Class I director of New Enstar.

T. Wayne Davis was elected to the position of director of Enstar in June of 1990. Mr. Davis was Chairman of the Board of General Parcel Service, Inc., a parcel delivery service, from January of 1989 to September of 1997 and was Chairman of the Board of Momentum Logistics, Inc. from September of 1997 to March of 2003. He also is a director of Winn-Dixie Stores, Inc. and MPS Group, Inc. Mr. Davis will serve as a Class III director of New Enstar.

Nimrod T. Frazer was elected to the position of director of Enstar in August of 1990. Mr. Frazer was named Chairman of the Board, Acting President and Chief Executive Officer of Enstar on October 26, 1990 and served as President of Enstar from May 26, 1992 to June 6, 2001. Mr. Frazer will serve as a Class I director of New Enstar.

J. Christopher Flowers was elected to the position of director of Enstar in October of 1996. Mr. Flowers became a General Partner of Goldman, Sachs & Co. in 1988 and a Managing Director in 1996. He resigned from Goldman, Sachs & Co. in November 1998 in order to pursue his own business interests. Mr. Flowers was named Vice Chairman

of the Board of Enstar in December 1998; Mr. Flowers resigned from such position in July 2003 but remains a member of its board. He is also a director of Shinsei Bank, Ltd., formerly Long-Term Credit Bank of Japan, Ltd. Mr. Flowers has been a Managing

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Director of J.C. Flowers & Co., LLC, a financial services investment advisory firm since 2002. Mr. Flowers has also been a member of the Supervisory Board of NIBC, N.V. since December 2005. Mr. Flowers will serve as a Class III director of New Enstar.

Executive Officers of New Enstar

The names, ages and positions of the proposed executive officers of New Enstar following the merger are set forth below:

Name	Age	Position(s) with New Enstar
Dominic F. Silvester	46	Chief Executive Officer and Director
John J. Oros	59	Executive Chairman and Director
Paul J. O Shea	48	Executive Vice President and Director
Nicholas A. Packer	43	Executive Vice President and Director
Richard J. Harris	44	Chief Financial Officer

Richard J. Harris has served as the Chief Financial Officer of Castlewood since May 2003. From 2000 until April 2003, Mr. Harris served as Managing Director of RiverStone Holdings Limited & Subsidiary Companies, the European run-off operations of Fairfax Financial Holdings Limited. As Managing Director, he was responsible for all operational activities, including claims oversight, reinsurance collections, commutations and litigation. Previously, he served as the Chief Financial Officer of Sphere Drake Group and in the auditing group of the Bermuda office of Deloitte & Touche.

Compensation of Directors

Directors who are not employees of New Enstar will receive a quarterly retainer fee of $6,250 and per meeting fees as follows: (1) $2,500 for each board meeting attended other than a telephone board meeting; (2) $1,000 for each telephone board meeting attended; (3) $1,000 for each committee meeting attended; and (4) $1,500 for each committee meeting attended by a committee chairperson. In addition, the Audit Committee chairperson will receive a quarterly retainer fee of $500.

Board Committees

Following the merger, New Enstar will establish an Audit Committee and a Compensation Committee. New Enstar s board of directors may from time to time establish other committees to facilitate the management of New Enstar.

Audit Committee

In accordance with the charter of the audit committee, the audit committee of New Enstar will consist of at least three members appointed by the board of directors on the recommendation of a majority of the independent directors. All members of the audit committee will be independent directors, as required under rules enacted by the Commission and as required by the rules of Nasdaq. The audit committee will report regularly to the board and review with the board any issues with respect to the:

quality or integrity of New Enstar s financial statements;

performance and independence of New Enstar s registered independent accounting firm; and

New Enstar s compliance with legal and regulatory requirements.

At least one member of the audit committee will qualify as an audit committee financial expert, as such qualification is interpreted by the board in its business judgment.

Compensation Committee

In accordance with the charter of the compensation committee, the compensation committee of New Enstar will consist of at least three members as appointed by the board of directors on the recommendation of

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a majority of the independent directors. All members of the compensation committee will be independent directors, as required by the Nasdaq listing standards. All members of the compensation committee will also be Non-Employee Directors for the purposes of Rule 16b-3 under the Exchange Act, and outside directors for the purposes of section 162(m) of the Code. The compensation committee will report regularly to the board of directors of New Enstar and be responsible for:

- reviewing, determining and establishing, in consultation with New Enstar s Chief Executive Officer, salaries, bonuses and other compensation for New Enstar s executive officers other than the Chief Executive Officer;
- reviewing the performance of New Enstar s Chief Executive Officer and reviewing, determining and establishing salary, bonus and other compensation for the Chief Executive Officer;
- reviewing compensation of New Enstar s directors and making recommendations with regard to director compensation to New Enstar s board of directors;
- overseeing New Enstar s regulatory compliance with respect to compensation matters; and
- preparing an annual report regarding executive compensation for inclusion in New Enstar s annual proxy statement.

Employment Agreements

On May 23, 2006, Castlewood entered into a new employment agreement with Mr. O Shea and amended its employment agreements with Messrs. Packer and Silvester. Mr. O Shea s employment agreement, which will become effective when the merger is consummated, supersedes the employment agreement between Castlewood and Mr. O Shea dated November 29, 2001. Messrs. Packer s and Silvester s amended and restated employment agreements, which also will become effective when the merger is consummated, amend and restate their employment agreements dated as of April 1, 2006. Castlewood also expects that New Enstar and Castlewood (US) Inc. will enter into a new employment agreement with John J. Oros, to become effective when the merger is consummated. Each employment agreement (as amended) has (or is expected to have, in the case of Mr. Oros) an initial five-year term and, after the initial term ends, renews for additional one-year periods unless either party gives prior written notice to terminate the agreement.

Following the merger, Messrs. O Shea and Packer will serve as Executive Vice Presidents of New Enstar, Mr. Silvester will serve as New Enstar s Chief Executive Officer and Mr. Oros will serve as New Enstar s Executive Chairman. As compensation for their services, each executive officer will (1) receive a base salary (Mr. Silvester s salary will be $565,000 and Messrs. O Shea s and Packer s salary will each be $440,000, and Mr. Oros s salary is expected to be $282,500), (2) be eligible for incentive compensation under New Enstar s incentive compensation programs and (3) will be entitled to certain employee benefits, including, for Messrs. Silvester, O Shea and Packer, a housing allowance, a life insurance policy in the amount of five times his base salary, medical, dental and long-term disability insurance, payment of an amount equal to 10% of his base salary each year to his retirement savings plan and, for Messrs. Packer and Silvester, the executive will be reimbursed for one trip for his family to/from Bermuda each calendar year.

The employment agreements also provide (or is expected to provide, in the case of Mr. Oros) that if the executive s employment is terminated during the term of the agreement by New Enstar without cause or by the executive for good reason (in addition to accrued but unpaid compensation), (1) the executive would be entitled to receive a lump sum amount equal to three times the base salary payable to him and medical benefits for the executive and his spouse and dependents for three years; (2) each outstanding equity incentive award granted to the executive before, on or within

three years after the merger will become immediately vested and exercisable on the date of termination and (3) if, for the year in which the executive s employment is terminated, New Enstar achieves the performance goals established in accordance with any incentive plan in which he participates, New Enstar will pay an amount equal to the bonus that he would have received had he been employed by New Enstar for the full year. If there is a change of control of New Enstar during the term of the employment agreement and the executive s employment is terminated within one year after such change of control by New Enstar without cause or by the executive for good reason, the executive will be entitled

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to the compensation described in the preceding sentence and each outstanding equity incentive award granted to the executive after the merger (regardless of whether granted within three years after the merger) will become immediately vested and exercisable on the date of termination.

For purposes of these employment agreements (including the agreement with Mr. Oros), cause generally means:

- fraud or dishonesty in connection with the executive s employment that results in a material injury to New Enstar;
- conviction of any felony or crime involving fraud or misrepresentation;
- the executive s failure to perform his employment-related duties; or
- material and continuing failure to follow reasonable instructions of New Enstar s board of directors.

For purposes of these employment agreements, good reason means:

- material breach of New Enstar s obligations under the agreements;
- relocation of the executive officer s principal business office in Bermuda without the executive officer s prior agreement; or
- any material reduction in the executive officer s duties or authority.

Under the terms of their respective employment agreements, each of Messrs. O Shea, Packer and Silvester agree (and Mr. Oros is expected to agree) to not compete with New Enstar for the term of the employment agreement and, if his employment with Castlewood is terminated before the end of the initial five-year term, for a period of eighteen months after his termination of employment.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Castlewood

Castlewood and certain of its subsidiaries have entered into transactions with companies and partnerships that are affiliated with Messrs. Flowers and/or Oros, and an entity of which Mr. Flowers is a director and the largest shareholder owns a minority interest in a subsidiary of Castlewood. Messrs. Flowers and Oros are members of Castlewood s board of directors and, following the merger will be members of the New Enstar board of directors. Mr. Flowers also will be one of New Enstar s largest shareholders.

In June 2006, the commitment of Castlewood to invest up to $75.0 million in J.C. Flowers II, L.P., or the Flowers Fund, was accepted by the Flowers Fund. Castlewood intends to use cash on hand to fund this commitment. The Flowers Fund is a private investment fund for which JCF Associates II L.P. is the general partner and J.C. Flowers & Co. LLC is the investment advisor. JCF Associates II L.P. and J.C. Flowers & Co. LLC are controlled by Mr. Flowers. No fees or other compensation will be payable by Castlewood to the Flowers Fund, JCF Associates II L.P., J.C. Flowers & Co. LLC, or Mr. Flowers in connection with this investment. John J. Oros, who will be New Enstar s Executive Chairman and a member of its board of directors, is a managing director of J.C. Flowers & Co. LLC. Mr. Oros will split his time between J.C. Flowers & Co. LLC and New Enstar.

In June 2006, the commitment of James D. Carey, a director of Castlewood, to invest up to $500,000 in the Flowers Fund was accepted by the Flowers Fund. Mr. Carey is subject to the same fees and expenses charged by the Flowers Fund to its limited partners other than Castlewood and Enstar.

In March 2006, Castlewood and Shinsei completed the acquisition of Aioi Insurance Company of Europe Limited, or Aioi Europe, a London-based subsidiary of Aioi Insurance Company, Limited. The acquisition was effected through Hillcot, in which Castlewood holds a 50.1% economic interest and Shinsei holds the remaining 49.9%. Castlewood and Shinsei made capital contributions to Hillcot to fund the acquisition in proportion to their economic interests. Aioi Europe has underwritten general insurance and reinsurance business in Europe for its own account from 1982 until 2002 when it generally ceased underwriting, and placed its general insurance and reinsurance business into run-off. The aggregate purchase price paid for Aioi Europe was £62 million (approximately $108 million), with £50 million in cash paid upon the closing of the transaction and £12 million in the form of a promissory note, payable twelve months from the date of the closing. Upon completion of the transaction Aioi Europe changed its name to Brampton Insurance Company Limited. Mr. Flowers, a member of the Castlewood s board of directors and, following the merger, a director of New Enstar and one of New Enstar s largest shareholders, is a director and the largest shareholder of Shinsei.

In January 2006, Castlewood (EU) Limited, a wholly-owned subsidiary of Castlewood, entered into a six month contract with Mrs. Ashley Holmes, sister-in-law to Mr. Dominic Silvester, to provide human resources consultancy services. Pursuant to the agreement with Mrs. Holmes, Castlewood (EU) Limited pays Mrs. Holmes £550 per day for the services that she provides. Through June 30, 2006, Castlewood (EU) Limited has, in total, paid £32,611 in consultancy expenses to Mrs. Holmes. Currently, Mrs. Holmes, a qualified human resources professional, provides services to Castlewood (EU) Limited up to three days per week. It is intended that Mrs. Holmes will become an employee of Castlewood (EU) Limited prior to completion of the merger.

In December 2005, Castlewood, through two of its wholly-owned subsidiaries, invested approximately $24.5 million in New NIB Partners LP, or NIB Partners, a newly formed Province of Alberta limited partnership, in exchange for an approximately 1.4% limited partnership interest. NIB Partners was formed for the purpose of purchasing, together with certain affiliated entities, 100% of the outstanding share capital of NIBC N.V. (formerly, NIB Capital N.V.) and

its affiliates, or NIBC. NIBC is a merchant bank focusing on the mid-market segment in northwest Europe with a global distribution network. NIB Partners and certain related entities are indirectly controlled by New NIB Limited, an Irish corporation. Mr. Flowers is a director of New NIB Limited and is on the supervisory board of NIBC. Certain affiliates of J.C. Flowers I LP also participated in the acquisition of NIBC. Also, certain officers and directors of Castlewood made personal investments in

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NIB Partners. Castlewood paid for and received ownership interests in NIB Partners on a pro rata basis with other investors including members of Castlewood s management. Castlewood will not pay any fees or other compensation to affiliates of Mr. Flowers in connection with its investment in NIB Partners.

Also in December 2005, JCF Re Holdings LP, or JCF Re, a Cayman Limited partnership, entered into a subscription and shareholders agreement with Fitzwilliam (SAC) Insurance Limited, or Fitzwilliam, a wholly-owned subsidiary of Castlewood, for the establishment of a segregated cell and paid approximately $1.9 million to Fitzwilliam as capital and contributed surplus. During 2005, Fitzwilliam booked management fees of $40,000 from JCF Re. JCF Re is controlled by an affiliate of Mr. Flowers.

In November 2005, Castlewood (US) Inc. entered into a lease agreement pursuant to which it leases approximately 8,900 square feet of office space in Tampa, FL from Karl Wall, the president of Castlewood (US) Inc. This lease expires on October 31, 2008 and provides for annual rent payable by Castlewood (US) Inc. in the amount of $131,000.

In October 2005, Castlewood (US) Inc. entered into a lease agreement pursuant to which it leases approximately 378 square feet of office space in New York, NY from J.C. Flowers & Co. LLC. This lease expires in October of 2014 and provides for annual rent payable by Castlewood (US) Inc. in the amount of $49,752.

During 2004, Castlewood, through one of its subsidiaries, invested a total of approximately $9.1 million in Cassandra Equity LLC and Cassandra Equity (Cayman) LP, or collectively Cassandra, for a 27% interest in each. Cassandra was formed to invest in equity shares of a publicly traded international reinsurance company. J.C. Flowers I LP also owned a 27% interest in Cassandra. J.C. Flowers I LP is a private investment fund, the general partner of which is JCF Associates I LLC. Mr. Flowers is the managing member of JCF Associates I LLC. Castlewood paid for and received ownership interests in Cassandra on a pro rata basis with J.C. Flowers I LP and did not pay any fees or other compensation to affiliates of J.C. Flowers & Co. LLC in connection with its investment in Cassandra. In March 2005, Cassandra sold all of its holdings for total proceeds of approximately $40 million. Castlewood s proportionate share of the proceeds was approximately $10.8 million.

In March 2003, Castlewood and Shinsei completed the acquisition of all of the outstanding capital stock of The Toa-Re Insurance Company (UK) Limited, or Toa-UK, a London-based subsidiary of The Toa Reinsurance Company, Limited, for approximately $46 million. The acquisition was effected through Hillcot Holdings Ltd., or Hillcot, a newly formed Bermuda company, in which Castlewood has a 50.1% economic interest and a 50% voting interest. Upon completion of the transaction, Toa-UK s name was changed to Hillcot Re Limited. Hillcot is included in Castlewood s consolidated financial statements, with the remaining 49.9% economic interest reflected as minority interest. Mr. Flowers is the largest shareholder and a director of Shinsei.

Also during 2003, Castlewood invested approximately $10.2 million in JCF CFN LLC and related entities, or collectively, the JCF CFN Entities, in exchange for a 40% interest. In July 2004, the JCF CFN Entities completed the sale of their entire interest in Green Tree Investment Holdings LLC and related entities for aggregate sales process of approximately $40 million in cash. Of this amount Castlewood s aggregate sales proceeds were approximately $16 million. Each of the JCF CFN Entities is controlled by JCF Associates I LLC, the managing member of which is Mr. Flowers. Castlewood paid no fees or other compensation to J.C. Flowers I LP, JCF Associates I LLC or Mr. Flowers in connection with Castlewood s investment in JCF CFN.

During the years ended December 31, 2005, 2004 and 2003, Castlewood earned consulting fees of $1,250,000, $1,250,000 and $1,250,000 from subsidiaries of B.H. Acquisition, its partially-owned equity affiliate.

Certain directors and officers of Castlewood have an interest in the recapitalization. See Interests of Certain Persons in the Merger beginning on page 58.

See also Enstar on page 180.

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Enstar

Enstar and its partially owned equity affiliates, Castlewood and B.H. Acquisition, have entered into transactions with companies and partnerships that are affiliated with Messrs. Flowers and/or Oros, and an entity of which Mr. Flowers is a director and the largest shareholder owns a minority interest in a subsidiary of Castlewood. Messrs. Flowers and Oros are members of Enstar s board of directors and, following the merger, will be members of the New Enstar board of directors. Mr. Flowers also will be one of New Enstar s largest shareholders.

In June 2006, the commitment of Enstar to invest up to $25.0 million in J.C. Flowers II L.P., or the Flowers Fund, was accepted by the Flowers Fund. Enstar intends to use cash on hand to fund its commitment. The Flowers Fund is a private investment fund for which JCF Associates II L.P. is the general partner and J.C. Flowers & Co. LLC is the investment advisor. JCF Associates II L.P. and J.C. Flowers & Co. LLC are controlled by Mr. Flowers. No fees will be payable by Enstar to the Flowers Fund, JCF Associates II L.P., J.C. Flowers & Co. LLC, or Mr. Flowers in connection with Enstar s investment in the Flowers Fund. John J. Oros, Enstar s President and Chief Operating Officer, is a managing director of J.C. Flowers & Co. LLC. Mr. Oros will split his time between J.C. Flowers & Co. LLC and New Enstar.

In December 2005, Enstar invested approximately $3.5 million in NIB Partners in exchange for an approximately 0.2% limited partnership interest. NIB Partners and certain related entities are indirectly controlled by New NIB Limited, an Irish corporation. Mr. Flowers is a director of New NIB Limited and is on the supervisory board of NIBC. Certain affiliates of J.C. Flowers I LP also participated in the acquisition of NIBC. Also, certain officers and directors of Enstar made personal investments in NIB Partners. Enstar paid for and received ownership interests in NIB Partners on a pro rata basis with other investors including members of Enstar s management. Enstar will not pay any fees or other compensation to affiliates of Mr. Flowers in connection with its investment in NIB Partners.

In September 2005, Enstar entered into an agreement with J.C. Flowers & Co. LLC continuing through October 2014 for the use of certain office space and administrative services from J.C. Flowers & Co. LLC for monthly payments of $4,146. Either party may, at its option with or without cause, terminate this agreement upon 30 days prior written notice to the other party. J.C. Flowers & Co. LLC is managed by Mr. Flowers.

In June 2005, Enstar committed to contribute up to $10 million for a 14%, non-voting interest in Affirmative Investment LLC, or Affirmative Investment, a newly formed Delaware limited liability company. J.C. Flowers I LP committed the capital necessary for the remaining 86% interest in Affirmative Investment. Both J.C. Flowers I LP and Affirmative Associates LLC, the managing member of Affirmative Investment, are controlled by Mr. Flowers. As of December 31, 2005, Enstar had funded capital contributions of approximately $8.3 million. Enstar paid for and received ownership interests in Affirmative Investment on a pro rata basis with J.C. Flowers I LP. Enstar will not pay any fees or other compensation to affiliates of Mr. Flowers in connection with its investment in Affirmative Investment.

During 2003, Enstar invested approximately $15.3 million in JCF CFN LLC and related entities, or, collectively, the JCF CFN Entities, in exchange for a 60% interest in such entities. In July 2004, the JCF CFN Entities completed the sale of their entire interest in Green Tree Investment Holdings LLC and related entities for aggregate sales proceeds of approximately $40 million in cash. Enstar recorded a pre-tax realized gain of approximately $6.9 million on the sale. Each of the JCF CFN Entities is controlled by JCF Associates I LLC, the managing member of which is Mr. Flowers. Enstar paid no fees or other compensation to J.C. Flowers I LP, JCF Associates I LLC or Mr. Flowers in connection with Enstar s investment in JCF CFN.

In 2002, Enstar entered into an investment advisory agreement with Castlewood and B.H. Acquisition for an annual fee of $400,000.

Certain directors and officers of Enstar have an interest in the proposed transactions, see Interests of Certain Persons in the Merger beginning on page 58.

In addition, see Castlewood above for certain relationships and related transactions relating to Castlewood.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners and Management of Castlewood

The following table sets forth certain information regarding beneficial ownership of Castlewood s ordinary shares as of September 28, 2006, assuming the recapitalization was completed on that date, by:

- each of Castlewood s directors;
- each of Castlewood s named executive officers;
- all of Castlewood s executive officers and directors as a group; and
- each person known by Castlewood to beneficially own 5% or more of its outstanding ordinary shares.

Information as to the percentage of shares beneficially owned is calculated based on 6,139,425 ordinary shares outstanding following the recapitalization. Except as otherwise indicated in the footnotes below, each beneficial owner, to our knowledge, has sole voting and investment power with respect to the ordinary shares reported below and the address of each beneficial owner is c/o Castlewood Holdings Limited, P.O. Box HM 2267, Windsor Place, 3rd Floor, 18 Queen Street, Hamilton HM JX, Bermuda.

	Ordinary Shares		Non-Voting Convertible Ordinary Shares	
Name	**Number**	**Percentage(12)**	**Number**	**Percentage**
The Enstar Group, Inc.(1)			2,972,892	100%
Trident II, L.P. and related affiliates(2)	2,082,236	33.9%		
Dominic F. Silvester(3)	2,126,328	34.6%		
J. Christopher Flowers(4)				
Paul O Shea(5)	708,775	11.6%		
Nicholas A. Packer(6)	708,775	11.6%		
Nimrod T. Frazer(7)				
John J. Oros(8)				
Richard J. Harris(9)	50,176	0.8%		
James A. Carey(10)				
Cheryl D. Davis				
Meryl Hartzband(11)				
All directors and executive officers as a group (10 persons)	5,676,290	92.5%	2,972,892	100%

(1) As of September 28, 2006, Enstar held 6,000 Class A Shares of Castlewood, which will be exchanged for 2,972,892 non-voting convertible ordinary shares in the recapitalization.

(2)

As of September 28, 2006, (a) 5,667 Class B Shares of Castlewood were held by Trident II, L.P., or Trident II, which will be exchanged for 1,966,672 ordinary shares in the recapitalization; (b) 162 Class B Shares of Castlewood were held by Marsh & McLennan Capital Professionals Fund, L.P., or Trident PF, which will be exchanged for 56,220 ordinary shares in the recapitalization; and (c) 171 Class B Shares of Castlewood were held by Marsh & McLennan Employees Securities Company, L.P., or Trident ESC, which will be exchanged for 59,344 ordinary shares in the recapitalization. As part of the recapitalization, Castlewood will repurchase 1,797.555 of Trident s Class B Shares of Castlewood for $20.0 million, which shares will not be part of the exchange for ordinary shares. The sole general partner of Trident II is Trident Capital II, L.P., or Trident GP, and the manager of Trident II is Stone Point Capital LLC, or Stone Point. The general partners of Trident GP are four single member limited liability companies that are owned by individuals who are members of Stone Point, one of whom is Mr. Carey. The sole general partner of Trident PF is a company controlled by four individuals who are members of Stone Point, one of whom is Mr. Carey. The sole general partner of Trident ESC is a company that is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc., or MMC. Stone Point has authority to execute documents on behalf of the general partner of Trident ESC pursuant to a limited power of attorney, but Stone Point is not affiliated with MMC. The principal address for Trident II, Trident PF and Trident ESC is c/o Maples & Calder,

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Ugland House, Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands. Trident PF and Trident ESC have agreed with Trident II that (i) Trident ESC will divest its holdings in New Enstar only in parallel with Trident II, (ii) Trident PF will not dispose of its holdings in New Enstar before Trident II disposes of its interest, and (iii) to the extent that Trident PF elects to divest its interest in New Enstar at the same time as Trident II, Trident PF will divest its holdings in New Enstar in parallel with Trident II. As a result of this agreement, Trident II may be deemed to beneficially own 333 Class B Shares of Castlewood directly held by Trident PF and Trident ESC collectively, and Trident PF and Trident ESC may be deemed to beneficially own 5,667 Class B Shares of Castlewood directly held by Trident II. Trident II disclaims beneficial ownership of the Class B Shares of Castlewood (and the ordinary shares issued in exchange for such Class B Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by Trident PF and Trident ESC, and Trident PF and Trident ESC each disclaims beneficial ownership of the Class B Shares of Castlewood (and the ordinary shares issued in exchange for such Class B Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by Trident II. Trident PF and Trident ESC are not affiliated and each disclaims beneficial ownership of the Class B Shares of Castlewood (and the ordinary shares issued in exchange for such Class B Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by the other.

(3) As of September 28, 2006, (a) 900 Class C Shares of Castlewood were held directly by Mr. Silvester, which will be exchanged for 531,582 ordinary shares in the recapitalization; (b) 900 Class C Shares of Castlewood were held by the Left Trust, which will be exchanged for 531,582 ordinary shares in the recapitalization; and (c) 1,800 Class C Shares of Castlewood were held by the Right Trust, which will be exchanged for 1,063,164 ordinary shares in the recapitalization. Mr. Silvester and his immediate family are the sole beneficiaries of the Left Trust and the Right Trust. The Trustee of the Left Trust is R&H Trust Co. (NZ) Limited, a New Zealand company, whose registered office is 162 Wickstead Street, Wanganui 5001, New Zealand. The Trustee of the Right Trust is R&H Trust Co. (BVI) Ltd., a British Virgin Islands company, or RHTCBV, whose registered office is Woodbourne Hall, P.O. Box 3162, Road Town, Tortola, British Virgin Islands.

(4) Mr. Flowers is a director of Enstar and its largest shareholder. Mr. Flowers may be deemed to share voting and dispositive power with respect to the Class A Shares of Castlewood (and the non-voting convertible ordinary shares issued in exchange for such Class A Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by Enstar. Mr. Flowers disclaims beneficial ownership of all such Class A Shares (and, following the recapitalization, such ordinary non-voting convertible shares) except to the extent of any pecuniary interest therein. See footnote 1 above.

(5) As of September 28, 2006, the Elbow Trust held 1,200 Class C Shares of Castlewood, which will be exchanged for 708,775 ordinary shares in the recapitalization. Mr. O Shea and his immediate family are the sole beneficiaries of the Elbow Trust. The Trustee of the Elbow Trust is RHTCBV.

(6) As of September 28, 2006, the Hove Trust held 1,200 Class C Shares of Castlewood, which will be exchanged for 708,775 ordinary shares in the recapitalization. Mr. Packer and his immediate family are the sole beneficiaries of the Hove Trust. The Trustee of the Hove Trust is RHTCBV.

(7) Mr. Frazer is the Chairman of the Board and Chief Executive Officer of Enstar. Mr. Frazer may be deemed to share voting and dispositive power with respect to the Class A Shares of Castlewood (and the non-voting convertible ordinary shares issued in exchange for such Class A Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by Enstar. Mr. Frazer disclaims beneficial ownership of all such Class A Shares (and, following the recapitalization, such non-voting convertible ordinary shares) except to the extent of any pecuniary interest therein. See footnote 1 above.

(8)

Mr. Oros is a director and President of Enstar. Mr. Oros may be deemed to share voting and dispositive power with respect to the Class A Shares of Castlewood (and the non-voting convertible ordinary shares issued in exchange for such Class A Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by Enstar. Mr. Oros disclaims beneficial ownership of all such Class A Shares (and, following the recapitalization, such non-voting convertible ordinary shares) except to the extent of any pecuniary interest therein. See footnote 1 above.

(9) As of September 28, 2006, Mr. Harris held 111.886 Class D Shares of Castlewood, which will be exchanged for 50,176 ordinary shares in the recapitalization.

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(10) Mr. Carey is a member and a Principal of Stone Point and one of the members of Stone Point who participates in the management of Trident II, Trident PF and Trident ESC. Mr. Carey may be deemed to share voting and dispositive power with respect to the Class B Shares (and the ordinary shares issued in exchange for such Class B Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by Trident II, Trident PF and Trident ESC. Mr. Carey disclaims beneficial ownership of all such Class B Shares and, following the recapitalization, such ordinary shares, except to the extent of any pecuniary interest therein. See also footnote 2 above.

(11) Ms. Hartzband is a member and the Chief Investment Officer of Stone Point and one of the members of Stone Point who participates in the management of Trident II, Trident PF and Trident ESC. Ms. Hartzband may be deemed to share voting and dispositive power with respect to the Class B Shares (and the ordinary shares issued in exchange for such Class B Shares in the recapitalization) that are, or may be deemed to be, beneficially owned by Trident II, Trident PF and Trident ESC. Ms. Hartzband disclaims beneficial ownership of all such Class B Shares and, following the recapitalization, such ordinary shares, except to the extent of any pecuniary interest therein. See also footnote 2 above.

(12) Castlewood s bye-laws reduce the total voting power of any U.S. shareholder or direct foreign shareholder group owning 9.5% or more of our ordinary shares to less than 9.5% of the voting power of all of our shares.

Security Ownership of Certain Beneficial Owners and Management of Enstar

The following table lists beneficial ownership of Enstar common stock as of September 28, 2006 by owners of more than five percent of the Enstar common stock, each director and executive officer of Enstar, and all directors and executive officers of Enstar as a group. All information is taken from or based upon ownership filings made by such persons with the Commission or upon information provided by such persons to Enstar. Unless otherwise indicated, the shareholders listed below have sole voting and investment power with respect to the shares reported as owned.

Class of Stock: Common

Name	Address for 5% Owners	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)
J. Christopher Flowers	717 Fifth Avenue 26th Floor New York, New York 10022	1,226,070(3)	21.35%
Nimrod T. Frazer	401 Madison Avenue Montgomery, Alabama 36104	435,001(4)	7.41%
John J. Oros	401 Madison Avenue Montgomery, Alabama 36104	450,000(5)	7.51%
Cheryl D. Davis		3	*
Amy M. Dunaway		87(6)	*
T. Whit Armstrong		56,569(7)	*
Paul J. Collins		21,304(8)	*
Gregory L. Curl		6,383(9)	*
T. Wayne Davis		165,616(10)	2.87%
All Executive Officers and Directors of Enstar as a Group (9 Persons)		2,361,033	40.60%

* Less than 1%.

(1) Under the rules of the Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person also is deemed to be a beneficial owner of any securities which that person has

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the right to acquire within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as of which he or she has no economic or pecuniary interest. Except as set forth in the footnotes below, the persons named above have sole voting and investment power with respect to all shares of common stock shown as being beneficially owned by them.

(2) Based on an aggregate of 5,739,384 shares of common stock issued and outstanding as of September 28, 2006. Assumes that all options beneficially owned by the person are exercised and all stock units beneficially owned by the person are redeemed for shares of common stock. The total number of shares outstanding used in calculating this percentage assumes that none of the options beneficially owned by other persons are exercised and none of the stock units beneficially owned by other persons are redeemed for shares of common stock.

(3) Includes 4,515 stock units granted under the Deferred Plan prior to Mr. Flowers becoming an officer of Enstar as well as subsequent to Mr. Flowers resigning as an officer of Enstar.

(4) Includes 130,000 shares that are not currently outstanding, but that may be acquired within 60 days upon the exercise of stock options granted under the Incentive Plan.

(5) Consists of 200,000 shares owned indirectly by Mr. Oros through Brittany Ridge Investment Partners, L.P. and 250,000 shares that are not currently outstanding, but that may be acquired within 60 days upon the exercise of stock options granted under the Incentive Plan.

(6) Includes 54 shares which Ms. Dunaway holds jointly and shares voting and investment power with her spouse.

(7) Includes 14,922 stock units granted under the Deferred Plan. Also includes 15,000 shares that are not currently outstanding, but that may be acquired within 60 days upon the exercise of stock options granted under the 2001 Outside Directors Stock Plan.

(8) Includes 1,304 stock units granted under the Deferred Plan and 5,000 shares that are not currently outstanding, but that may be acquired within 60 days upon the exercise of stock options granted under the Incentive Plan.

(9) Consists of 1,383 stock units granted under the Deferred Plan and 5,000 shares that are not currently outstanding, but that may be acquired within 60 days upon the exercise of stock options granted under the Incentive Plan.

(10) Includes 2,883 shares held by Mr. Davis wife, 16,962 shares held in trust, 81,025 shares held in a private foundation for which Mr. Davis has voting and investment power but is not a beneficiary, 14,146 stock units granted under the Deferred Plan, 600 shares held indirectly by Mr. Davis through T. Wayne Davis PA, 500 shares held indirectly by Mr. Davis through Redwing Land Company, and 500 shares held indirectly by Mr. Davis through Redwing Properties, Inc. Also includes 15,000 shares that are not currently outstanding, but that may be acquired within 60 days upon the exercise of stock options granted under the 1997 Outside Directors Plan and the 2001 Outside Directors Plan.

Security Ownership of Certain Beneficial Owners and Management of New Enstar

The table below sets forth the projected beneficial ownership of New Enstar s ordinary shares immediately after the consummation of the merger and is derived from information relating to the beneficial ownership of Enstar common stock and Castlewood share capital as of September 28, 2006. The table sets forth the projected beneficial ownership of New Enstar s ordinary shares by the following individuals or entities:

each person who will beneficially own more than 5% of New Enstar s ordinary shares immediately after consummation of the merger;

the individuals who will be the directors of New Enstar; and

the individuals who will be the directors and executive officers of New Enstar as a group.

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Beneficial ownership is determined in accordance with the rules of the Commission. Except as otherwise indicated, each person or entity named in the table is expected to have sole voting and investment power with respect to all of New Enstar s ordinary shares shown as beneficially owned, subject to applicable community property laws. As of September 28, 2006, 5,739,384 shares of Enstar common stock were issued and outstanding. As of September 28, 2006, 6,000 shares of Class A Ordinary Shares, par value $1.00 per share, 6,000 Class B Ordinary Shares, par value $1.00, and 6,000 Class C Ordinary Shares, par value $1.00 share, were issued. The percentage of beneficial ownership set forth below gives effect to the issuance of an estimated 6,047,131 of New Enstar s ordinary shares in the recapitalization and the issuance of an estimated 5,775,654 of New Enstar s ordinary shares in the merger and is based on 11,822,785 of New Enstar s ordinary shares estimated to be outstanding immediately following the consummation of the merger. In computing the number of New Enstar ordinary shares beneficially owned by a person and the percentage ownership of that person, outstanding New Enstar restricted stock units and New Enstar s ordinary shares that will be subject to options held by that person that are currently exercisable or that are exercisable within 60 days of September 28, 2006 are deemed outstanding. These shares are not, however, deemed outstanding for the purpose of computing the percentage ownership of any other person.

New Enstar Ordinary Shares

Name	Number of Shares	Number of Shares Subject to Option	Percent of Class
Trident II, L.P. and related affiliates(1)	2,082,236	0	17.61%
J. Christopher Flowers(2)	1,226,070	0	10.37%
Nimrod T. Frazer	305,001	160,000	3.88%
John J. Oros(3)	200,000	300,000	4.12%
Dominic F. Silvester(4)	2,236,567	0	18.92%
Nicholas A. Packer(5)	708,775	0	5.99%
Paul O Shea(6)	708,775	0	5.99%
Richard J. Harris(7)	50,176	0	*
T. Whit Armstrong(8)	41,569	15,000	*
Paul J. Collins(9)	16,304	5,000	*
Gregory L. Curl(10)	1,383	5,000	*
T. Wayne Davis(11)	150,616	15,000	1.40%
All Executive Officers and Directors of New Enstar as a Group (11 Persons)	5,645,236	500,000	51.98%

* Less than 1%.

(1) Includes (a) 1,966,672 ordinary shares to be held by Trident II, L.P., or Trident II, upon consummation of the recapitalization; (b) 56,220 ordinary shares to be held by Marsh & McLennan Capital Professionals Fund, L.P., or Trident PF, upon consummation of the recapitalization; and (c) 59,344 ordinary shares to be held by Marsh & McLennan Employees Securities Company, L.P., or Trident ESC, upon completion of the recapitalization. The sole general partner of Trident II is Trident Capital II, L.P., or Trident GP, and the manager of Trident II is Stone Point Capital LLC, or Stone Point. The general partners of Trident GP are four single member limited liability companies that are owned by individuals who are members of Stone Point. The sole general partner of Trident PF

is a company controlled by four individuals who are members of Stone Point. The sole general partner of Trident ESC is a company that is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc., or MMC. Stone Point has authority to execute documents on behalf of the general partner of Trident ESC pursuant to a limited power of attorney, but Stone Point is not affiliated with MMC. The principal address for Trident II, Trident PF and Trident ESC is c/o Maples & Calder, Ugland House, Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands. Trident PF and Trident ESC have agreed with Trident II that (i) Trident ESC will divest its holdings in New Enstar only in parallel with Trident II, (ii) Trident PF will not dispose of its holdings in New Enstar before Trident II disposes of its interest, and (iii) to the extent that Trident PF elects to

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divest its interest in New Enstar at the same time as Trident II, Trident PF will divest its holdings in parallel with Trident II. As a result of this agreement, Trident II may be deemed to beneficially own 115,564 ordinary shares of New Enstar directly held by Trident PF and Trident ESC collectively, upon consummation of the recapitalization and Trident PF and Trident ESC may be deemed to beneficially own 1,966,672 ordinary shares of New Enstar directly held by Trident II upon consummation of recapitalization. Trident II disclaims beneficial ownership of the ordinary shares of New Enstar that are, or may be deemed to be, beneficially owned by Trident PF or Trident ESC upon consummation of the recapitalization, and Trident PF and Trident ESC each disclaims beneficial ownership of the ordinary shares of New Enstar that are, or may be deemed to be, beneficially owned by Trident II upon consummation of the recapitalization. Trident PF and Trident ESC are not affiliated and each disclaims beneficial ownership of the ordinary shares of New Enstar that are, or may be deemed to be, beneficially owned by the other upon consummation of the recapitalization.

(2) Includes 4,515 stock units granted under Enstar s Deferred Plan that will be converted into 4,515 ordinary share units of New Enstar.

(3) Includes 200,000 ordinary shares indirectly owned by Mr. Oros through Brittany Ridge Investment Partners, L.P.

(4) Includes 641,821 ordinary shares held directly by Mr. Silvester (of which 110,239 will be issued to Mr. Silvester in connection with the merger based on his ownership of 110,239 shares of Enstar common stock), 531,582 ordinary shares held by the Left Trust and 1,063,164 ordinary shares held by Right Trust. Mr. Silvester and his immediate family are the sole beneficiaries of the Left Trust and the Right Trust. The trustee of the Left Trust is R&H Trust Co. (NZ) Limited, a New Zealand company, whose registered office is 162 Wickstead Street, Wanganui 5001, New Zealand. The trustee of the Right Trust is R&H Trust Co. (BVI) Ltd., or RHTCBV, a British Virgin Islands Company, whose registered office is Woodbourne Hall, P.O. Box 3162, Road Town, Tortola, British Virgin Islands.

(5) Includes 708,775 ordinary shares held by the Hove Trust. Mr. Packer and his immediate family are the sole beneficiaries of the Hove Trust. The trustee of the Hove Trust is RHTCBV.

(6) Includes 708,775 ordinary shares held by the Elbow Trust. Mr. O Shea and his immediate family are the sole beneficiaries of the Elbow Trust. The trustee of the Elbow Trust is RHTCBV.

(7) Includes 26,190 ordinary shares that are issued, but remain subject to certain vesting restrictions between April 2007 and April 2010.

(8) Includes 14,922 stock units granted under Enstar s Deferred Plan that will be converted in to 14,922 ordinary share units of New Enstar.

(9) Includes 1,304 stock units granted under Enstar s Deferred Plan that will be converted in to 1,304 ordinary share units of New Enstar.

(10) Includes 1,383 stock units granted under Enstar s Deferred Plan that will be converted in to 1,383 ordinary share units of New Enstar.

(11) Includes 2,883 ordinary shares held by Mr. Davis wife, 16,962 ordinary shares held in trust, 81,025 shares held in a private foundation for which Mr. Davis has voting and investment power, but is not a beneficiary, 600 ordinary shares held indirectly by Mr. Davis through T. Wayne Davis PA, 500 ordinary shares held indirectly by Mr. Davis through Redwing Land Company, 500 ordinary shares held indirectly by Mr. Davis through Redwing Properties Inc., and 14,146 stock units granted under Enstar s Deferred Plan that will be converted into

14,146 ordinary share units of New Enstar.

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PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Castlewood

There is no established public trading market for the various classes of Castlewood s shares. As of May 23, 2006, there were approximately 29 holders of record of Castlewood s shares.

In March 2003, Castlewood s board of directors declared a dividend of $3,471 per share to holders of its Class A Shares and $5,495.83 per share to holders of its Class B Shares, which dividends were paid on March 24, 2003.

In March 2004, Castlewood s board of directors declared a dividend of $500 per share to holders of its Class A Shares and $791.67 per share to holders of its Class B Shares, which dividends were paid on May 10, 2004.

In April 2006, Castlewood s board of directors declared a dividend of $3,356 per share to holders of its Class A Shares, $490.75 per share to holders of its Class B Shares and $811.22 per share to holders of its Class C Shares, which dividends were paid on April 26, 2006. Also in April 2006, Castlewood s board of directors approved the redemption of all of Castlewood s outstanding Class E Shares for $22.4 million.

Castlewood paid no dividends during the fiscal years ended December 31, 2001, 2002 and 2005.

Enstar

Enstar s common stock is traded on the Nasdaq under the ticker symbol ESGR. The closing price per share of Enstar common stock on May 23, 2006, the last trading day before the announcement of the execution of the merger agreement, was $76.36. The closing price per share of Enstar common stock as reported on the Nasdaq on , the most recent trading day practicable before the printing of this proxy statement/prospectus, was .

The following table reflects the range of high and low selling prices of Enstar s common stock by quarter for the first, second and third quarters of 2006, and the years ended December 31, 2005 and 2004, as reflected in the Nasdaq Trade and Quote Summary Reports:

	Enstar Common Stock	
	High	**Low**
2006		
First Quarter	$ 89.74	$ 64.25
Second Quarter	$ 92.19	$ 76.36
Third Quarter	$ 104.94	$ 84.25
2005		
First Quarter	$ 64.97	$ 56.12
Second Quarter	$ 67.85	$ 49.03
Third Quarter	$ 69.94	$ 63.40
Fourth Quarter	$ 72.85	$ 60.19
2004		
First Quarter	$ 48.40	$ 40.61

Second Quarter	$ 53.98	$ 39.82
Third Quarter	$ 53.00	$ 44.56
Fourth Quarter	$ 63.00	$ 49.25

At September 28, 2006, there were approximately 2,627 holders of record of Enstar s common stock.

If the merger is consummated, Enstar shareholders as of the applicable record date will receive a one-time $3.00 per share cash dividend on their Enstar common stock, payable immediately prior to the merger.

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Enstar has not declared or paid any other cash dividend on any of its securities since 1989. If the merger is not consummated, Enstar currently intends to retain its earnings to finance the growth and development of its future business and does not anticipate paying cash dividends in the foreseeable future. If the merger is not consummated, the payment of cash dividends in the future will depend upon such factors as Enstar earnings, capital requirements, financial condition, contractual restrictions and other factors deemed relevant by the Enstar board of directors.

The information required by this Item with respect to securities authorized for issuance under equity compensation plans is included under the section of Information about Enstar Executive Compensation Enstar Executive Officers Equity Compensation Plan Information beginning on page 157.

Holders of Enstar common stock should obtain current market quotations for Enstar common stock. The market price of Enstar common stock could vary at any time before the merger.

New Enstar

New Enstar is a holding company and has no direct operations. The ability of New Enstar to pay dividends or distributions depends almost exclusively on the ability of its subsidiaries to pay dividends to New Enstar. Under applicable law, our subsidiaries may not declare or pay a dividend if there are reasonable grounds for believing that they are, or would after the payment be, unable to pay their liabilities as they become due, or the realizable value of their assets would thereby be less than the aggregate of their liabilities and their issued share capital and share premium accounts. Additional restrictions apply to our insurance and reinsurance subsidiaries. New Enstar does not intend to pay a dividend on its ordinary shares. Rather, New Enstar intends to reinvest any earnings back into the company. For a further description of the restrictions on the ability of our subsidiaries to pay dividends, see Risk Factors Risks Relating to Ownership of New Enstar Ordinary Shares We do not intend to pay cash dividends on our ordinary shares and Information about Castlewood Business Regulation beginning on pages 31 and 99, respectively.

In connection with the merger, New Enstar s ordinary shares are anticipated to be approved for listing on the Nasdaq under the symbol ESGR, subject to official notice of issuance.

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COMPARISON OF SHAREHOLDER RIGHTS

Set forth below is a summary description of the material differences between the current rights of the holders of Enstar common stock and the rights that those shareholders will have as holders of New Enstar ordinary shares following the merger. The following discussion is intended only to highlight material differences between the rights of corporate shareholders under Georgia law and Bermuda law generally and specifically with respect to Enstar and New Enstar shareholders pursuant to the respective organizational documents. This discussion does not constitute a complete comparison of the differences between the rights of such holders or the provisions of the Georgia Business Corporation Code, as amended, or the GBCC, the provisions of the Companies Act, New Enstar s memorandum of association, New Enstar s second amended and restated bye-laws, Enstar s articles of incorporation and Enstar s bylaws.

The rights of the holders of Enstar common stock are governed by Georgia law, Enstar s articles of incorporation and Enstar s bylaws. Upon consummation of the merger, the rights of the holders of Enstar common stock who become shareholders of New Enstar as a result of the merger will be governed by Bermuda law, and by New Enstar s memorandum of association and New Enstar s second amended and restated bye-laws.

	Enstar (Georgia)	**New Enstar (Bermuda)**
Description of Common Stock/ Ordinary Shares	Enstar is authorized to issue 55,000,000 shares of common stock, par value $0.01 per share. Holders of Enstar s common stock are entitled to one vote per share.	New Enstar is authorized to issue 100,000,000 ordinary shares, par value $1.00 per share, and 6,000,000 non-voting convertible ordinary shares, par value $1.00 per share. Holders of ordinary shares are entitled to one vote per share. Holders of non-voting convertible ordinary shares are not entitled to vote.
Description of Preferred Stock/ Preference Shares	Enstar s articles of incorporation and bylaws do not authorize the issuance of preferred stock.	New Enstar s amended and restated bye-laws authorize the board of directors to issue 50,000,000 preference shares, par value $1.00 per share. New Enstar s amended and restated bye-laws authorize the board of directors at any time and from time to time to provide for the issuance of preference shares in one or more series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations, or restrictions thereof, with such liquidation, dividend, voting, conversion, exchange, redemption,

repurchase or sinking fund privileges as the board of directors determines. Currently, no preference shares of New Enstar are outstanding.

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	Enstar (Georgia)	New Enstar (Bermuda)
Special Meeting of Shareholders	Under Enstar s bylaws, the Chairman or a majority of the board of directors by written request is permitted to call a special meeting; such special meetings may not be called by any other person or persons except as required by the GBCC. Under the GBCC, a special meeting of shareholders may be called by the board of directors or any other person authorized to do so in the articles of incorporation or the bylaws. In addition, the GBCC provides that a special meeting of shareholders may also be called by the holders of at least 25% of all votes entitled to be cast on any issue proposed to be considered at a special meeting or such greater or lesser percentages as the articles of incorporation or the bylaws provide.	New Enstar s amended and restated bye-laws provide that a special meeting of shareholders may be convened by the President or the Chairman, or by the board of directors, whenever in its judgment a meeting is necessary. The board of directors must convene a special general meeting at the request of shareholders holding at the date of the deposit of the request not less than 10% of the total combined voting power of all of New Enstar s shares carrying the right to vote at New Enstar s general meetings.
Action by Written Consent in Lieu of a Shareholders Meeting	The GBCC permits shareholders to act without a meeting only by unanimous written consent of the shareholders entitled to vote on the action, unless otherwise provided by the articles of incorporation. Enstar s articles of incorporation permit shareholders to act by a written consent if signed by persons who would be entitled to vote at a meeting whose shares having voting power to cause not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote were present and voted.	The Companies Act and New Enstar s amended and restated bye-laws provide that shareholders may take action by written consent only by unanimous written consent of the shareholders entitled to vote on the action.

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	Enstar (Georgia)	New Enstar (Bermuda)
Advance Notice Provisions for Shareholder Proposals at Annual or Special Meetings	Enstar s bylaws provide that shareholders must be given not less than 10 and not more than 60 days notice before annual meetings and special meetings.	The Companies Act provides that shareholders may, as set forth below, at their own expense (unless a company otherwise resolves), require a company to give notice of any resolution that the shareholders can properly propose at the next annual general meeting and/or to circulate a statement prepared by the requesting shareholders in respect of any matter referred to in a proposed resolution or any business to be conducted at a general meeting. The number of shareholders necessary for such a request is either that number of shareholders representing at least 5% of the total voting rights of all shareholders having a right to vote at the meeting to which the request relates or not less than 100 shareholders.
	There are no advance notice requirements to submit a shareholder proposal.	New Enstar s amended and restated bye-laws provide that at least 10 days notice to shareholders is required for an annual general meeting and a special general meeting. If a general meeting is called on shorter notice, it will be deemed to have been properly called if it is so agreed by (i) all the shareholders entitled to attend and vote thereat in the case of an annual general meeting and (ii) by a majority in number of the shareholders having the right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving a right to attend and vote thereat in the case of a special general meeting. The accidental omission to give notice of a general meeting to, or the non-receipt of a notice of

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	Enstar (Georgia)	New Enstar (Bermuda)
		a general meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.
Nomination of Directors	The board of directors shall nominate candidates to serve as members of the board of directors. Any shareholder entitled to vote for the election of directors may submit to the board of directors nominations for the election of directors only by giving written notice (such notice to include a statement of the qualifications of the nominee) to the Secretary of Enstar at least 60 days but not more than 90 days prior to the annual meeting of shareholders at which directors are to be elected, unless such requirement is waived in advance of the meeting by the board of directors.	New Enstar s amended and restated bye-laws provide that the board of directors may propose any person for election as a director and may from time to time establish procedures to receive nominations from a shareholder of persons for election as directors. Only persons who are proposed or nominated in accordance with this bye- law are eligible for election as directors.
Number of Directors	Enstar s bylaws provide that the board of directors shall consist of not less than 3 and not more than 15 directors. The number of the board of directors shall be increased or decreased only by a majority vote of the directors. Presently, Enstar s board of directors consists of 7 members.	New Enstar s amended and restated bye-laws provide that the board of directors shall consist of not less than 5 directors and not more than 15 directors, as the board of directors may from time to time determine. A majority of the board of directors must consist of directors who are not residents of the United Kingdom or Switzerland. Presently, New Enstar s board of directors consists of 8 members.
Classified Board of Directors	The GBCC provides that a company s board of directors may be divided into various classes with staggered terms of office. Enstar s board of directors is divided into three classes, as nearly equal in size as possible, with one class being elected annually. Enstar s	New Enstar s amended and restated bye-laws provide that the board of directors is divided into three classes, as nearly equal in size as possible, with one class being elected annually. After the initial terms (Class I directors have an initial term of one year, Class II directors have

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	Enstar (Georgia)	New Enstar (Bermuda)
	directors are elected to a term of three years. Classification of directors makes it more difficult for shareholders to change the composition of the board of directors.	an initial term of two years, and Class III directors have an initial term of three years), all directors are elected to a term of three years. Classification of directors makes it more difficult for shareholders to change the composition of the board of directors.
Election of Directors	Enstar s bylaws provide that the directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at an annual meeting of the shareholders at which a quorum is present. Because Enstar has a classified board of directors, at least two annual meetings of shareholders will generally be required to change a majority of the board of directors. If Enstar were confronted by a holder attempting to force a proxy contest, a tender or exchange offer or other extraordinary corporate transaction, the extended time period required to replace a majority of the board of directors is designed to allow the board sufficient time to review the proposal, provide the board with an opportunity to review available alternatives to the proposal and act in what it believes to be in the best interests of shareholders. These factors may have the effect of deterring such proposals or making them less likely to succeed. Under the GBCC, shareholders do not have cumulative voting rights for the election of directors unless the articles of incorporation so provide. Enstar s articles of incorporation do not provide for cumulative voting rights.	New Enstar s amended and restated bye-laws provide that the directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a general meeting of the shareholders at which a quorum is present. Because New Enstar has a classified board of directors, at least two annual general meetings of shareholders will generally be required to change a majority of the board of directors. If New Enstar were confronted by a holder attempting to force a proxy contest, a tender or exchange offer or other extraordinary corporate transaction, the extended time period required to replace a majority of the board of directors is designed to allow the board sufficient time to review the proposal, provide the board with an opportunity to review available alternatives to the proposal and act in what it believes to be in the best interests of shareholders. These factors may have the effect of deterring such proposals or making them less likely to succeed. Under the Companies Act shareholders do not have cumulative voting rights for the election of directors unless the memorandum of association or amended and restated bye- laws so provide. Neither New Enstar s

memorandum of

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	Enstar (Georgia)	New Enstar (Bermuda)
		association nor its amended and restated bye-laws provide for cumulative voting rights.
Removal of Directors	The GBCC provides that classified directors of a company may be removed only for cause by a majority of the votes entitled to be cast on their election, unless the articles of incorporation or a bylaw adopted by the shareholders provides otherwise. However, if a director is elected by a particular voting group of directors, that director may only be removed by the requisite vote of that voting group. Enstar s bylaws provide that the shareholders may remove a director only with cause.	Under New Enstar s amended and restated bye-laws, directors can be removed from office at any general meeting properly convened and held, only with cause, by the affirmative vote of shareholders holding at least a majority of the total combined voting power of all of the issued ordinary shares (after giving effect to any reduction in voting power for certain holders of more than 9.5% of the ordinary shares outstanding). Notice of any such meeting convened for the purpose of removing a director shall contain a statement of the intention to do so and be served on such director not less than 14 days before such meeting. The director shall be entitled to be heard on the motion for such director s removal at such meeting.
Board of Director Vacancies	The GBCC provides that vacancies on the board of directors may be filled by the shareholders or directors, unless the articles of incorporation or a bylaw approved by the shareholders provides otherwise. Enstar s bylaws provide that a vacancy may be filled by the vote of the majority of the remaining directors. Any director so elected shall hold office until the next annual meeting of the shareholders.	New Enstar s amended and restated bye-laws provide that a vacancy shall be filled by the shareholders, or in their absence, by the board of directors.
Indemnification	Enstar shall indemnify current and former directors and officers from and against any and all loss, cost,	Under the Companies Act, no indemnification may be provided if the individual is fraudulent or

liability, and expense dishonest in the

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Enstar (Georgia)	New Enstar (Bermuda)
(including attorneys fees) that may be imposed upon or incurred in connection with or resulting from any threatened, pending, or completed claim, action, suit, or proceeding (other than an action by or in the right of Enstar) whether, civil, criminal, administrative, or investigative, whether formal or informal, in which such person may become involved by reason of being a director or officer, provided that he acted in good faith, and, while acting in an official capacity, acted in a manner he reasonably believed to be in the best interests of Enstar, and, in all other cases, acted in a manner such person reasonably believed was not opposed to the best interests of Enstar. With respect to criminal action, such person will be indemnified if he had no reasonable cause to believe his conduct was unlawful. If a claim is settled (whether by agreement, plea of nolo contendere, entry of judgment or consent, or otherwise) the determination in good faith by the board of directors that such person acted in a manner that met the standards set forth in the bylaws shall be necessary and sufficient to justify indemnification. Enstar shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action or suit by or in the right of Enstar to procure a judgment in its favor by reason of the fact he is or was a director or officer of Enstar or is or was serving at the request of Enstar as a director, officer or	performance of his or her duties to New Enstar (unless a court determines otherwise). New Enstar s amended and restated bye-laws provide that New Enstar shall indemnify the directors, secretary and other officers (including any person appointed to any committee by the board of directors) while acting in relation to any of the affairs of New Enstar (or any subsidiary thereof) from and against all actions, costs, charges, losses, damages and expenses that they or any of them, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in. This indemnity shall not extend to any matter in which any of such persons is found, in a final judgment or decree not subject to appeal, to have committed fraud or dishonesty. Each shareholder waives any claim, whether individually or on behalf of New Enstar, against any director or officer on account of any action taken by such director or officer, or the failure of such director or officer to take any action in the performance of his duties with or for New Enstar or any subsidiary thereof, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such director or officer.

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	Enstar (Georgia)	New Enstar (Bermuda)
	agent of another enterprise, against expenses (including attorneys fees and disbursements), judgments and any other amounts permitted by applicable law actually and reasonably incurred by him or in connection with the defense or settlement of such action or suit; No indemnification for derivative actions shall be made to any person adjudged to be liable to Enstar unless the director or officer has not been adjudged liable or subject to injunctive relief in favor of Enstar (i) for any appropriation, in violation of his duties, of any business opportunity of Enstar; (ii) for acts or omissions which involve intentional misconduct or a knowing violation of law; (iii) for the types of liability set forth in Code Section 14-2-832 of the GBCC; or (iv) for any transaction from which he received an improper benefit and in the event the foregoing conditions are not met, then only to the extent that the court in which such action or suit was brought or another court of competent jurisdiction shall determine upon application, that despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnification for such expenses which the court shall deem proper.	
Limitations on Liability of Directors	Enstar s articles of incorporation eliminate a director s personal liability for monetary damages to Enstar or any of its shareholders, for any action taken as a director, except that	See discussion above in Indemnification.

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	Enstar (Georgia)	New Enstar (Bermuda)
	such liability is not eliminated for: any appropriation, in violation of such director s duties, of any business opportunity of Enstar; acts or omissions which involve intentional misconduct or a knowing violation of law; unlawful distributions; or any transaction from which the director received an improper personal benefit. Enstar s bylaws provide that if at any time Georgia law is amended to further eliminate or limit the liability of a director, then the liability of each director of Enstar shall be limited to the fullest extent permitted thereby.	
Business Combination Restrictions	Under its bylaws, Enstar affirmatively elects that the provisions of Sections 14-2-1131 through 14-2-1133 of the GBCC specifically shall apply to the company. The GBCC authorizes Georgia companies to adopt a provision that prohibits business combinations with interested shareholders occurring within five years of the date a person first becomes an interested shareholder. For purposes of this statute, business combinations are defined to include mergers, sales of 10% or more of the company s net assets, and certain issuances of securities, all involving the company and any interested shareholder.	New Enstar s amended and restated bye-laws do not prohibit business combinations with interested shareholders.

With limited exceptions, the
Georgia business combination
statute requires approval of a
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Enstar (Georgia)	New Enstar (Bermuda)
subject transaction in one of three ways: prior to such person becoming an interested shareholder, the company s board of directors must have approved the business combination or the transaction which resulted in the shareholder becoming an interested shareholder; the interested shareholder must acquire at least 90% of the outstanding voting stock of the company (other than shares owned by officers, directors of Enstar and its affiliates and associates) in the same transaction in which such person becomes an interested shareholder; or subsequent to becoming an interested shareholder, such person acquires additional shares resulting in ownership of at least 90% of the voting stock, other than shares owned by officers, directors of Enstar and its affiliates and associates, and obtains the approval of the business combination by the holders of a majority of the shares entitled to vote thereon, exclusive of the shares held beneficially by the interested shareholder and its affiliates and shares owned by officers, directors and their affiliates and associates. An interested shareholder is defined as a person or entity that is the beneficial owner of 10% or more of the voting power of the company s voting stock, or a person or entity that is an affiliate of the company and, at any time within the 2-year	

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	Enstar (Georgia)	New Enstar (Bermuda)
	period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the company s voting stock.	
Vote on Extraordinary Corporate Transactions	Under the GBCC, a sale or other disposition of all or substantially all of the company s assets, a merger of the company with and into another company, a share exchange involving one or more classes or series of the company s shares or a dissolution of the company must be approved by the board of directors (except in certain limited circumstances) plus, with certain exceptions, the affirmative vote of the holders of a majority of all shares of stock entitled to vote thereon.	The Companies Act permits an amalgamation between two or more Bermuda companies, or between one or more Bermuda exempted companies and one or more foreign companies. Under Bermuda law, New Enstar is an exempted company.
Par Value, Dividends and Repurchases of Shares	Under the GBCC, a company may make distributions to its shareholders subject to any restrictions imposed in the company s articles of incorporation, except that no distribution may be made if as a result the company would not be able to pay its debts as they become due in the usual course of business or its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution or shareholders whose preferential rights are superior to those receiving the distribution. Under the GBCC, a company may acquire its own shares of capital stock and shares so acquired will constitute authorized but unissued shares, unless the	Bermuda law does not permit payment of dividends or distributions of contributed surplus by a company if there are reasonable grounds for believing that the company, after the payment is made, would be unable to pay its liabilities as they become due, or the realizable value of the company s assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. The excess of the consideration paid on the issue of shares over the aggregate par value of such shares must (except in certain limited circumstances) be credited to a share premium account. Share premium may be distributed in certain limited circumstances, for example to pay up unissued shares that may be distributed to shareholders in proportion to their

holdings, but

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	Enstar (Georgia)	New Enstar (Bermuda)
	articles of incorporation provide that such shares become treasury shares or prohibit the reissuance of reacquired shares. If such reissuance is prohibited, the number of authorized shares will be reduced by the number of shares reacquired. Enstar s articles provide that all shares of the company that have been issued and are reacquired by Enstar are treasury shares.	is otherwise subject to limitation. In addition, New Enstar s ability to pay dividends is subject to Bermuda insurance laws and regulatory constraints. See Description of New Enstar s Share Capital Bermuda Law Dividends. Any issued shares may be purchased by New Enstar, to the extent not prohibited by applicable law, by action of the board of directors provided that, at the time of the purchase, there are no reasonable grounds for believing that New Enstar will or, after the purchase, will be unable to pay its liabilities as they become due.
Dissenters or Appraisal Rights	The GBCC provides that shareholders who comply with certain procedural requirements of the GBCC are entitled to dissent from and obtain payment of the fair value of their shares in the event of mergers, share exchanges, sales or exchanges of all or substantially all of the company s assets, certain amendments to the articles of incorporation and certain other actions taken pursuant to a shareholder vote to the extent provided for under the GBCC, the articles of incorporation, bylaws or a resolution of the board of directors. However, unless the company s articles of incorporation provide otherwise, appraisal rights are not available: to holders of shares of any class of shares not entitled to vote on the merger and share exchange; in a sale of all or substantially	Under Bermuda law, in the event of an amalgamation of a Bermuda company with another company, a shareholder of the Bermuda company who is not satisfied that fair value has been offered for such shareholder s shares may apply to a Bermuda court within one month of notice of the shareholders meeting to appraise the fair value of those shares. The amalgamation of a Bermuda company with another company (other than certain affiliated companies) requires the amalgamation agreement to be approved by the company s board of directors and by a meeting of its shareholders. Such shareholder approval, unless the amended and restated bye-laws otherwise provide, requires 75% of the shareholders voting at such meeting in respect of which the quorum shall be two persons holding or representing at least one-third of the issued shares of the

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Enstar (Georgia)	New Enstar (Bermuda)
all of the property of the company pursuant to court order; in a sale of all or substantially all of the company s assets for cash, where all or substantially all of the net proceeds of such sale will be distributed to the shareholders within one year; or to holders of shares which at the record date were either listed on a national securities exchange or held of record by more than 2,000 shareholders, unless: (1) in the case of a plan of merger or share exchange, the holders of shares of the class or series are required under the plan of merger or share exchange to accept for their shares anything except shares of the surviving company or a publicly held company which at the effective date of the merger or share exchange are either listed on a national securities exchange or held of record by more than 2,000 shareholders, except for scrip or cash payments in lieu of fractional shares; or (2) the articles of incorporation or a resolution of the board of directors approving the transaction provides otherwise. Under the GBCC the board of directors may voluntarily extend appraisal rights to shareholders. In addition, the GBCC provides that, if a shareholder is entitled to exercise appraisal rights, those rights constitute the shareholder s exclusive remedy in the absence of fraud or failure	company. New Enstar s amended and restated bye-laws do not provide otherwise, and, therefore, 75% shareholder approval is required.

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	Enstar (Georgia)	New Enstar (Bermuda)
	to comply with certain procedural requirements.	
Amendments to Charter	The GBCC provides that certain relatively technical amendments to a company s articles of incorporation may be adopted by the directors without shareholder action. Generally, the GBCC requires a majority vote of the outstanding shares of each voting group entitled to vote to amend the articles of incorporation, unless the GBCC, the articles of incorporation or a bylaw adopted by the shareholders requires a greater number of affirmative votes.	Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. An amendment to the memorandum of association that alters the company s business objects may require approval of the Bermuda Minister of Finance, who may grant or withhold approval at his or her discretion. Under Bermuda law, the holders of an aggregate of not less than 20% in par value of the company s issued share capital have the right to apply to the Bermuda courts for an annulment of any amendment to the memorandum of association resolved by shareholders at any general meeting, other than an amendment that alters or reduces a company s share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An application for an annulment of an amendment to the memorandum of association must be made within 21 days after the date on which the resolution altering the company s memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their number as they may appoint in writing for the purpose. No application may be made by shareholders

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	Enstar (Georgia)	New Enstar (Bermuda)
		voting in favor of the amendment.
Amendments to Bylaws	Under the GBCC, shareholder action is generally not necessary to amend the bylaws, unless the articles of incorporation provide otherwise or the shareholders in amending or repealing a particular bylaw provide expressly that the board of directors may not amend or repeal that bylaw. The shareholders do, however, have the right to amend, repeal or adopt bylaws, except for bylaws that restrict the power of the board to manage the business. Under Enstar s bylaws, the board of directors has the power to alter, amend or repeal the bylaws of Enstar at any annual meeting, or at a special meeting called for that purpose by the affirmative vote of a majority of all of the directors then in office, or by action of the board of directors taken by unanimous written consent in lieu of a meeting.	New Enstar s amended and restated bye-laws provide that both a resolution of the board of directors and a resolution of the shareholders are required to amend the amended and restated bye-laws.

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DESCRIPTION OF NEW ENSTAR S SHARE CAPITAL

Overview

As of the effective time and prior to the issuance of the merger consideration and after the recapitalization, the authorized share capital of New Enstar will consist of 100,000,000 ordinary shares, par value $1.00 per share, of which 6,139,425 shares will be issued and outstanding, 6,000,000 non-voting convertible ordinary shares, par value $1.00 per share, of which 2,972,892 will be issued and outstanding, and 50,000,000 preference shares, par value $1.00 per share, none of which will be issued. All issued and outstanding shares are fully paid and nonassessable. Authorized but unissued shares may, subject to any rights attaching to existing shares, be issued at any time and at the discretion of New Enstar s board of directors without the approval of its shareholders, with such rights, preferences and limitations as the board may determine.

The following description of New Enstar s share capital and the provisions of its memorandum of association and second amended and restated bye-laws, which will become effective before the effective time of the merger and are referred to in this proxy statement/prospectus, are only summaries of their material terms and the provisions relating to the share capital of New Enstar and are qualified by reference to the complete text of the memorandum of association and bye-laws, copies of which have been filed with the Commission as exhibits to New Enstar s registration statement of which this proxy statement/prospectus is a part. For information on how to obtain copies of the memorandum of association, bye-laws or other exhibits, see Where You Can Find More Information on page 226.

Ordinary Shares

Holders of ordinary shares have no preemptive, redemption, conversion or sinking fund rights. Subject to the limitation on voting rights described below, holders of ordinary shares are entitled to one vote per share on all matters submitted to a vote of shareholders. Most matters to be approved by shareholders require approval by a simple majority vote. Under the Companies Act, the holders of at least 75% of the ordinary shares voting in person or by proxy at a meeting generally must approve an amalgamation with another company. In addition, the Companies Act provides that a resolution to remove New Enstar s auditor before the expiration of its term of office must be approved by at least two-thirds of the votes cast at a meeting of New Enstar s shareholders. The quorum for any meeting of shareholders is two or more persons present in person throughout the meeting and representing in person or by proxy in excess of 50% of the total issued voting shares.

New Enstar s board of directors has the power to approve its discontinuation from Bermuda to another jurisdiction. In accordance with the Companies Act, the rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not New Enstar is being wound-up, be varied with the consent in writing of the holders of 75% of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of the shares of the class at which meeting the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class.

In the event of New Enstar s liquidation, dissolution or winding-up, the holders of ordinary shares are entitled to share equally and ratably on a *pari passu* basis with the non-voting convertible ordinary shares in the surplus of its assets, if any, remaining after the payment of all its debts and liabilities and the liquidation preference of any outstanding preference shares. Holders of ordinary shares are entitled to such dividends as New Enstar s board of directors may from time to time declare on a *pari passu* basis with the non-voting convertible ordinary shares.

Non-Voting Convertible Ordinary Shares

Holders of non-voting convertible ordinary shares have no pre-emptive, redemption or sinking fund rights and are generally entitled to enjoy all of the rights attaching to ordinary shares, but are not entitled to vote (see Ordinary Shares above). Each non-voting convertible ordinary share shall be automatically converted into one ordinary share, subject to any necessary adjustments for any share splits, dividends, recapitalizations, consolidations or similar transactions occurring in respect of the ordinary shares or the non-voting convertible

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ordinary shares after the date of the adoption of New Enstar s bye-laws, immediately prior to any transfer by the registered holder of such non-voting convertible ordinary share, whether or not for value, except for transfers to a nominee or an affiliate of such holder in a transfer that will not result in a change of beneficial ownership (as determined under Rule 13d-3 under the Exchange Act) or to a person or entity that already holds non-voting convertible ordinary shares.

Preference Shares

Pursuant to New Enstar s bye-laws and Bermuda law, the board of directors by resolution may establish one or more series of preference shares having such number of shares, designations, relative voting rights, dividend rates, redemption or repurchase rights, conversion rights, liquidation and other rights, preferences, powers, and limitations as may be fixed by the board of directors without any further shareholder approval, which if any such preference shares are issued, will include restrictions on voting and transfer intended to avoid having New Enstar constitute a controlled foreign corporation for United States federal income tax purposes. Such rights, preferences, powers and limitations as may be established could have the effect of discouraging an attempt to obtain control of New Enstar. The issuance of preference shares could also adversely affect the voting power of the holders of ordinary shares, deny shareholders the receipt of a premium on their ordinary shares or non-voting convertible ordinary shares at the end of a tender or other offer for such shares and have a depressive effect on the market price of such shares. New Enstar has no present plan to issue any preference shares.

Change of Control and Related Provisions of New Enstar s Memorandum of Association and Bye-Laws

A number of provisions in New Enstar s memorandum of association and bye-laws and under Bermuda law may make it more difficult to acquire control of New Enstar. These provisions may have the effect of delaying, deferring, discouraging, preventing or rendering more difficult a future takeover attempt which is not approved by New Enstar s board of directors but which individual shareholders may deem to be in their best interests or in which shareholders may receive a substantial premium for their shares over then current market prices. As a result, shareholders who might desire to participate in such a transaction may not have an opportunity to do so. In addition, these provisions may adversely affect the prevailing market price of the ordinary shares and the non-voting convertible ordinary shares. These provisions are intended to:

enhance the likelihood of continuity and stability in the composition of New Enstar s board of directors;

discourage some types of transactions that may involve an actual or threatened change in control of New Enstar;

discourage certain tactics that may be used in proxy fights;

ensure that New Enstar s board of directors will have sufficient time to act in what the board believes to be in the best interests of New Enstar and its shareholders; and

encourage persons seeking to acquire control of New Enstar to consult first with New Enstar s board to negotiate the terms of any proposed business combination or offer.

Limitation on Voting Power of Shares

Holders of non-voting convertible ordinary shares are not entitled to vote. Except as provided below, each ordinary share has one vote in connection with matters presented to the shareholders. However, pursuant to a mechanism specified in New Enstar s bye-laws, the voting rights exercisable by a shareholder may be limited. In any situation in which the controlled shares (as defined below) of a U.S. Person or the ordinary shares held by a Direct Foreign

Shareholder Group (as defined below) would constitute 9.5% or more of the votes conferred by the issued ordinary shares, the voting rights exercisable by a shareholder with respect to such shares shall be limited so that no U.S. Person or Direct Foreign Shareholder Group is deemed to hold 9.5% or more of the voting power conferred by New Enstar s ordinary shares. The votes that could be cast by a shareholder but for these restrictions will be effectively allocated to the other shareholders pro rata based on

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the voting power held by such shareholders, provided that no allocation of any such voting rights may cause a U.S. Person or Direct Foreign Shareholder Group to exceed the 9.5% limitation as a result of such allocation. In addition, New Enstar s board of directors may limit a shareholder s voting rights where it deems it necessary to do so to avoid *non-de minimis* adverse tax, legal or regulatory consequences. Controlled shares includes, among other things, all ordinary shares that a U.S. Person owns directly, indirectly or constructively (within the meaning of Section 958 of the Code). A Direct Foreign Shareholder Group includes a shareholder or group of commonly controlled shareholders that are not U.S. Persons.

New Enstar also has the authority under its bye-laws to request information from any shareholder for the purpose of determining whether a shareholder s voting rights are to be reallocated pursuant to the bye-laws. If a shareholder fails to respond to New Enstar s request for information or submits incomplete or inaccurate information in response to a request by New Enstar, it may, in its sole discretion, eliminate the shareholder s voting rights.

Under these provisions, certain shareholders may have the right to exercise their voting rights limited to less than one vote per share, while other shareholders may have the right to exercise their voting rights effectively increased to more than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership.

The limitation on voting rights will, at the closing of the merger, apply to Mr. Flowers.

Restrictions on Transfer

New Enstar s board of directors may decline to register a transfer of any ordinary shares under certain circumstances, including if it has reason to believe that any *non-de minimis* adverse tax, regulatory or legal consequences to New Enstar, any of its subsidiaries or any of its shareholders may occur as a result of such transfer. Further, New Enstar s bye-laws provide it with the option to repurchase, or to assign to a third party the right to purchase, the minimum number of ordinary shares necessary to eliminate any such *non-de minimis* adverse tax, regulatory or legal consequence. In addition, New Enstar s directors may decline to approve or register a transfer of shares unless all applicable consents, authorizations, permissions or approvals of any governmental body or agency in Bermuda, the United States, or any other applicable jurisdiction required to be obtained prior to such transfer shall have been obtained.

Conyers Dill & Pearman, New Enstar s Bermuda counsel, has advised it that while the precise form of the restrictions on transfer contained in its bye-laws is untested, as a matter of general principle, restrictions on transfers are enforceable under Bermuda law and are not uncommon. The proposed transferor of those ordinary shares will be deemed to own those ordinary shares for dividend, voting and reporting purposes until a transfer of such ordinary shares has been registered on New Enstar s shareholders register.

The restrictions on transfer and voting restrictions described above may have the effect of delaying, deferring, or preventing a change in control of New Enstar.

Unissued Shares

Ordinary Shares and Non-Voting Convertible Ordinary Shares.

After the merger, New Enstar will have issued approximately 11.8 million ordinary shares and 3.0 million non-voting convertible ordinary shares. The remaining authorized and unissued ordinary shares and non-voting convertible ordinary shares will be available for future issuance without additional shareholder approval. While the additional shares are not designed to deter or prevent a change of control, under some circumstances New Enstar could use the

additional shares to create voting impediments or to frustrate persons seeking to effect a takeover or otherwise gain control by, for example, issuing those shares in private placements to purchasers who might side with New Enstar s board of directors in opposing a hostile takeover bid.

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Preference Shares.

New Enstar s memorandum of association and bye-laws will grant its board of directors the authority, without any further vote or action by New Enstar s shareholders, to issue preference shares in one or more series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions of the shares constituting any series. The existence of authorized but unissued preference shares could reduce New Enstar s attractiveness as a target for an unsolicited takeover bid since New Enstar could, for example, issue preference shares to parties who might oppose such a takeover bid or shares that contain terms the potential acquirer may find unattractive. This may have the effect of delaying or preventing a change in control, may discourage bids for the ordinary shares at a premium over the market price of the ordinary shares, and may adversely affect the market price of, and the voting and other rights of the holders of, ordinary shares.

Classified Board of Directors, Vacancies and Removal of Directors

The bye-laws will provide that New Enstar s board of directors will be divided into three classes of even number or nearly even number, with each class elected for staggered three-year terms expiring in successive years. Any effort to obtain control of New Enstar s board of directors by causing the election of a majority of the board of directors may require more time than would be required without a staggered election structure. Shareholders may remove directors only for cause and the notice of a meeting of the shareholders convened for the purpose of removing a director are required to contain a statement of the intention to do so and be served on such director not less than fourteen days before the meeting and at such meeting the director is entitled to be heard on the motion for such director s removal. Vacancies (including a vacancy created by increasing the size of the board) in New Enstar s board of directors may be filled by the shareholders at the meeting at which a director is removed or, in the absence of such election or appointment, by a majority of New Enstar s directors. Any director elected to fill a vacancy will hold office for the remainder of the full term of the class of directors in which the vacancy occurred (including a vacancy created by increasing the size of the board) and until such director s successor shall have been duly elected and qualified. No decrease in the number of directors will shorten the term of any incumbent director. New Enstar s bye-laws will provide that the number of directors will be fixed and increased or decreased from time to time by resolution of the board of directors, but the board of directors will at no time consist of fewer than five directors and not more than such maximum number of directors, not exceeding fifteen directors, as the board may from time to time determine. A majority of the board is required to consist of directors who are not residents of the United Kingdom or Switzerland. These provisions may have the effect of slowing or impeding a third party from initiating a proxy contest, making a tender offer or otherwise attempting a change in the membership of New Enstar s board of directors that would effect a change of control.

Limitation of Liability of Directors

The bye-laws will provide that all directors and officers of New Enstar will be indemnified and held harmless out of the assets of New Enstar from and against all losses incurred by such persons in connection with the execution of their duties as directors and officers, except that such indemnity will not extend to any matter in which such person is found, in a final judgment or decree not subject to appeal, to have committed fraud or dishonesty.

The principal effect of this limitation on liability provision is that a shareholder will be unable to recover monetary damages against a director or officer for breach of his duties as a director or officer unless the shareholder can demonstrate that such director or officer committed fraud or dishonesty. New Enstar s bye-laws will not eliminate its directors fiduciary duties. The inclusion of this provision in the memorandum of association may, however, discourage or deter shareholders or management from bringing a lawsuit against directors for a breach of their fiduciary duties, even though such an action, if successful, might otherwise have benefited New Enstar and its

shareholders. This provision should not affect the availability of equitable remedies such as injunction or rescission based upon a director s breach of his or her fiduciary duties.

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New Enstar also has agreed that it will include and cause to be maintained in effect in its memorandum of association and bye-laws, to the extent permitted by law, for a period of six years after the effective time of the merger, the current provisions regarding elimination of liability of directors, indemnification of officers, directors and employees and advancement of expenses contained in the articles of incorporation and bye-laws of Enstar. See Interests of Certain Persons in the Merger Indemnification of Directors and Officers; Directors Indemnity Agreements beginning on page 59.

Other Bye-Law Provisions

The following provisions are a summary of some of the other important provisions of New Enstar s bye-laws.

New Enstar s bye-laws provide for its corporate governance, including the establishment of share rights, modification of those rights, issuance of share certificates, imposition of a lien over shares in respect of unpaid amounts on those shares, calls on shares that are not fully paid, forfeiture of shares, the transfer of shares, alterations of capital, the calling and conduct of general meetings, proxies, the appointment and removal of directors, conduct and power of directors, the payment of dividends, the appointment of an auditor and its winding-up.

Following the recapitalization, New Enstar s board of directors will consist of 3 Class I directors having a one year initial term, 3 Class II directors having a two year initial term, and 4 Class III directors having a three year term. After the initial respective terms of these directors, the term of each class of directors shall be three years.

The bye-laws may only be amended by both a resolution of the board of directors and a resolution of the shareholders.

The bye-laws also provide that if the board of directors in its absolute discretion determines that share ownership by any shareholder may result in a *non-de minimis* adverse tax, regulatory or legal consequences to New Enstar, any of its subsidiaries or any other shareholder, then New Enstar will have the option, but not the obligation, to repurchase, or to assign to a third party the right to purchase, all or part of the shares held by such shareholder to the extent the board of directors determines it is necessary to avoid such adverse or potential adverse consequences. The price to be paid for such shares will be the fair market value of such shares.

The bye-laws provide that if any matters regarding the appointment, removal or remuneration of directors of its subsidiaries are required to be submitted to a vote of such subsidiaries shareholders, those matters to be voted upon are required also to be submitted to New Enstar s shareholders, and the shareholders of such subsidiaries are required to vote the subsidiaries shares in accordance with and in proportion to the vote of New Enstar s shareholders.

Differences in Corporate Law

The Companies Act differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant provisions of the Companies Act (including modifications adopted pursuant to New Enstar s bye-laws) applicable to New Enstar, which differ in certain respects from provisions of Georgia corporate law, the law that governs Enstar. The following statements are summaries and do not purport to deal with all aspects of Bermuda law that may be relevant to New Enstar and its shareholders.

Duties of Directors

Under Bermuda law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company and exercise their powers and fulfill the duties of their office honestly. This duty has the following essential elements:

a duty to act in good faith in the best interests of the company;

a duty not to make a personal profit from opportunities that arise from the office of director;

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a duty to avoid conflicts of interest; and

a duty to exercise powers for the purpose for which such powers were intended.

The Companies Act imposes a duty on directors and officers of a Bermuda company:

to act honestly and in good faith with a view to the best interests of the company; and

to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In addition, the Companies Act imposes various duties on officers of a company with respect to certain matters of management and administration of the company.

The Companies Act provides that in any proceedings for negligence, default, breach of duty or breach of trust against any officer, if it appears to a court that such officer is or may be liable in respect of the negligence, default, breach of duty or breach of trust, but that he has acted honestly and reasonably, and that, having regard to all the circumstances of the case, including those connected with his appointment, he ought fairly to be excused for the negligence, default, breach of duty or breach of trust, that court may relieve him, either wholly or partly, from any liability on such terms as the court may think fit. This provision has been interpreted to apply only to actions brought by or on behalf of the company against such officers. New Enstar s bye-laws, however, provide that shareholders waive all claims or rights of action that they might have, individually or in the right of New Enstar, against any director or officer of New Enstar for any act or failure to act in the performance of such director s or officer s duties, except that this waiver does not extend to any claims or rights of action that arise out of fraud or dishonesty on the part of such director or officer.

Under Georgia law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders.

The duty of care requires that directors act in an informed and deliberative manner and inform themselves, prior to making a business decision, of all material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of corporate employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner that the director reasonably believes to be in the best interests of the shareholders.

A party challenging the propriety of a decision of a board of directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the business judgment rule. If the presumption is not rebutted, the business judgment rule attaches to protect the directors and their decisions, and their business judgments will not be second guessed. Where, however, the presumption is rebutted, the directors bear the burden of demonstrating the entire fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

Interested Directors

Bermuda law provides that if a director has a personal interest in a transaction to which the company is also a party and if the director discloses the nature of this personal interest at the first opportunity, either at a meeting of directors or in writing to the directors, then the company will not be able to declare the transaction void solely due to the

existence of that personal interest, and the director will not be liable to the company for any profit realized from the transaction. In addition, Bermuda law and New Enstar s bye-laws provide that, after a director has made the declaration of interest referred to above, he is allowed to be counted for purposes of determining whether a quorum is present and to vote on a transaction in which he has an interest, unless disqualified from doing so by the chairman of the relevant board meeting.

Under Georgia law such transaction would not be voidable if (1) the material facts as to such interested director s relationship or interests are disclosed to or are known by the board of directors and the board in

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good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed to or are known by the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved, or ratified. Under Georgia law, such interested director could be held liable for a transaction in which such director derived an improper personal benefit.

Shareholder Proposals

Under Bermuda law, the Companies Act provides that shareholders may, as set forth below and at their own expense (unless a company otherwise resolves), require a company to give notice of any resolution that the shareholders can properly propose at the next annual general meeting and/or to circulate a statement prepared by the requesting shareholders in respect of any matter referred to in a proposed resolution or any business to be conducted at a general meeting. The number of shareholders necessary for such a request is either that number of shareholders representing at least 5% of the total voting rights of all shareholders having a right to vote at the meeting to which the request relates or not less than 100 shareholders. Georgia law does not include a provision restricting the manner in which nominations for directors may be made by shareholders or the manner in which business may be brought before a meeting.

Calling of Special Shareholders Meetings

Under Bermuda law, a special general meeting may be called by the chairman of the board, the board of directors or by the shareholders when requested by the holders of at least 10% of the paid-up voting share capital of the company as provided by the Companies Act. Georgia law permits the board of directors, or any person who is authorized under a corporation s certificate of incorporation or bylaws, or the holders of 25% of the company s capital stock to call a special meeting of shareholders.

Dividends

Bermuda law does not permit payment of dividends or distributions of contributed surplus by a company if there are reasonable grounds for believing that the company, after the payment is made, would be unable to pay its liabilities as they become due, or the realizable value of the company s assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. The excess of the consideration paid on issue of shares over the aggregate par value of such shares must (except in certain limited circumstances) be credited to a share premium account. Share premium may be distributed in certain limited circumstances, for example to pay up unissued shares which may be distributed to shareholders in proportion to their holdings, but is otherwise subject to limitation. In addition, New Enstar s ability to pay dividends is subject to certain Bermuda insurance laws and regulatory constraints.

Under Georgia law, a company may make distributions to its shareholders subject to any restrictions imposed in the company s articles of incorporation, except that no distribution may be made if as a result the company would not be able to pay its debts as they become due in the usual course of business or its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution or shareholders whose preferential rights are superior to those receiving the distribution. Under Georgia law, a company may acquire its own shares of capital stock and shares so acquired will constitute authorized but unissued shares, unless the articles of incorporation provide that such shares become treasury shares or prohibit the reissuance of re-acquired shares. If such reissuance is prohibited, the number of authorized shares will be reduced by the number of shares reacquired.

Mergers and Similar Arrangements

The amalgamation of a Bermuda company with another company (other than certain affiliated companies) requires the amalgamation agreement to be approved by the company s board of directors and by its shareholders. New Enstar may, with the approval of at least 75% of the votes cast at a general meeting of its

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shareholders at which a quorum is present, amalgamate with another Bermuda company or with a company incorporated outside Bermuda. In the case of an amalgamation, a shareholder may apply to a Bermuda court for a proper valuation of such shareholder s shares if such shareholder is not satisfied that fair value has been paid for such shares.

Under Georgia law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and the holders of a majority of the outstanding shares entitled to vote thereon. Under Georgia law shareholders who comply with certain procedural requirements of Georgia law are entitled to dissent from and obtain payment of the fair value of their shares in the event of mergers, share exchanges, sales or exchanges of all or substantially all of the company s assets, certain amendments to the articles of incorporation and certain other actions taken pursuant to a shareholder vote to the extent provided for under Georgia law, the articles of incorporation, bylaws or a resolution of the board of directors. However, unless the company s articles of incorporation provide otherwise, appraisal rights are not available:

to holders of shares of any class of shares not entitled to vote on the merger and share exchange;

in a sale of all or substantially all of the property of the company pursuant to court order;

in a sale of all or substantially all of the company s assets for cash, where all or substantially all of the net proceeds of such sale will be distributed to the shareholders within one year; or

to holders of shares which at the record date were either listed on a national securities exchange or held of record by more than 2,000 shareholders, unless: (1) in the case of a plan of merger or share exchange, the holders of shares of the class or series are required under the plan of merger or share exchange to accept for their shares anything except shares of the surviving company or a publicly held company which at the effective date of the merger or share exchange are either listed on a national securities exchange or held of record by more than 2,000 shareholders, except for scrip or cash payments in lieu of fractional shares; or (2) the articles of incorporation or a resolution of the board of directors approving the transaction provides otherwise.

Under Georgia law, the board of directors may voluntarily extend appraisal rights to shareholders. In addition, Georgia law provides that, if a shareholder is entitled to exercise appraisal rights, those rights constitute the shareholder s exclusive remedy in the absence of fraud or failure to comply with certain procedural requirements.

Takeovers

Bermuda law provides that where an offer is made for shares of another company and, within four months of the offer, the holders of not less than 90% of the shares that are the subject of the offer (other than shares held by or for the offeror or its subsidiaries) accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the court should exercise its discretion to enjoin the required transfer, which the court will be unlikely to do unless there is evidence of fraud or bad faith or collusion between the offeror and the holders of shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

Georgia law provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any subsidiary of which it owns at least 90% of the outstanding shares of each class of stock that is entitled to vote on the transaction. Upon any such merger, dissenting shareholders of the subsidiary would have appraisal rights.

Shareholder s Suit

The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be

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expected to follow English case law precedent, which would permit a shareholder to commence an action in New Enstar s name to remedy a wrong done to New Enstar where the act complained of is alleged to be beyond New Enstar s corporate power or is illegal or would result in the violation of New Enstar s memorandum of association or bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys fees incurred in connection with such action. New Enstar s bye-laws provide that shareholders waive all claims or rights of action that they might have, individually or in the right of New Enstar, against any of its directors or officers for any act or failure to act in the performance of such director s or officer s duties, except with respect to any fraud or dishonesty of such director or officer.

Class actions and derivative actions generally are available to shareholders under Georgia law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court has discretion to permit the winning party to recover attorneys fees incurred in connection with such action.

Indemnification of Directors

New Enstar s bye-laws indemnify its directors and officers in their capacity as such in respect of any loss arising or liability attaching to them by virtue of any rule of law in respect of any negligence, default, breach of duty or breach of trust of which a director or officer may be guilty in relation to New Enstar other than in respect of his own fraud or dishonesty, which is the maximum extent of indemnification permitted under the Companies Act. Under New Enstar s bye-laws, each of its shareholders agrees to waive any claim or right of action, other than those involving fraud or dishonesty, against New Enstar or any of its officers or directors.

Under Georgia law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, if the director or officer had no reasonable cause to believe his conduct was unlawful.

Inspection of Corporate Records

Members of the general public have the right to inspect New Enstar s public documents available at the office of the Registrar of Companies in Bermuda, which will include its memorandum of association (including its objects and powers) and alterations to its memorandum of association, including any increase or reduction of its authorized capital. New Enstar s shareholders have the additional right to inspect its bye-laws, minutes of general meetings and audited financial statements, which must be presented at the annual general meeting of shareholders. New Enstar s register of shareholders is also open to inspection by shareholders without charge and to members of the public for a fee. New Enstar is required to maintain a share register in Bermuda but may establish a branch register outside Bermuda. New Enstar is required to keep at its registered office a register of its directors and officers, which is open for inspection by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

Georgia law permits any shareholder to inspect or obtain copies of a corporation s shareholder list and its other books and records for any purpose reasonably related to such person s interest as a shareholder. A corporation s articles of incorporation or bylaws may limit this right to shareholders holding over 2% of the company s capital stock.

Enforcement of Judgments and Other Matters

New Enstar has been advised by Conyers Dill & Pearman, its Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce (1) judgments of United States courts obtained in actions against it or its directors and officers, as well as the experts named in this proxy statement/prospectus,

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predicated upon the civil liability provisions of the U.S. federal securities laws; and (2) original actions brought in Bermuda against New Enstar or its directors and officers, as well as the experts named in this proxy statement/prospectus predicated solely upon U.S. federal securities laws. There is no treaty in effect between the United States and Bermuda providing for such enforcement, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies available under the U.S. federal securities laws, would not be allowed in Bermuda courts as contrary to Bermuda s public policy.

Registration Rights Agreement

Immediately before the consummation of the merger, New Enstar, Trident and Messrs. Flowers and Silvester and certain other shareholders of New Enstar, will enter into a registration rights agreement in connection with the transactions contemplated by the merger agreement and the recapitalization agreement. The registration rights agreement will become effective immediately upon the consummation of the merger. See Material Terms of Related Agreements Registration Rights Agreement beginning on page 75.

Listing

Castlewood has applied for the listing of New Enstar s ordinary shares on the Nasdaq, under the ticker symbol ESGR, subject to official notice of insurance.

Exchange Agent and Registrar

The exchange agent and registrar for New Enstar s ordinary shares will be American Stock Transfer & Trust Company.

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MATERIAL TAX CONSIDERATIONS OF HOLDING AND DISPOSING OF NEW ENSTAR ORDINARY SHARES

The following discussion is a summary of the material aspects of the tax treatment of New Enstar and its shareholders following the merger. This discussion does not purport to cover all the tax considerations that may be relevant to a decision to vote to approve the merger or to acquire shares of New Enstar. The discussion is based solely upon current law. That law is subject to change through legislation, court decisions or administrative regulations or rulings. Any such changes may be retroactive and could affect the tax treatment of New Enstar and its shareholders.

The following legal discussion of tax considerations under (1) Taxation of New Enstar and Subsidiaries Bermuda and Taxation of Shareholders Bermuda Taxation represents the opinion of Conyers Dill & Pearman, special Bermuda legal counsel, and (2) Taxation of New Enstar and Subsidiaries United States and Taxation of Shareholders United States Taxation represents the opinion of Drinker Biddle & Reath LLP, special United States legal counsel. Each of these firms has reviewed the relevant portion of this discussion (as set forth in the preceding sentence) and believes that such portion of the discussion constitutes, in all material respects, a fair and accurate summary of the material tax considerations, under the tax law as to which such firm is advising, relating to New Enstar and its subsidiaries and the ownership of New Enstar ordinary shares by investors that are U.S. Persons (as defined below) who acquire such shares in the merger. The advice of these firms does not include any factual or accounting matters, determinations or conclusions such as insurance accounting determinations, computations of RPII amounts or facts relating to the business, income, reserves or activities of New Enstar and its subsidiaries. The advice of these firms relies upon and is premised on the accuracy of factual statements and representations made by New Enstar concerning the business and properties, ownership, organization, source of income and manner of operation of New Enstar and its subsidiaries. The tax treatment of an owner of ordinary shares, or of a person treated as an owner of ordinary shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the shareholder s particular tax situation. Statements contained in this section as to the beliefs, expectations and conditions of New Enstar and its subsidiaries, and any other facts relevant to the application of the tax laws, represent the view of management as to the relevant facts, and the application of such laws to such facts, and do not represent the opinions of counsel. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF ACQUIRING, OWNING AND DISPOSING OF ORDINARY SHARES IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES. For a discussion of the consequences of the exchange of Enstar common stock for New Enstar ordinary shares pursuant to the merger, see The Proposed Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 53.

Taxation of New Enstar and Subsidiaries

Bermuda

Under current Bermuda law, there is no income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax payable by New Enstar or its Bermuda subsidiaries. New Enstar and its Bermuda subsidiaries have each obtained from the Minister of Finance under the Exempted Undertaking Tax Protection Act 1966 of Bermuda, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to New Enstar or its Bermuda subsidiaries or to any of their respective operations, shares, debentures or other obligations, until March 28, 2016. New Enstar and its Bermuda subsidiaries could be subject to taxes in Bermuda after that date. This assurance is subject to the proviso that it is not to be construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 of Bermuda or otherwise

payable in relation to any property leased to New Enstar or its Bermuda subsidiaries. New Enstar and its Bermuda subsidiaries each pay annual Bermuda government fees, and its Bermuda subsidiaries pay annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

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United Kingdom

New Enstar s UK subsidiaries are companies incorporated and managed in the United Kingdom and are, by virtue of their place of incorporation, resident in the United Kingdom and will be subject to U.K. corporation tax on their worldwide profits (including revenue profits and capital gains).

Harper Insurance Limited is a company incorporated in Switzerland that operates a U.K. branch. The U.K. branch of Harper Insurance Limited is subject to U.K. corporation tax on the profits generated by the U.K. branch only.

It is not expected that, in the context of the group s profitability as a whole, any such tax charges will be seen to be significant. The maximum rate of United Kingdom corporation tax applicable to taxable profits is currently 30%. Currently, no United Kingdom withholding tax applies to dividends paid by New Enstar s U.K. subsidiaries.

Except for its U.K. subsidiaries, New Enstar should not be treated as being resident in the United Kingdom unless its central management and control is exercised in the United Kingdom. New Enstar s managers intend to continue to manage its affairs so that only its U.K. subsidiaries are resident in the United Kingdom for tax purposes.

A company not resident in the United Kingdom for corporation tax purposes can nevertheless be subject to U.K. corporation tax if it carries on a trade through a permanent establishment in the United Kingdom but the charge to U.K. corporation tax is limited to profits (including revenue profits and chargeable (i.e., capital) gains) connected with such permanent establishment.

New Enstar s management intends that New Enstar will continue to operate in such a manner so that only its U.K. subsidiaries carry on a trade through a permanent establishment in the United Kingdom. Nevertheless, because neither case law nor U.K. statute definitively defines the activities that constitute trading in the United Kingdom through a permanent establishment, the U.K. Inland Revenue might contend that New Enstar and its other subsidiaries, other than its U.K. subsidiaries, is/are trading in the United Kingdom through a permanent establishment in the United Kingdom.

There are circumstances in which companies that are neither resident in the United Kingdom nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on the profits of a trade carried on there even if that trade is not carried on through a branch or agency but New Enstar s management intends that New Enstar will continue to operate in such a manner that it will not fall within the charge to income tax in the United Kingdom (other than by deduction or withholding) in this respect.

If any of New Enstar or its subsidiaries, other than its U.K. subsidiaries, were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if any of New Enstar or its subsidiaries, other than its U.K. subsidiaries, were to be treated as carrying on a trade in the United Kingdom through a permanent establishment in the United Kingdom, New Enstar s results of operations and your investment could be materially adversely affected.

United States

U.S. Subsidiaries. Our subsidiaries, Castlewood Holdings (US) Inc., Castlewood (US) Inc., Cranmore (US) Inc. and Castlewood Investments Inc. are Delaware corporations and, as such, each will be subject to taxation in the United States at regular federal corporate income tax rates as will Enstar, a Georgia corporation, which will become our U.S. subsidiary pursuant to the merger. State and local taxes may also apply, depending on the location of the offices of these subsidiaries. In addition, a U.S. federal withholding tax will generally apply to any dividends paid by a U.S. subsidiary to its non-U.S. parent.

Taxation of Foreign Corporations. A foreign corporation that is engaged in the conduct of a U.S. trade or business will be subject to U.S. tax as described below, unless entitled to the benefits of an applicable tax treaty. We and our non-U.S. subsidiaries intend generally to avoid conducting a U.S. trade or business, but

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whether such a trade or business is being conducted in the United States is an inherently factual determination. Because the Code, and regulations and court decisions interpreting it, do not definitively identify activities that constitute being engaged in a trade or business in the United States, we cannot be certain that the IRS will not contend (and a court will not hold) that we and/or our non-U.S. subsidiaries are or will be engaged in a trade or business in the United States.

A foreign corporation engaged in a U.S. trade or business will be subject to U.S. federal income tax at regular corporate rates, as well as the branch profits tax, on its income that is effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. These federal taxes, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation may be entitled to deductions and credits only if it timely files a U.S. federal income tax return. The highest marginal federal income tax rates currently are 35% for a corporation s effectively connected income and 30% for the additional branch profits tax.

The Bermuda-U.S. Tax Treaty. Certain Bermuda insurance companies are entitled to benefits under the income tax treaty between Bermuda and the United States, or the Bermuda Treaty. The Bermuda Treaty limits U.S. federal income tax on such an insurance company s effectively connected income to income that is attributable to a permanent establishment in the United States.

A permanent establishment generally consists of an office or other fixed place of business, but no regulations interpreting the Bermuda Treaty have been issued and the treatment of insurance agency relationships and reinsurance arrangements for these purposes may be uncertain. Our Bermuda insurance company subsidiaries currently intend to conduct their activities so that they do not have a permanent establishment in the United States, but we cannot be certain that they will achieve this result.

Moreover, a Bermuda insurance company subsidiary generally is entitled to the benefits of the Bermuda Treaty only if (1) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (2) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the United States or Bermuda nor U.S. citizens. We cannot be certain whether our Bermuda insurance company subsidiaries will be eligible for Bermuda Treaty benefits immediately following the merger, or will be eligible in the future, because of factual and legal uncertainties regarding the residency and citizenship of our shareholders.

Taxation of Insurance Company Investment Income. A foreign insurance company carrying on an insurance business within the United States is treated as recognizing a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risks insured or reinsured by the company. If one or more of our Bermuda insurance company subsidiaries are considered to be engaged in the conduct of an insurance business in the United States and are not entitled to the benefits of the Bermuda Treaty, a significant portion of such a subsidiary s investment income could be subject to U.S. income tax. In addition, although the Bermuda Treaty clearly applies to premium income, it is uncertain whether the Bermuda Treaty applies to other income such as investment income that is earned by an insurance company. If such a Bermuda subsidiary is considered engaged in the conduct of an insurance business in the United States and is entitled to the benefits of the Bermuda Treaty in general, but the Bermuda Treaty is interpreted to not apply to investment income, a significant portion of the subsidiary s investment income could be subject to U.S. income tax.

The U.K.-U.S. Tax Treaty. Under the income tax treaty between the United Kingdom and the United States, or the U.K. Treaty, our U.K. subsidiaries, if entitled to the benefits of the U.K. Treaty, will not be subject to U.S. federal income tax on any income found to be effectively connected with a U.S. trade or business unless that trade or business

is conducted through a permanent establishment in the United States. Each of those subsidiaries will generally be entitled to the benefits of the U.K. Treaty if (1) during at least half of the days of the relevant taxable year, at least 50% of our outstanding shares are beneficially owned, directly or indirectly, by citizens or residents of the United States and the United Kingdom, and less than 50% of each subsidiary s gross income for the relevant taxable year is paid or accrued, directly or indirectly, to

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persons who are not U.S. or U.K. residents in the form of payments that are deductible for purposes of U.K. taxation or (2) with respect to specific items of income, profit or gain derived from the United States, if that income, profit or gain is considered to be derived in connection with, or incidental to, the subsidiary s business conducted in the United Kingdom.

Although we cannot be certain that our U.K. subsidiaries will be eligible for treaty benefits under the U.K. Treaty because of factual and legal uncertainties regarding (1) the residency and citizenship of our shareholders and (2) the interpretation of what constitutes income incidental to or connected with a trade or business in the United Kingdom, those subsidiaries will endeavor to so qualify. Also, our U.K. subsidiaries intend to conduct their activities in a such a manner as to avoid having a permanent establishment in the United States, but we cannot be certain that they will achieve this result.

U.S. Withholding Taxes. Foreign corporations are also generally subject to U.S. income tax imposed by withholding on the gross amount of certain fixed or determinable annual or periodic gains, profits and income derived from sources within the United States (such as dividends and certain interest on investments). Generally under the U.K. Treaty, the withholding rate on dividends from less than 10% owned corporations is reduced to 15% and on interest is reduced to 0%. The Bermuda Treaty does not reduce the U.S. withholding rate on U.S.-source investment income, or on dividends paid to us by our U.S. subsidiaries.

Excise Tax on Premiums Paid to Foreign Insurers and Reinsurers. The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to our non-U.S. insurance company subsidiaries are 4% for casualty insurance premiums and 1% for reinsurance premiums.

Personal Holding Companies. Our U.S. subsidiaries could be subject to U.S. tax on certain income if any of these companies is considered to be a personal holding company, or a PHC, for U.S. federal income tax purposes. A U.S. corporation generally will be classified as a PHC in a given taxable year if (1) at any time during the last half of the year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value and (2) at least 60% of the corporation s gross income in the year consists of PHC income (The PHC rules do not apply to foreign corporations). PHC income includes, among other things, dividends, interest, royalties, annuities and, under certain circumstances, rents. Under these constructive ownership rules, among other things, an individual partner in a partnership will be treated as owning a proportionate amount of the stock owned by the partnership and as owning the stock owned by his or her partners. Additionally, certain entities (such as certain tax-exempt organizations and pension funds) will be treated as individuals.

If any of our U.S. subsidiaries were a PHC in a given taxable year, such subsidiary would be subject to a 15% PHC tax on its undistributed PHC income. For taxable years beginning after 2010, the PHC tax rate would be the highest marginal rate on ordinary income applicable to individuals.

We believe based upon information available to us regarding our existing shareholder base and the shareholder base of Enstar that none of our subsidiaries should constitute a PHC for U.S. federal income tax purposes immediately following the merger. Additionally, we intend to manage our business to minimize the possibility that any of these companies will meet the 60% income threshold. Accordingly, we anticipate that neither New Enstar nor any of our subsidiaries constitute a PHC.

We cannot be certain, however, that our U.S. subsidiaries will not become PHCs following the merger or in the future because of factors including legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of our then shareholder base, the gross income of our U.S. subsidiaries and other circumstances that

could change the application of the PHC rules to our U.S. subsidiaries. In addition, if our U.S. subsidiaries were to become PHCs, we cannot be certain that the amount of PHC income will be immaterial.

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Other Jurisdictions

Certain of our subsidiaries are formed under the laws of, or have operations in, Belgium, Luxembourg and Switzerland, and are therefore subject to the tax laws of those jurisdictions.

Taxation of Shareholders

Bermuda Taxation

Currently, there is no Bermuda stamp, income, capital gains, gift, estate, withholding or other tax payable on any principal or interest payable by us, on dividends paid to the holders of our ordinary shares, on sales, exchanges or other dispositions of our ordinary shares, or on transfers of ordinary shares by gift or upon death.

United States Taxation

The following summary sets forth the material U.S. federal income tax considerations related to the acquisition, ownership and disposition of our ordinary shares. Unless otherwise stated, this summary deals only with shareholders that are U.S. Persons (as defined below), who receive our ordinary shares pursuant to the merger and who hold their ordinary shares as capital assets within the meaning of section 1221 of the Code and as beneficial owners. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder in light of the shareholder s specific circumstances. Therefore, you should consult your own tax advisor regarding your anticipated tax treatment from acquiring, owning and disposing of our shares.

In addition, the following summary does not address the U.S. federal income tax consequences that may be relevant to special classes of shareholders, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers or traders in securities, tax exempt organizations, expatriates, persons who are considered with respect to New Enstar and its subsidiaries as United States shareholders for purposes of the controlled foreign corporation rules of the Code (generally, a U.S. Person, as defined below, who owns or is deemed constructively to own 10% or more of the total combined voting power of all classes of stock of New Enstar or of any of New Enstar s non-U.S. subsidiaries (i.e., a 10% U.S. Shareholder, as defined below)), or persons who hold the ordinary shares as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code.

This discussion is based upon the Code, the regulations promulgated under it and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in those tax laws or interpretations of them, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the United States and does not address any aspect of U.S. federal taxation other than income taxation.

For purposes of this discussion, the term U.S. Person means: (1) a citizen or resident of the United States, (2) a partnership or corporation, or entity treated as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof, (3) an estate the income of which is subject to U.S. federal income taxation regardless of source, (4) a trust if either (a) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. Persons have the authority to control all substantial decisions of such trust or (b) the trust has a valid election in effect to be treated as a U.S. Person for U.S. federal income tax purposes and (5) any other person or entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing. References to a foreign person refer to a person that is not a U.S. Person.

Taxation of Dividends. Subject to the discussions below relating to the potential application of the controlled foreign corporation, or CFC, related person insurance income, or RPII, and passive foreign investment company, or PFIC, rules, cash distributions, if any, made with respect to our ordinary shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of our current or accumulated

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earnings and profits (as computed using U.S. tax principles). We believe that any dividends we may pay before 2011 will be eligible for the 15% rate applicable to qualifying dividend income when received by a shareholder who is an individual (or an estate or trust) because our ordinary shares will be treated as readily tradable on an established securities market in the United States. However, our dividends will not be eligible for the dividends-received deduction when received by a shareholder that is a corporation. To the extent any such distributions exceed our earnings and profits, they will be treated first as a return of the shareholder s basis in the ordinary shares to the extent thereof, and then as gain from the sale of a capital asset.

Classification of New Enstar or Its Non-U.S. Subsidiaries as Controlled Foreign Corporations. Each 10% U.S. Shareholder (as defined below) of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year who owns shares in the CFC, directly or indirectly through foreign entities, on the last day of the CFC s taxable year, must include in gross income for U.S. federal income tax purposes the shareholder s pro rata share of the CFC s subpart F income, even if the subpart F income is not distributed. Subpart F income of a foreign insurance corporation typically includes foreign base company sales and services income and foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance income (including underwriting and investment income) attributable to the insurance or reinsurance of risks situated outside the CFC s country of incorporation. A foreign corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through foreign entities or by attribution under the constructive ownership rules of section 958(b) of the Code (i.e., constructively)) more than 50% of the total combined voting power of all classes of voting stock of the foreign corporation, or more than 50% of the total value of all stock of the corporation. For purposes of taking into account insurance income, these ownership thresholds are reduced to 25%, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance or annuity contracts exceeds 75% of the gross amount of all premiums or other consideration in respect of all risks. A 10% U.S. Shareholder is a U.S. Person who owns (directly, indirectly through foreign entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation.

We believe that, because of the anticipated dispersion of our share ownership, provisions in our organizational documents that limit voting power (these provisions are described in Description of New Enstar s Share Capital Limitation on Voting Power of Shares) and other factors, no U.S. Person who owns our ordinary shares, directly or indirectly through one or more foreign entities, will be treated as owning (directly, indirectly through foreign entities, or constructively) 10% or more of the total voting power of all classes of shares of our stock or the stock of any of our non-U.S. subsidiaries. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge.

The RPII CFC Provisions. The following discussion generally is applicable only if the RPII of a non-U.S. insurance company subsidiary, determined on a gross basis, is 20% or more of that company s gross insurance income for a taxable year and the 20% Ownership Exception (as defined below) is not met. The following discussion generally will not apply for any taxable year in which such a company s RPII falls below the 20% threshold or the 20% Ownership Exception is met. Although we cannot be certain, we believe that each of our non-U.S. insurance company subsidiaries meets the 20% Ownership Exception and the gross RPII of each of them as a percentage of its gross insurance income was in prior years of operations and will be for the foreseeable future below the 20% threshold for each year.

RPII is any insurance income (as defined below) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a RPII shareholder (as defined below) or a related person (as defined below) to such RPII shareholder. In general, and subject to certain limitations, insurance income is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract that would be taxed under the portions of the Code relating to insurance companies if the income were the income of a domestic insurance company. For purposes of inclusion of the RPII of one of our non-U.S. subsidiaries in the income

of RPII shareholders, unless an exception applies, the term RPII shareholder means any U.S. Person who owns (directly or indirectly through foreign entities) any of our ordinary shares. Generally, the term related person for this purpose means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. Control is measured by either more than 50% in value or more than 50% in

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voting power of stock applying certain constructive ownership principles. A corporation s pension plan is ordinarily not a related person with respect to the corporation unless the pension plan owns, directly or indirectly through the application of certain constructive ownership rules, more than 50%, measured by vote or value, of the stock of the corporation. Each of our non-U.S. insurance company subsidiaries will be treated as a CFC under the RPII provisions if RPII shareholders are treated as owning (directly, indirectly through foreign entities or constructively) 25% or more of our shares by vote or value.

RPII Exceptions. The special RPII rules will not apply to a non-U.S. insurance company subsidiary of ours if (1) direct and indirect insureds and persons related to such insureds, whether or not U.S. Persons, are treated as owning (directly or indirectly through entities) less than 20% of the voting power and less than 20% of the value of our outstanding shares, or the 20% Ownership Exception, (2) RPII, determined on a gross basis, is less than 20% of gross insurance income of the subsidiary for the taxable year, or the 20% Gross Income Exception, (3) the subsidiary elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a U.S. trade or business, waives all treaty benefits with respect to RPII and meets certain other requirements or (4) the subsidiary elects to be treated as a U.S. corporation, waives all treaty benefits and meets certain other requirements. Where none of these exceptions applies to one of our non-U.S. insurance company subsidiaries, each U.S. Person owning directly or indirectly through foreign entities, any of our shares on the last day of the subsidiary s taxable year will be required to include in gross income for U.S. federal income tax purposes that person s allocable share of the RPII of the subsidiary for the portion of the taxable year during which the subsidiary was a CFC under the RPII provisions, determined as if all such RPII were distributed proportionately only to those U.S. Persons at that date, but limited by each such U.S. Person s share of that subsidiary s current-year earnings and profits as reduced by the U.S. Person s share, if any, of certain prior-year deficits in earnings and profits. Our non-U.S. insurance company subsidiaries intend to operate in a manner that is intended to ensure that each qualifies for the 20% Gross Income Exception.

Computation of RPII. In order to determine how much RPII a company has earned in each taxable year, the company may obtain and rely upon information from its insureds and reinsureds to determine whether any of the insureds, reinsureds or persons related thereto own (directly or indirectly through foreign entities) our shares and are U.S. Persons. We may not be able to determine whether any of the underlying direct or indirect insureds to which our non-U.S. subsidiaries provide insurance or reinsurance is a shareholder of ours or a related person to such a shareholder. Consequently, we may not be able to determine accurately the gross amount of RPII earned by each non-U.S. insurance company subsidiary in a given taxable year.

If, as expected, the RPII of each of our non-U.S. insurance company subsidiaries is less than 20% of its gross insurance income, RPII shareholders will not be required to include RPII in their taxable income. The amount of RPII includible in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

Apportionment of RPII to U.S. Holders. Every RPII shareholder who owns ordinary shares on the last day of any taxable year of a subsidiary in which the 20% Ownership Exception does not apply and the subsidiary s gross insurance income constituting RPII for that year equals or exceeds 20% of the subsidiary s gross insurance income should expect that for such year the RPII shareholder will be required to include in gross income its share of such company s RPII for the portion of the taxable year during which such company was a CFC under the RPII provisions, whether or not distributed, even though the RPII shareholder may not have owned the shares throughout such period. A RPII shareholder who owns ordinary shares during such a taxable year but not on the last day of the taxable year is not required to include in gross income any part of a subsidiary s RPII.

For any year in which gross RPII of such a subsidiary is 20% or more of its gross insurance income for the year and the 20% Ownership Exception does not apply, we may also seek information from our shareholders as to whether the beneficial owners of our ordinary shares at the end of the year are U.S. Persons so that the RPII may be determined

and apportioned among those persons. To the extent we are unable to determine whether a beneficial owner of ordinary shares is a U.S. Person, we may assume that such an owner is not a U.S. Person, thereby increasing the per share RPII amount for all known RPII shareholders.

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Basis Adjustments. A RPII shareholder s tax basis in our ordinary shares will be increased by the amount of any RPII that the shareholder includes in income. The RPII shareholder may exclude from income the amount of any distributions by us out of previously taxed RPII income. The RPII shareholder s tax basis in our ordinary shares will then be reduced by the amount of any such distributions that are excluded from income in this fashion.

Uncertainty as to Application of RPII. The RPII provisions of the Code have never been interpreted by the courts, and the U.S. Treasury Department has not yet issued final regulations under those provisions. The regulations interpreting the RPII provisions exist only in proposed form. It is not certain whether these regulations will ultimately be adopted as proposed, or what changes or clarifications may be made to them, or whether any such changes, as well as any other interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. The RPII statutory provisions include the grant of authority to the Treasury Department to prescribe such regulations as may be necessary to carry out the purpose of this subsection including ... regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise. Accordingly, the meaning of the RPII provisions and the application of them to our non-U.S. insurance company subsidiaries is uncertain. In addition, we cannot be certain that the amount of RPII or the amounts of the RPII inclusions for any particular RPII shareholder, if any, will not be subject to adjustment based upon subsequent IRS examination. You should consult your tax advisor as to the effects of these uncertainties.

Information Reporting. Under certain circumstances, U.S. Persons owning stock in a foreign corporation are required to file IRS Form 5471 with their U.S. federal income tax returns. Generally, information reporting on Form 5471 is required by (1) a person who is treated as a RPII shareholder, (2) a 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and who owned the stock on the last day of that year, and (3) under certain circumstances, a U.S. Person who acquires stock in a foreign corporation and as a result owns 10% or more of the voting power or value of the outstanding stock of the foreign corporation, whether or not the foreign corporation is a CFC, or who ceases to be such a 10% shareholder in a taxable year. For any taxable year in which we determine that gross RPII constitutes 20% or more of any of one of our non-U.S. insurance company subsidiaries gross insurance income and the 20% Ownership Exception does not apply, we intend to provide to all identifiable U.S. Persons registered as shareholders of our ordinary shares a completed Form 5471 or the relevant information necessary to complete the form. Failure to file a required Form 5471 may result in substantial penalties.

Tax-Exempt Shareholders. Tax-exempt entities will generally be required to treat their allocable shares of certain subpart F insurance income, including RPII, if any, as unrelated business taxable income, or UBTI. **Prospective investors that are tax-exempt entities are urged to consult their tax advisors as to the potential impact of the UBTI provisions of the Code.** A tax-exempt organization that is treated as a 10% U.S. Shareholder or a RPII Shareholder also must file IRS Form 5471 in the circumstances described above.

Dispositions of Ordinary Shares. Subject to the discussions below relating to the potential application of section 1248 of the Code and the PFIC rules, U.S. Persons who own ordinary shares generally will recognize capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of ordinary shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. If the holding period for these ordinary shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 15% for individuals and certain other non-corporate shareholders and 35% for corporations. There are limitations on the use of capital losses. Moreover, gain, if any, generally will be a U.S. source gain.

Section 1248 of the Code provides that if a U.S. Person sells or exchanges stock in a foreign corporation and the person owned, directly, indirectly through certain foreign entities or constructively, 10% or more of the voting power of the stock of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of

the CFC s earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with

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certain adjustments). We believe that because of the anticipated dispersion of the ownership of our shares, provisions in our organizational documents that limit voting power and other factors, no U.S. person will be treated as owning (directly, indirectly through foreign entities or constructively) 10% or more of the total voting power of our outstanding shares. To the extent this is the case, the application of section 1248 under the regular CFC rules will not apply to dispositions of our ordinary shares. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. Section 1248 also applies, by its literal terms, to the sale or exchange of shares in a foreign corporation if the foreign corporation is a CFC for RPII purposes, regardless whether the shareholder is a 10% U.S. Shareholder or whether the 20% Gross Income Exception or the 20% Ownership Exception applies. Existing proposed regulations do not address whether section 1248 will apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. We believe, however, that this application of section 1248 under the RPII rules should not apply to dispositions of our ordinary shares because we will not be directly engaged in the insurance business. We cannot be certain, however, that the IRS will not interpret the proposed regulations in a contrary manner or that the Treasury Department will not amend the proposed regulations to provide that these rules will apply to dispositions of ordinary shares. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of ordinary shares.

Passive Foreign Investment Companies. In general, a foreign corporation will be a PFIC during a given year if (1) 75% or more of its gross income constitutes passive income, or the 75% test, or (2) 50% or more of its assets produce (or are held for the production of) passive income, or the 50% test.

If we were characterized as a PFIC during a given year, U.S. Persons holding our ordinary shares would be taxed at ordinary income, rather than capital gains, rates on any gain and would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an excess distribution with respect to, their shares, unless they made a qualified electing fund, or QEF, election or a mark-to-market election. In general, a shareholder receives an excess distribution if the amount of the distribution is more than 125% of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). The penalty tax is computed by reference to the interest charges on taxes that would have been due during the period the shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares were earned as ordinary income spread in equal portions over each year in which the shareholder owned the shares and taxed at the highest tax rate applicable to ordinary income in that year. The interest charge is equal to the applicable interest rate imposed on underpayments of U.S. federal income tax. In addition, a distribution paid by us to U.S. shareholders that is characterized as a dividend and is not characterized as an excess distribution would not be a qualified dividend for purposes of the reduced rate of tax generally applicable to dividends received by individuals and certain other non-corporate taxpayers. Moreover, upon the death of any U.S. individual owning ordinary shares in a PFIC, the individual s estate or heirs may not be entitled to a step-up in tax basis of the shares that would otherwise be available under U.S. federal income tax laws.

The PFIC consequences described above (other than the denial of the reduced rate for dividends paid to non-corporate shareholders) would not apply if a QEF election were made on a timely basis. In such event, the shareholder would be required to include in gross income each year its share of our ordinary income and net capital gain, whether or not distributed. It is uncertain, however, that we would be able to provide our shareholders with the information necessary to make a QEF election.

These consequences also would not apply if a mark-to-market election is timely made. As a result of such an election, the shareholder generally would be required to recognize ordinary income (or, subject to limitations, ordinary loss) each year based on the increase (or decrease) in the market value of our ordinary shares held by such person during the year. In addition, any gain (or loss) from a sale or other disposition of ordinary shares would be treated as ordinary income (or, subject to limitations, ordinary loss). So long as our ordinary shares are traded on Nasdaq, under current

regulations a mark-to-market election generally would be available if our ordinary shares are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter.

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Although passive income for purposes of the 75% test and the 50% test generally includes interest, dividends, annuities and other investment income, the PFIC rules provide that income derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business is not treated as passive income. The PFIC provisions also contain a look-through rule under which a foreign corporation shall be treated as if it received directly its proportionate share of the income, and as if it held its proportionate share of the assets, of any other corporation in which the foreign corporation owns at least 25% of the value of the stock.

The insurance income exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent attributable to financial reserves in excess of the reasonable needs of the insurance business. We expect that each of our non-U.S. insurance company subsidiaries will be predominantly engaged in an insurance business and is unlikely to have financial reserves in excess of the reasonable needs of its insurance business in each year of operations. Accordingly, we expect that none of the income or assets of those subsidiaries will be treated as passive. We also expect that the passive income and assets of our other direct and indirect subsidiaries will be relatively small in relation to the active income and assets of each such subsidiary. Accordingly, we expect that in each year of operations, neither we nor any of our subsidiaries will be a PFIC. There is no assurance, however, that the IRS will not challenge this position or that a court will not sustain such challenge.

Backup Withholding on Distributions and Disposition Proceeds. Information returns may be filed with the IRS in connection with distributions on the ordinary shares and the proceeds from a sale or other disposition of the ordinary shares unless the holder of the ordinary shares establishes an exemption from the information reporting rules. A holder of ordinary shares that does not establish such an exemption may be subject to U.S. backup withholding tax on these payments if the holder is not a corporation or other exempt recipient and fails to provide a taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Person will be allowed as a credit against the U.S. Person s U.S. federal income tax liability and may entitle the U.S. Person to a refund, provided that the required information is furnished to the IRS.

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LEGAL MATTERS

The validity of the issuance of New Enstar s ordinary shares to be issued to Enstar shareholders in the merger will be passed upon for New Enstar by Conyers Dill & Pearman, Hamilton, Bermuda. Certain U.S. federal income tax consequences of the merger will be passed upon for Enstar and New Enstar by Debevoise & Plimpton LLP, New York, New York.

EXPERTS

The financial statements of The Enstar Group, Inc. and management s report on the effectiveness of internal control over financial reporting incorporated into this proxy statement/prospectus by reference from The Enstar Group, Inc. s Annual Report on Form 10-K/A for the year ended December 31, 2005 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, which reports (1) express an unqualified opinion on the financial statements and includes an explanatory paragraph relating to a restatement of the financial statements, (2) express an unqualified opinion on management s assessment regarding the effectiveness of internal control over financial reporting, and (3) express an unqualified opinion on the effectiveness of internal control over financial reporting which are incorporated herein by reference and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

With respect to the unaudited interim financial information for The Enstar Group, Inc. for the periods ended June 30, 2006 and 2005 which is incorporated herein by reference, Deloitte & Touche LLP, an independent registered public accounting firm, have applied limited procedures in accordance with the standards of the Public Company Accounting Oversight Board (United States) for a review of such information. However, as stated in their report included in The Enstar Group, Inc. s Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2006 and incorporated by reference herein, which includes an explanatory paragraph relating to a restatement of the interim financial information, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche LLP are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not reports or a part of the registration statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

The financial statements of Castlewood Holdings Limited as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 included in this proxy statement/prospectus and the financial statement schedules included elsewhere in this registration statement have been audited by Deloitte & Touche, an independent registered public accounting firm, whose reports express an unqualified opinion on the financial statements and financial statement schedules and includes an explanatory paragraph relating to a restatement of the consolidated statements of earnings appearing herein and elsewhere in the registration statement, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

With respect to the unaudited interim financial information for Castlewood Holdings Limited for the periods ended June 30, 2006 and 2005 which is included herein, Deloitte & Touche, an independent registered public accounting firm, have applied limited procedures in accordance with the standards of the Public Company Accounting Oversight Board (United States) for a review of such information. However, as stated in their report, included herein, which includes an explanatory paragraph relating to a restatement of the 2005 consolidated statement of earnings, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures

applied. Deloitte & Touche are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not reports or a part of the registration statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

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The financial statements of B.H. Acquisition Ltd. incorporated into this proxy statement/prospectus by reference from The Enstar Group Inc. s Annual Report on Form 10-K/A for the year ended December 31, 2005 have been audited by Deloitte & Touche, an independent registered public accounting firm, as stated in their report, which expresses an unqualified opinion on the financial statements and includes an explanatory paragraph relating to a restatement of the consolidated statement of earnings, which are incorporated herein by reference and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Representatives of Deloitte & Touche LLP, current independent registered public accounting firm of Enstar, are expected to be present at the Enstar Annual Meeting and will be available to respond to appropriate questions.

FUTURE SHAREHOLDER PROPOSALS

If the proposed merger is not consummated, Enstar will hold an annual meeting of shareholders following the end of the 2006 fiscal year. If such meeting is held, in order to include a shareholder proposal in Enstar s proxy statement and form of proxy relating to such meeting, it must be received in writing by Enstar no later than December 20, 2006. For nominations or other business to be properly brought before the next annual meeting of shareholders following the end of the 2006 fiscal year, you must give notice in writing to the secretary of Enstar no later than March 1, 2007. Shareholder proposals should be addressed to Cheryl D. Davis, Chief Financial Officer, Vice-President of Corporate Taxes and Secretary, The Enstar Group, Inc., 401 Madison Avenue, Montgomery, Alabama 36104. If next year s annual meeting is held, Enstar intends to hold such meeting in June 2007.

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WHERE YOU CAN FIND MORE INFORMATION

Prior to the date hereof, Castlewood was not required to file reports with the Securities and Exchange Commission. Enstar files annual, quarterly, special reports, proxy statements and other information with the Securities and Exchange Commission. These documents contain specific information regarding Enstar. These documents, including exhibits and schedules thereto, may be inspected without charge at the Securities and Exchange Commission s principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the Public Reference Section of the Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Section may be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0300. The Securities and Exchange Commission also maintains a World Wide Web site which provides online access to reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission at the address http://www.sec.gov.

Enstar makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available (free of charge) on or through its Internet website located at http://www.enstargroup.com, as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission. The information contained on Enstar s website does not form a part of this proxy statement/prospectus.

The Securities and Exchange Commission allows Enstar to incorporate by reference information into this proxy statement/prospectus. This means that Enstar can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. These documents contain important information about Enstar and its financial condition. The information incorporated by reference is considered to be part of this proxy statement/prospectus.

Information that Enstar files later with the Securities and Exchange Commission will automatically update and supersede this information. Enstar incorporates by reference the documents listed below and any future filings it will make with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the date of the Annual Meeting:

Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission on September 20, 2006;

Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2006 filed with the Securities and Exchange Commission on September 20, 2006;

Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on September 20, 2006 (except for the financial statements of Castlewood Holdings Limited as of and for the three-year period ended December 31, 2005);

Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2006.

Current Report on Form 8-K filed with the Securities and Exchange Commission on September 20, 2006;

Current Report on Form 8-K filed with the Securities and Exchange Commission on June 20, 2006;

Current Report on Form 8-K filed with the Securities and Exchange Commission on June 13, 2006;

Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2006; and

Current Report on Form 8-K filed with the Securities and Exchange Commission on February 22, 2006;

Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2006.

You may obtain a copy of these filings at no cost by writing or telephoning Enstar at the following address or telephone number:

The Enstar Group, Inc.
401 Madison Avenue
Montgomery, Alabama 36104
(334) 834-5483

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New Enstar has filed with the Securities and Exchange Commission a registration statement on Form S-4 under the Securities Act for the registration of the ordinary shares offered by this proxy statement/prospectus. This proxy statement/prospectus, which is a part of the registration statement, does not contain all of the information included in the registration statement and the exhibits and schedules to the registration statement. Any statement made in this proxy statement/prospectus concerning the contents of any contract, agreement or other document is not necessarily complete. For further information regarding New Enstar and Enstar and the ordinary shares offered by this proxy statement/prospectus, please refer to the registration statement, including its exhibits and schedules, and the other reports and filings referenced above. If we have filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the documents or matter involved.

You may obtain, without charge, copies of documents filed as exhibits to the registration statement from Castlewood by requesting them in writing or by telephone as follows:

Castlewood Holdings Limited
Attention: Richard J. Harris
P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
(441) 292-3645

In order for you to receive timely delivery of the documents in advance of the Annual Meeting, Castlewood should receive your request no later than , 2006.

You should rely only on the information contained in this proxy statement/prospectus to vote on the approval of the merger agreement and the transactions contemplated by the merger agreement. Neither Enstar, Castlewood nor Merger Sub has authorized anyone to provide you with information that is different from what is contained in this proxy statement/prospectus. This proxy statement/prospectus is dated as of the date set forth on the cover page. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than this date and neither the mailing of this proxy statement/prospectus to shareholders nor the delivery of shares of New Enstar s ordinary shares in the merger shall create any implications to the contrary.

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GLOSSARY OF SELECTED INSURANCE AND REINSURANCE TERMS

AM Best	AM Best Company, a rating agency.
Case reserves	Loss reserves, established with respect to specific, individual reported claims.
Casualty insurance or casualty reinsurance	Insurance or reinsurance that primarily covers losses caused by injuries to third persons (i.e., not the insured) or to property owned by third persons and the legal liability imposed on the insured resulting therefrom. It includes, but is not limited to, employers liability, workers compensation, public liability, automobile liability and personal liability. It excludes certain types of losses that by law or custom are considered as being exclusively within the scope of other types of insurance or reinsurance, such as fire or marine.
Cede, cedent, or ceding company	When an insurer transfers some or all of its risk to a reinsurer, such insurer cedes business to the reinsurer and is referred to as the ceding company or cedent.
Claim	Request by an insured, reinsured or third party for indemnification by an insurance company or a reinsurance company for losses incurred from an insured peril or event.
Commutation	An agreement between (i) a policyholder and insurer or (ii) a (re)insurer and reinsurer under which, in return for payment of a specified amount, the (re)insurer is given a complete discharge of all existing and future obligations under a (re)insurance agreement(s).
Exposure	The possibility of loss. A unit of measure of the amount of risk a company assumes.
Incurred but not reported (IBNR) reserves	Reserves for estimated loss expenses that have been incurred but not yet reported to the insurer or reinsurer.
Liability insurance	Same as casualty insurance.
Limits	The maximum amount that an insurer or reinsurer will insure or reinsure for a specified risk or portfolio of risks. The term also refers to the maximum amount of benefit payable under an insurance policy or reinsurance contract for a given claim or occurrence.
Loss	An event that is the basis for submission or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the insurance policy or reinsurance contract.

Loss adjustment expense (LAE) or Loss expenses	The expense involved in an insurance or reinsurance company settling a loss, excluding the actual value of the loss.
Loss reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims incurred that the insurer or reinsurer will ultimately be required to pay. Reserves are established for losses and for loss expenses, and consist of case reserves and IBNR reserves. As the term is used in this proxy statement/prospectus, loss reserves is meant to include reserves for both losses and for loss expenses.

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Losses incurred	The total losses and loss adjustment expenses paid, plus the change in loss and loss adjustment expense reserves, including IBNR, sustained by an insurance or reinsurance company under its insurance policies or other insurance or reinsurance contracts.
Policy buy-back	An agreement under which, in exchange for payment of a specified amount by a (re)insurer to an insured or cedent, a policyholder takes back all the risks and rewards covered by a specified (re)insurance agreement, with the desired effect being as if the (re)insurance agreement had never existed. Policy buy-back has the same effect as a commutation.
Premiums	The amount charged to provide coverage under policies and contracts issued, renewed or reinsured by an insurance company or reinsurance company.
Property insurance	Insurance that provides coverage for property loss, damage or loss of use.
Reinsurance	The practice whereby one insurer, called the reinsurer, in consideration of a premium paid to that reinsurer, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance that it has issued.
Reinsurance agreement	A contract specifying the terms of a reinsurance transaction.
Reported losses	Claims or potential claims that have been identified to an insurer by an insured or to a reinsurer by a ceding company.
Retrocessional agreement	An agreement for a transaction whereby a reinsurer cedes to another reinsurer, the retrocessionaire, all or part of the reinsurance that the first reinsurer has assumed. Retrocessional reinsurance does not legally discharge the ceding reinsurer from its liability with respect to its obligations to the reinsured. Reinsurance companies cede risks to retrocessionaires for reasons similar to those that cause insurers to purchase reinsurance: to reduce net liability on individual risks, to protect against catastrophic losses, to stabilize financial ratios and to obtain additional underwriting capacity.
Run-off	An insurer or reinsurer is in run-off when it stops issuing new policies and continues to adjust and pay claims under previously issued policies. The term also means the liability of an insurance or reinsurance company under previously issued policies for future claims that it expects to pay and for which a loss reserve has been established.
Standard & Poor s or S&P	Standard & Poor s Ratings Services, a rating agency.

CASTLEWOOD HOLDINGS LIMITED
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Castlewood Holdings Limited

We have audited the accompanying consolidated balance sheets of Castlewood Holdings Limited and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of earnings, comprehensive income, changes in shareholders equity and cash flows for the years ended December 31, 2005, 2004 and 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Castlewood Holdings Limited and subsidiaries as of December 31, 2005 and 2004 and the results of their operations and their cash flows for the years ended December 31, 2005, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 24, the accompanying 2005, 2004 and 2003 consolidated statements of earnings have been restated.

/s/ Deloitte & Touche

Hamilton, Bermuda
July 4, 2006 (September 18, 2006 as
to the effects of the restatement
discussed in Note 24)

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CASTLEWOOD HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS
as of December 31, 2005 and 2004

	2005	2004
	(in thousands of U.S. dollars, except share and per share data)	
ASSETS		
Short-term investments, available for sale, at fair value (amortized cost: 2005 $216,624; 2004 $304,558)	$ 216,624	$ 304,558
Fixed maturities, held to maturity, at amortized cost	296,584	228,232
Trading securities, at fair value (cost: 2005 $Nil; 2004 $58,845)		58,845
Other investments (cost: 2005 $26,360; 2004 $Nil)	26,360	
Total investments	539,568	591,635
Cash and cash equivalents	280,212	301,969
Restricted cash and cash equivalents	65,117	48,487
Accrued interest receivable	2,805	2,861
Accounts receivable	8,227	7,479
Reinsurance balances receivable	250,229	341,627
Investment in partly-owned companies	17,480	28,101
Goodwill	21,222	21,222
Other assets	15,103	4,472
TOTAL ASSETS	$ 1,199,963	$ 1,347,853
LIABILITIES		
Losses and loss adjustment expenses	$ 806,559	$ 1,047,313
Reinsurance balances payable	30,844	62,396
Accounts payable and accrued liabilities	35,337	23,349
Income taxes payable	282	1,101
Other liabilities	25,491	4,964
TOTAL LIABILITIES	898,513	1,139,123
MINORITY INTEREST	40,544	31,392
SHAREHOLDERS EQUITY		
Share capital		
Authorized issued and fully paid, par value $1 each (Authorized 2005: 99,000,000; 2004: 99,000,000)		
Ordinary shares (Issued 2005: 18,540; 2004: 18,395)	19	18
Ordinary non-voting redeemable shares		

(Issued 2005: 22,641,774; 2004: 22,893,662)	22,642	22,894
Additional paid-in capital	89,090	85,341
Deferred compensation	(112)	(371)
Accumulated other comprehensive income	1,010	1,909
Retained earnings	148,257	67,547
TOTAL SHAREHOLDERS EQUITY	260,906	177,338
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,199,963	$ 1,347,853

See accompanying notes to the consolidated financial statements.

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CASTLEWOOD HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF EARNINGS (AS RESTATED SEE NOTE 24)
for the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(in thousands of U.S. dollars, except share and per share data)		
INCOME			
Consulting fees	$ 22,006	$ 23,703	$ 24,746
Net investment income	28,236	11,102	8,032
Net realized gains (losses)	1,268	(600)	(960)
	51,510	34,205	31,818
EXPENSES			
Net reduction in loss and loss adjustment expense liabilities	(96,007)	(13,706)	(24,044)
Salaries and benefits	40,821	26,290	15,661
General and administrative expenses	10,962	10,677	6,993
Net foreign exchange loss (gain)	4,602	(3,731)	(2,362)
	(39,622)	19,530	(3,752)
EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST AND SHARE OF NET EARNINGS OF PARTLY-OWNED COMPANIES	91,132	14,675	35,570
INCOME TAXES	(914)	(1,924)	(1,490)
MINORITY INTEREST	(9,700)	(3,097)	(5,111)
SHARE OF NET EARNINGS OF PARTLY-OWNED COMPANIES	192	6,881	1,623
NET EARNINGS BEFORE EXTRAORDINARY GAIN	80,710	16,535	30,592
EXTRAORDINARY GAIN NEGATIVE GOODWILL		21,759	
NET EARNINGS	$ 80,710	$ 38,294	$ 30,592
PER SHARE DATA:			
Basic earnings per share before extraordinary gain basic	$ 4,397.89	$ 914.49	$ 1,699.56
Extraordinary gain per share basic		1,203.42	
Basic earnings per share	$ 4,397.89	$ 2,117.91	$ 1,699.56
Diluted earnings per share before extraordinary gain diluted	$ 4,304.30	$ 906.13	$ 1,699.56
Extraordinary gain per share diluted		1,192.40	
Diluted earnings per share	$ 4,304.30	$ 2,098.53	$ 1,699.56
Weighted average ordinary shares outstanding basic	18,352	18,081	18,000

Weighted average ordinary shares outstanding	diluted	18,751	18,248	18,000

See accompanying notes to the consolidated financial statements.

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CASTLEWOOD HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(in thousands of U.S. dollars)		
NET EARNINGS	$ 80,710	$ 38,294	$ 30,592
Other comprehensive income (loss):			
Unrealized holding gains (losses) on investments arising during the period	1,268	(609)	(4,400)
Reclassification adjustment for net realized (gains) losses included in net earnings	(1,268)	600	4,289
Unrealized (losses) gains on investments of partially-owned equity affiliate arising during the year		(340)	340
Currency translation adjustment	(899)	539	879
Other comprehensive (loss) income	(899)	190	1,108
COMPREHENSIVE INCOME	$ 79,811	$ 38,484	$ 31,700

See accompanying notes to the consolidated financial statements.

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CASTLEWOOD HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
for the years ended December 31, 2005, 2004 and 2003

	Share Capital	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
			(in thousands of U.S. dollars)			
Opening balance, January 1, 2003	$ 40,520	$ 67,878	$ (1,748)	$ 611	$ 60,212	$ 167,473
Redemption of Class E shares	(12,990)					(12,990)
Amortization of deferred compensation			896			896
Contribution of capital		14,338				14,338
Dividend paid					(53,801)	(53,801)
Net earnings					30,592	30,592
Other comprehensive income				1,108		1,108
December 31, 2003	27,530	82,216	(852)	1,719	37,003	147,616
Redemption of Class E shares	(4,618)					(4,618)
Amortization of deferred compensation			481			481
Grant of Class D shares		3,125				3,125
Dividend paid					(7,750)	(7,750)
Net earnings					38,294	38,294
Other comprehensive income				190		190
December 31, 2004	22,912	85,341	(371)	1,909	67,547	177,338
Redemption of Class E shares	(252)					(252)
Redemption of Class D shares		(30)				(30)
Amortization of deferred compensation			259			259
Grant of Class D shares	1	3,779				3,780
Net earnings					80,710	80,710
Other comprehensive loss				(899)		(899)
December 31, 2005	$ 22,661	$ 89,090	$ (112)	$ 1,010	$ 148,257	$ 260,906

See accompanying notes to the consolidated financial statements.

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CASTLEWOOD HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(in thousands of U.S. dollars)		
OPERATING ACTIVITIES:			
Net earnings	$ 80,710	$ 38,294	$ 30,592
Adjustments to reconcile net earnings to net cash flows (used in) provided by operating activities:			
Minority interest	9,700	3,097	5,111
Negative goodwill		(21,759)	
Share of net earnings of partly-owned companies	(192)	(6,881)	(1,623)
Depreciation and amortization	493	462	375
Amortization of deferred compensation	259	481	896
Amortization of bond premiums and discounts	564	304	581
Net realized (gains) losses on sale of securities available-for-sale	(1,768)	600	960
Net realized loss on trading securities	500		
Change in net unrealized holding losses on trading securities		471	
Class D share stock compensation	3,780	3,125	
Changes in assets and liabilities:			
Proceeds on sale of trading securities	76,695		
Accrued interest receivable	56	1,275	3,531
Accounts receivable	(1,397)	1,536	(2,906)
Reinsurance balances receivable	116,887	33,349	13,030
Other assets	(10,579)	(1,088)	(167)
Losses and loss adjustment expenses	(282,718)	(56,084)	(31,262)
Reinsurance balances payable	(31,552)	91	9,776
Accounts payable and accrued liabilities	12,424	2,758	(5,560)
Income taxes payable	(802)	(46)	406
Other liabilities	20,619	959	726
Net cash flows (used in) provided by operating activities	(6,321)	944	24,466
INVESTING ACTIVITIES:			
Cash acquired on purchase of subsidiaries	18,006	109,149	25,734
Cash used for purchase of subsidiaries	(1,445)	(4,455)	(46,426)
Cash used for investment in partly-owned companies		(9,147)	(10,200)
Distributions from partly-owned companies	10,813	16,395	193
Proceeds from sale of available-for-sale securities	201,712	184,973	234,565
Purchase of available-for-sale securities	(112,010)	(76,600)	(211,013)
Maturity of available-for-sale securities		14,563	53,042
Purchase of held-to-maturity securities	(133,492)		
Maturity of held-to-maturity securities	46,220		
Purchase of other investments	(26,360)		
Movement in restricted cash & cash equivalents	(16,630)	(37,279)	(4,650)

Purchase of fixed assets	(887)	(571)	(441)
Net cash flows (used in) provided by investing activities	(14,073)	197,028	40,804
FINANCING ACTIVITIES:			
Contribution of capital			14,338
Redemption of Class E shares	(252)	(4,618)	(12,990)
Redemption of Class D shares	(30)		
Dividend paid		(7,750)	(53,801)
Dividend paid to minority interest	(548)		
Acquisition of shares and contribution to surplus of subsidiary by minority interest			23,184
Net cash flows used in financing activities	(830)	(12,368)	(29,269)
TRANSLATION ADJUSTMENT	(533)	345	661
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(21,757)	185,949	36,662
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	301,969	116,020	79,358
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 280,212	$ 301,969	$ 116,020
Supplemental Cash Flow Information			
Income taxes paid	$ (1,733)	$ (1,932)	$ (978)

See accompanying notes to the consolidated financial statements.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005, 2004 and 2003
(in thousands of U.S. dollars, except share and per share data)

1. DESCRIPTION OF BUSINESS

Castlewood Holdings Limited (Castlewood Holdings) was incorporated under the laws of Bermuda on August 16, 2001 and with its subsidiaries (collectively, the Company) acquires and manages insurance and reinsurance companies in run-off, and provides management, consultancy and other services to the insurance and reinsurance industry.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company s financial statements include, but are not limited to, the reserves for losses and loss adjustment expenses and reinsurance balances receivable. Certain reclassifications have been made to prior years amounts to conform to the current year s presentation. In the current year, restricted cash and cash equivalents was broken out of cash and cash equivalents which, for the years ended December 31, 2005, 2004 and 2003, decreased cash and cash equivalents and cash flows provided by investing activities by $16,630, $37,729 and $4,650, respectively.

Basis of consolidation The consolidated financial statements include the assets, liabilities and results of operations of the Company as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003. Results of operations for subsidiaries acquired are included from the dates of their acquisition by the Company. Intercompany transactions are eliminated on consolidation.

Cash and cash equivalents For purposes of the consolidated statement of cash flows, the Company considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash and cash equivalents.

Investments

a) *Short Term Investments:* Mutual funds whose underlying assets consist of investments having maturities of greater than six and less than twelve months when purchased, are classified as available-for-sale investments and are carried at fair value, based on net asset values as reported by the mutual funds. Due to the nature of the mutual funds underlying assets any changes in net asset value of the funds are included in net investment income.

b) *Fixed Maturities:* Debt investments classified as held-to-maturity investments are carried at purchase cost adjusted for amortization of premiums and discounts. Amortization expenses derive from the difference between the nominal value and purchase cost and they are spread over the time to maturity of the debt securities.

Investments classified as held-to-maturity and available-for-sale are reviewed on a regular basis to determine if they have sustained an impairment of value that is considered to be other than temporary. There are several factors that are considered in the assessment of an investment, which include (i) the time period during which there has been a significant decline below cost, (ii) the extent of the decline below cost, (iii) the Company s intent and ability to hold the security, (iv) the potential for the security to recover in value, (v) an analysis of the financial condition of the issuer and (vi) an analysis of the collateral structure and credit support of the security, if applicable. The identification of potentially impaired investments involves significant management judgment. Any unrealized depreciation in value

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

considered by management to be other than temporary is recognized in net earnings in the period that it is determined. Realized gains and losses on sales of investments classified as available-for-sale are recognized in net investment income on the specific identification basis.

c) *Trading Securities:* Debt investments classified as trading securities are carried at fair value, with unrealized holding gains and losses recognized within the net earnings.

d) *Other Investments:* The Company accounts for its other investments on the equity basis based on the most recently available financial information. The Company has no significant influence and does not participate in the management of these investments. Investments in limited partnerships and other flow-through entities are carried on the equity basis whereby the investment is initially recorded at cost and adjusted to reflect the Company s share of after-tax earnings or losses, unrealized investment gains and losses and reduced by dividends received.

Investment in partly-owned companies Investment in partly-owned companies, where the Company has significant influence, are carried on the equity basis whereby the investment is initially recorded at cost and adjusted to reflect the Company s share of after-tax earnings or losses, unrealized investment gains and losses and reduced by dividends received.

Losses and loss adjustment expenses The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claim severity and frequency. While the management believes that the amount is adequate, the ultimate liability may be significantly in excess of, or less than, the amounts provided. Adjustments will be reflected as part of net increase or reduction in loss and loss adjustment expense liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses and any amounts are reflected in net loss and loss adjustment expense liabilities at the same time the related incurred loss is recognized.

The Company s insurance and reinsurance subsidiaries establish provisions for loss adjustment expenses relating to run-off costs for the estimated duration of the run-off. These provisions are assessed at each reporting date and provisions relating to future periods adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off. Provisions relating to the current period together with any adjustments to future run-off cost provisions are included in loss and loss adjustment expenses in the statement of income.

Reinsurance balances receivable Amounts receivable from reinsurers are estimated in a manner consistent with the loss reserve associated with the underlying policy.

Consulting fee income Fixed fee income is recognized in accordance with the term of the agreements. Fees based on hourly charge rates are recognized as services are provided. Performance fees are recognized when all of the contractual requirements specified in the agreement are met.

Translation of foreign currencies At each balance sheet date, recorded balances that are denominated in a currency other than the functional currency of the Company are adjusted to reflect the current exchange rate. Revenue and expense items are translated into U.S. dollars at average rates of exchange for the years. The resulting exchange gains or losses are included in net earnings.

Assets and liabilities of subsidiaries are translated into U.S. dollars at the year-end rates of exchange. Revenues and expenses of subsidiaries are translated into U.S. dollars at the average rates of exchange for the years. The resultant translation adjustment for self-sustaining subsidiaries is classified as a separate component of other comprehensive income, and for integrated operations is included in net earnings.

Earnings per share Basic earnings per share is defined as net earnings available to ordinary shareholders divided by the weighted average number of ordinary shares outstanding for the period, giving no effect to dilutive securities. Diluted earnings per share is defined as net earnings available to ordinary shareholders divided by the weighted average number of ordinary and ordinary share equivalents outstanding calculated

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

using the treasury stock method for all potentially dilutive securities. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted earnings per share.

Derivative Instruments The Company accounts for its derivative instruments using Statement of Financial Accounting Standards (FAS) No. 133 Accounting for Derivative Instruments and Hedging Activities. FAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The Company uses investment derivatives to manage currency exposures and will also enter into such instruments to obtain exposure to a specific transaction. None of these derivatives are designated as hedges, and accordingly, financial options and foreign currency forward contracts entered into during 2005, 2004 and 2003 were carried at fair value, with the corresponding realized and unrealized gains and losses included in net investment income in the consolidated statements of earnings. No derivatives were held as at December 31, 2005 and 2004.

Acquisitions Goodwill represents the excess of the purchase price over the fair value of the net assets received related to the acquisition of Castlewood Limited by Castlewood Holdings. FAS No. 142 Goodwill and Other Intangible Assets requires that the Company perform an initial valuation of its goodwill assets and to update this analysis on an annual basis. If, as a result of the assessment, the Company determines the value of its goodwill asset is impaired, goodwill is written down in the period in which the determination is made. An annual impairment valuation has concluded that there is no impairment to the value of the Company s goodwill asset. Negative goodwill arises where the fair value of assets acquired exceeds the purchase price of those acquired assets and, in accordance with FAS 141, Business Combinations, has been recognized as an extraordinary gain.

Stock Based Compensation The Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock awards. The intrinsic value method has been used to account for stock based employee compensation. Pursuant to APB Opinion No. 25, compensation expense for employee stock awards is measured using the intrinsic value at the fair value of the shares at the date of grant and recognized as the awards vest using the straight-line method. Had the Company applied FAS No. 123 Accounting for Stock-Based Compensation in accounting for its restricted share awards, there would have been no material impact in the financial statements in 2005 and 2004.

New Accounting Pronouncements In December 2004, the Financial Accounting Standards Board (FASB) issued FAS 123(R) Share Based Payments. This statement requires compensation costs related to share-based payment transactions to be recognized in the financial statements. The amount of compensation costs will be measured based on the grant-date fair value of the awards issued and will be recognized over the period that an employee provides services in exchange for the award or the requisite service or vesting period. FAS 123(R) is effective for the first interim or annual reporting period beginning after January 1, 2006 and may not be applied retroactively to prior years financial statements. As the Company s current equity-based compensation plans are based on book value, the Company believes that the adoption of FAS 123(R) will not have a material impact on its consolidated financial statements. The Company has adopted FAS 123(R) using the modified prospective method for the fiscal year beginning January 1, 2006.

In June 2005, the FASB directed its staff to issue the proposed FASB Staff Position (FSP) Emerging Issues Task Force (EITF) Issue 03-1 as final and retitled it as FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. It replaces existing guidance in EITF 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments, and clarifies that an impairment should be recognized as a loss no later than when the impairment is deemed other-than-temporary, even if the decision

to sell the investment has not been made. FSP FAS 115-1 is effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005. The Company believes that its current policy on the recognition of other-than-temporary impairments substantially complies with FSP FAS 115-1, and therefore the adoption of this standard is not expected to have a significant impact on the net earnings of the Company.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITIONS

2003 In 2003, a 50.1% owned subsidiary of Castlewood Holdings, Hillcot Holdings Ltd. (Hillcot Holdings), completed the acquisition of Hillcot Reinsurance Company Limited (Hillcot), (formerly Toa-Re Insurance Company (UK) Limited), a reinsurance company based in London, England.

The purchase price and fair value of assets acquired were as follows:

Purchase price	$ 45,820
Direct costs of acquisition	606
Total purchase price	$ 46,426
Net assets acquired at fair value	$ 46,426

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition of Hillcot:

Cash and investments	$ 113,967
Reinsurance balances receivable	65,184
Losses and loss adjustment expenses	(128,384)
Accounts payable and accrued liabilities	(4,341)
Net assets acquired at fair value	$ 46,426

2004 In 2004, Castlewood Holdings, through its wholly owned subsidiary, Kenmare Holdings Ltd., completed the acquisition of Mercantile Indemnity Company Ltd, Harper Insurance Limited (Harper), (formerly Turegum Insurance Company) and Longmynd Insurance Company Ltd. (formerly Security Insurance Company (UK) Ltd.).

The purchase price and fair value of assets acquired were as follows:

Purchase price	$ 3,581
Direct costs of acquisition	874
Total purchase price	$ 4,455
Net assets acquired at fair value	$ 26,214
Excess of net assets over purchase price (negative goodwill)	$ (21,759)

The negative goodwill arose primarily as a result of a negotiated discount between the cost of acquisition and fair value of net assets acquired for an acquisition where indemnities for aggregate adverse loss development were received by Castlewood.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as at the date of the acquisitions:

Cash, investments and accrued interest	$ 560,568
Reinsurance balances receivable	200,243
Losses and loss adjustment expenses	(732,779)
Accounts payable and accrued liabilities	(1,818)
Net assets acquired at fair value	$ 26,214

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The seller of Harper has indemnified Castlewood Holdings for adverse loss development subject to certain limits. Reinsurance balances receivable acquired include $88,379 in relation to these indemnities.

2005 In 2005, Castlewood Holdings, through its wholly owned subsidiary, Kenmare Holdings Ltd., completed the acquisition of Fieldmill Insurance Company Limited (formerly Harleysville Insurance Company (UK) Limited).

The purchase price and fair value of assets acquired were as follows:

Purchase price	$ 1,403
Direct costs of the acquisition	42
Total purchase price	$ 1,445
Net assets acquired at fair value	$ 1,445

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Cash and investments	$ 18,006
Reinsurance balances receivable	25,489
Losses and loss adjustment expenses	(41,965)
Accounts payable and accrued liabilities	(85)
Net assets acquired at fair value	$ 1,445

The fair values of reinsurance assets and liabilities acquired are derived from probability weighted ranges of the associated projected cash flows, based on actuarially prepared information and management s run-off strategy. Interest rates used to determine the fair value of gross loss reserves are based upon risk free rates applicable to the average duration of the loss reserves. Interest rates used to determine the fair value of reinsurance receivables are increased to reflect the credit risk associated with the reinsurers from whom the receivables are, or will become, due. Any amendment to the fair values resulting from changes in such information or strategy will be recognized when they occur.

4. RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the amount of $65,117 and $48,487 as of December 31, 2005 and 2004, respectively, are restricted for use as collateral against letters of credit, in the amount of $47,848 and $45,287 as of December 31, 2005 and 2004, respectively, and as guarantee under trust agreements. Letters of credit are issued to ceding insurers as security for the obligations of insurance subsidiaries under reinsurance agreements with those ceding insurers.

5. INVESTMENTS

Available-for-sale The cost and fair value of investments in mutual funds classified as available-for-sale as at December 31, 2005 and 2004 were $216,624 and $304,558, respectively. For the years ended December 31, 2005 and 2004, $215,817 and $278,178 of the investments in mutual funds were Goldman Sachs mutual funds, respectively.

Mutual funds invest in fixed income and money market securities denominated in U.S. dollars, with an average target duration of nine months. The mutual funds can be redeemed on a single trading day s notice.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Held-to-maturity The amortized cost and estimated fair value of investments in debt securities held-to-maturity are as follows:

As at December 31, 2005	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities	$ 120,568	$	$ (2,075)	$ 118,493
U.S. Agencies securities	98,409		(1,229)	97,180
Corporate debt securities	77,607		(2,010)	75,597
	$ 296,584	$	$ (5,314)	$ 291,270

As at December 31, 2004	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Treasury securities	$ 151,436	$	$ (1,003)	$ 150,433
U.S. Agencies securities	20,414		(135)	20,279
Corporate debt securities	56,382	3	(426)	55,959
	$ 228,232	$ 3	$ (1,564)	$ 226,671

The gross unrealized losses on held-to-maturity debt securities were split as follows:

	2005	2004
Due within one year	$ 666	$ 181
After 1 through 5 years	3,674	991
After 5 through 10 years	283	61
After 10 years	691	331
	$ 5,314	$ 1,564

As at December 31, 2005 and 2004, the number of securities in an unrealized loss position was 70 and 87, respectively, with a fair value of $268,870 and $225,993, respectively. Of these securities, the number of securities

that have been in an unrealized loss position for 12 months or longer was 57 and Nil, respectively, with a fair value of $137,143 and $Nil, respectively. As of December 31, 2005 and 2004, none of these securities were considered to be other than temporarily impaired. Management has the intent and ability to hold these securities until their maturities. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

The amortized cost and estimated fair values as at December 31, 2005 of debt securities classified as held-to-maturity by contractual maturity are shown below.

	Amortized Cost	**Fair Value**
Due within one year	$ 81,552	$ 80,886
After 1 through 5 years	181,826	178,152
After 5 through 10 years	15,170	14,887
After 10 years	18,036	17,345
	$ 296,584	$ 291,270

Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Trading During 2004 the Company, through a subsidiary, acquired Harper Insurance Limited (Harper) (formerly Turegum Insurance Company). As part of the acquisition, the Company acquired

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Harper s fixed income portfolio. Upon completion of the acquisition, Harper s fixed income investment portfolio was reviewed by management, taking into account the Company s run-off strategy for Harper s liabilities. Fixed income maturities were selected to provide, together with the short-term cash investments, sufficient cash flow to fund expected claims payments, while maximizing interest income. As a result of this analysis, the Company classified certain fixed income securities as held to maturity. Fixed income securities that were not part of the Company s run-off strategy were classified as trading as management intended to sell these securities in the near term. The securities designated as trading were completely sold in the first quarter of 2005. The estimated fair value of investments in debt securities classified as trading securities as at December 31, 2004 was as follows:

	Fair Value
Corporate debt securities	$ 41,718
U.S. Agencies securities	17,127
	$ 58,845

Other investments The cost and estimated fair value of the other investments are as follows:

As at December 31, 2005	Cost	Fair Value
New NIB Partners LP	$ 24,532	$ 24,532
GSC European Mezzanine Fund II, LP	1,828	1,828
	$ 26,360	$ 26,360

New NIB Partners LP In 2005, Fitzwilliam Insurance Company Limited (Fitzwilliam) and River Thames Insurance Company Limited (River Thames), subsidiaries of Castlewood Holdings, invested $24,532 in an Alberta limited partnership, New NIB Partners LP (New NIB). New NIB was formed for the purpose of purchasing, together with certain affiliated entities, 100% of the outstanding share capital of NIBC N.V. (formerly NIB Capital Bank N.V.) (NIB Capital), a Dutch bank, for approximately $2,156,000. Fitzwilliam and River Thames, combined, own 1.3801% of New NIB.

GSC European Mezzanine Fund II, LP In 2005, Overseas Reinsurance Corporation Limited (Overseas Re), a subsidiary of Castlewood Holdings, made a capital commitment of up to $10,000 in the GSC European Mezzanine Fund II, LP (the GSC Fund). The GSC Fund invests in mezzanine securities of middle and large market companies throughout Western Europe. As at December 31, 2005, the capital contributed to the GSC Fund was $1,828 with the remaining of the commitment being $8,172. Overseas Re s commitment of $10,000 represents 8.9% of the total commitments made to the GSC Fund.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Major categories of net investment income are summarized as follows:

	2005	2004	2003
Interest from short-term investments	$ 8,429	$ 5,539	$ 4,440
Interest from fixed maturities	8,897	3,140	2,567
Interest from trading securities	309		
Interest on cash and cash equivalents	12,251	3,540	1,875
Dividends from equity securities	39		
Change in net unrealized holding loss on trading securities		(471)	
Amortization of bond premiums or discounts	(564)	(304)	(581)
Investment expenses (Note 16)	(1,125)	(342)	(269)
	$ 28,236	$ 11,102	$ 8,032

During the years ended December 31, 2005, 2004 and 2003, gross realized gains on sale of available-for-sale securities were $1,768, $68 and $64, respectively, and gross realized losses on sale of available-for-sale securities were $Nil, $668 and $162, respectively.

6. REINSURANCE BALANCES RECEIVABLE

	2005	2004
Recoverable from reinsurers on:		
Paid losses	$ 36,830	$ 30,974
Outstanding losses	77,676	101,316
Losses incurred but not reported	244,011	393,373
Fair value adjustment	(108,288)	(184,036)
	$ 250,229	$ 341,627

The fair value adjustment, determined on acquisition of a reinsurance subsidiary, was based on the estimated timing of loss and loss adjustment expense payments and an assumed interest rate of 5.0%, and is amortized over the estimated payout period, as adjusted for accelerations on commutation settlements, using the constant yield method. Interest rates used to determine the fair value of reinsurance balances receivable reflect the credit risk associated with the reinsurers from who the receivables are, or will become due.

The Company s acquired reinsurance subsidiaries used retrocessional agreements to reduce their exposure to the risk of reinsurance assumed. The Company remains liable to the extent the retrocessionaires do not meet their obligations under these agreements, and therefore, the Company evaluates and monitors concentration of credit risk. Provisions

are made for amounts considered potentially uncollectable. The allowance for uncollectable reinsurance recoverable was $102,559 and $120,956 at December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, reinsurance receivables with a carrying value of $164,363 and $149,255, respectively, were associated with a single reinsurer which represented 10% or more of total reinsurance balances receivable. In the event that all or any of the reinsuring companies are unable to meet their obligations under existing reinsurance agreements, the Company will be liable for such defaulted amounts.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INVESTMENT IN PARTLY-OWNED COMPANIES

	2005	2004
Investment in B.H. Acquisition Ltd.	$ 17,480	$ 17,400
Investment in Cassandra Equity (Cayman) LP		10,701
	$ 17,480	$ 28,101

B.H. Acquisition Ltd.

The Company holds 45% of the ordinary shares of B.H. Acquisition Ltd. (BH). The ordinary shares held by the Company have 33% of BH s voting rights. BH wholly owns two insurance companies in run-off, Brittany Insurance Company Ltd., incorporated in Bermuda, and Compagnie Européenne d Assurances Industrielles S.A., incorporated in Belgium.

	2005	2004
Balance at January 1	$ 17,400	$ 17,237
Share of net earnings	80	163
Balance at December 31	$ 17,480	$ 17,400

Cassandra Equity (Cayman) LP

In 2004, the Company s wholly-owned subsidiary, Hudson Reinsurance Company Ltd. (Hudson), purchased a 27% interest in Cassandra Equity (Cayman) LP (Cassandra) for $9,147.

Cassandra was established to invest in equity shares of a publicly traded international reinsurance company. On March 1, 2005, Cassandra sold 100% of its equity shareholdings for total proceeds of $40,048. The Company s share of total proceeds was $10,813.

	2005	2004
Investment	$ 10,701	$ 9,147
Share of net earnings	112	1,830
Distributions	(10,813)	(276)
Balance at December 31	$	$ 10,701

JCF CFN Entities

In 2003, the Company purchased a 40% interest in each of JCF CFN LLC and JCF CFN II LLC (collectively, the JCF CFN Entities) for a total of $10,200. On November 11, 2003, the Company transferred its investment to Hudson.

In 2004, the JCF CFN Entities were sold and the company received distributions of $16,119.

	2005	2004
Balance at January 1	$	$ 11,571
Investment		
Share of net earnings		4,888
Share of other comprehensive income		(340)
Distributions		(16,119)
Balance at December 31	$	$

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005 and 2004, consolidated retained earnings include $6,611 and $11,465, respectively, of undistributed earnings of companies accounted for by the equity method.

8. LOSSES AND LOSS ADJUSTMENT EXPENSES

	2005	2004
Outstanding	$ 433,722	$ 564,183
Incurred but not reported	645,969	821,555
Fair value adjustment	(273,132)	(338,425)
	$ 806,559	$ 1,047,313

The fair value adjustment, determined on acquisition of a reinsurance subsidiary, was based on the estimated timing of loss and loss adjustment expense payments and an assumed interest rate of 4.18%, and is amortized over the estimated payout period, as adjusted for accelerations on commutation settlements, using the constant yield method. Interest rates used to determine the fair value of gross loss reserves are based upon risk free rates applicable to the average duration of the loss reserves.

In establishing the liability for losses and loss adjustment expenses related to asbestos and environmental claims, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims. Estimates of the liabilities are reviewed and updated continually. Developed case law and adequate claim history do not exist for such claims, especially because significant uncertainty exists about the outcome of coverage litigation and whether past claim experience will be representative of future claim experience. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. Ultimate values for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company s potential losses for these claims. There can be no assurance that the reserves established by the Company will be adequate or will not be adversely affected by the development of other latent exposures. The Company s liability for unpaid losses and loss adjustment expenses as of December 31, 2005 and 2004 included $383,956 and $479,048, respectively, that represents an estimate of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims as at December 31, 2005 and 2004 was $578,079 and $743,294, respectively.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	2005	2004	2003
Balance as at January 1	$ 1,047,313	$ 381,531	$ 284,409
Less reinsurance recoverables	310,653	151,376	99,891
	736,660	230,155	184,518
Effect of exchange rate movement	3,652	4,124	10,575
Incurred related to prior years	(96,007)	(13,706)	(24,044)
Paid related to prior years	(69,007)	(19,019)	(4,094)
Acquired on purchase of subsidiaries	17,862	535,106	63,200
Net balance as at December 31	593,160	736,660	230,155
Plus reinsurance recoverables	213,399	310,653	151,376
Balance as at December 31	$ 806,559	$ 1,047,313	$ 381,531

The net reduction in loss and loss adjustment expense liabilities for the years ended December 31, 2005, 2004 and 2003 was primarily due to the following:

	2005	2004	2003
Reduction (increase) in estimates of ultimate losses	$ 65,307	$ (1,000)	$ 13,614
Reduction in provisions for bad debts	20,200		
Reduction in provisions for loss adjustment expenses	10,500	14,706	10,430
Net reduction in loss and loss adjustment expense liabilities	$ 96,007	$ 13,706	$ 24,044

The reduction in estimates of ultimate losses arose from commutations and policy buy-backs, the settlement of losses in the year below carried reserves, lower than expected incurred adverse loss development and the resulting reductions in actuarial estimates of losses incurred but not reported. As a result of the collection of certain reinsurance receivables, against which bad debt provisions had been provided in earlier periods, the Company reduced its aggregate provisions for bad debt in 2005.

9. REINSURANCE BALANCES PAYABLE

Under the terms of certain of the Company s acquisitions, distributions from certain acquired companies in excess of their purchase price are shared with the sellers, subject to aggregate caps. In 2005, the Company paid $22,000 as final settlement of these rights to distributions from certain acquired companies. The payable reflected in the financial

statements as at December 31, 2004 was $19,757.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. SHARE CAPITAL

Authorized shares of par value $1 each

	2005	2004
Class A ordinary voting shares	6,000	6,000
Class B ordinary voting shares	6,000	6,000
Class C ordinary voting shares	6,153	6,153
Class D ordinary non-voting shares	741	744
Class E ordinary non-voting redeemable shares	40,501,552	40,501,552
Shares not allocated to a class	58,479,554	58,479,551
	99,000,000	99,000,000

Issued and fully paid shares of par value $1 each

	2005	2004
Class A ordinary voting shares	$ 6	$ 6
Class B ordinary voting shares	6	6
Class C ordinary voting shares	6	6
Class D ordinary non-voting shares	1	
Class E ordinary non-voting redeemable shares	22,642	22,894
	$ 22,661	$ 22,912

The Class A, B and C shares of the Company are ordinary voting shares.

The Class A and B shares were issued to The Enstar Group, Inc. (Enstar) and Trident II L.P. and its affiliates (Trident), respectively, upon the acquisition of Castlewood Limited by the Company. Class E shares are non-voting and were issued to the shareholders of Castlewood Limited (the Principals), together with Class C shares, upon the acquisition of Castlewood Limited by the Company.

The Company s bye-laws provide that any distributions to its shareholders will be in accordance with the following proportions and priorities the Waterfall Distribution Provisions :

First, until, Trident receives cumulative distributions equal to its capital contributions to the Company, any distributions would be allocated 30% to Enstar, 47.5% to Trident and 22.5% to the Principals;

Second, until Enstar receives cumulative distributions equal to their capital contributions made to the Company, any distributions would be allocated 50% to Enstar, 50% to the Principals;

Third, until the Principals receive cumulative distributions equal to their capital contributions made to the Company, any distributions would be made 100% to the Principals; and

Fourth, distributions are made to each of the shareholders pro-rata to their shareholding.

Distributions to Enstar and Trident are made by way of dividend payments on their Class A and B shares. Distributions to the Principals are made by way of redemptions of the Class E shares at their par value of $1.00 per share. The Class E shares are not mandatorily redeemable nor is their redemption an unconditional obligation. Instead, the redemption of the Class E shares is dependent on distributions from the Company, an event which is not definitely certain to occur. The holders of Class E shares are not entitled to any dividends, undistributed earnings of the Company or any rights to participate in any distributions of assets upon

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liquidation. There is no mechanism within the Company s bye-laws or any privilege or rights which would allow the Class E shareholders to force the Company to make a distribution.

All outstanding Class E shares were fully redeemed during the second quarter of 2006.

11. ADDITIONAL PAID-IN CAPITAL

During the years ended December 31, 2005, 2004 and 2003, shareholders of the Company have made contributions in the amount of $Nil, $Nil and $14,338, respectively.

As part of the 2001 acquisition of Castlewood Limited by the Company, the non-management shareholders of the Company agreed to fund up to $79 million in (re)insurance acquisitions by the Company. The capital contribution by those two shareholder groups in 2003 represents the final payment of that $79 million commitment. $65 million of the commitment was funded by the non-management shareholders prior to 2003.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Other comprehensive income for the years ended December 31, 2005, 2004 and 2003 is comprised of cumulative translation adjustments and unrealized gains and losses on investments as shown in the table below:

	2005	2004	2003
Cumulative translation adjustments	$ 1,010	$ 1,909	$ 1,379
Unrealized gains and losses on investments			340
	$ 1,010	$ 1,909	$ 1,719

13. EMPLOYEE BENEFITS

During 2002, the Company entered into an agreement with employees that provided for stock awards. Employee stock awards for 153 Class C ordinary shares and 1,007,552 Class E ordinary shares were granted to the employees. The shares vest over a period of four years. The Company has charged compensation expense of $259, $481 and $896 relating to these restricted share awards in 2005, 2004 and 2003, respectively.

During 2004, the Company established an employee share plan. Employee stock awards for 17 and 744 Class D ordinary shares were granted to employees in the 2005 and 2004 years, respectively. The shares vest over a period of five years. The Company has charged compensation expense of $3,780 and $3,125 relating to these restricted share awards in 2005 and 2004, respectively.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
BASIC EARNINGS PER SHARE			
Net earnings	$ 80,710	$ 38,294	$ 30,592
Weighted average shares outstanding basic	18,352	18,081	18,000
Basic earnings per share	$ 4,397.89	$ 2,117.91	$ 1,699.56
DILUTED EARNINGS PER SHARE			
Net earnings	$ 80,710	$ 38,294	$ 30,592
Weighted average shares outstanding basic	18,352	18,081	18,000
Share equivalents:			
Unvested shares	399	167	
Weighted average shares outstanding diluted	18,751	18,248	18,000
Diluted earnings per share	$ 4,304.30	$ 2,098.53	$ 1,699.56

15. PENSIONS

The Company provides pension benefits to eligible employees through various plans sponsored by the Company. All pension plans, except as described below, are structured as defined contribution plans. Pension expense for the years ended December 31, 2005, 2004 and 2003 was $1,342, $1,126 and $835, respectively.

Hillcot has a defined benefit pension plan which the plan trustees resolved to wind up effective January 1, 2003. At December 31, 2003, based upon an actuarial valuation, the plan was fully funded and the plan actuary has reported that there is no regulatory requirement for Hillcot to further fund the plan prior to its liquidation. During 2003, plan liabilities of Hillcot s deferred benefit pension plan were reduced by $3,106 as a result of an actuarial surplus and the impact of a cap on liabilities arising from the termination of the plan. This reduction was treated as a reduction in general and administrative expenses in 2003. The liquidation of the plan is scheduled to be completed during 2006.

16. RELATED PARTY TRANSACTIONS

The Company has entered into transactions with companies and partnerships that are affiliated with Mr. J. Christopher Flowers and/or Mr. John J. Oros or of which Mr. Flowers is a director and the largest shareholder owns a minority interest in a subsidiary of Castlewood. Messrs. Flowers and Oros are members of the Company s Board of Directors. Mr. Flowers is also the largest shareholder of Enstar, which has an approximately one-third economic and 50% voting

interest in the Company.

The transactions involving companies and partnerships where Mr. Flowers has an involvement are as follows:

On March 1, 2006, the Company approved a commitment to invest up to $75,000 to J.C. Flowers II L.P., a private investment fund formed by J.C. Flowers & Co. LLC (Flowers LLC). Mr. Flowers controls Flowers LLC. John J. Oros, a member of the Company s board of directors and President and Chief Operating Officer of Enstar, is a managing director of Flowers LLC.

In December 2005, JCF Re Holdings LP (JCF Re), a Cayman limited partnership, entered into a subscription and shareholders agreement with Fitzwilliam for the establishment of a segregated cell and

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

paid $1,932 to Fitzwilliam as capital and contributed surplus. During the year, Fitzwilliam booked management fees of $40 from JCF Re.

In December 2005, the Company invested $24,532 in New NIB, which was formed to hold, together with certain related entities, 100% of the share capital of NIB Capital. Mr. Flowers serves on the supervisory board of NIB Capital. Several officers and directors of the Company made personal investments in New NIB.

In June 2005, the Company, through its subsidiary Castlewood (US) Inc., entered into a license agreement with Flowers LLC for the use of certain office space and administrative services from Flowers LLC for an annual payment of $50 running through 2014.

In 2004, Hudson invested $9,147 in Cassandra for a 27% interest. JC Flowers I LP also owned a 27% interest in Cassandra. Mr. Flowers is the managing member of JCF Associates I LLC, which is the general partner of JC Flowers I LP.

In 2003, the Company and Shinsei Bank, Limited, through their jointly owned company, Hillcot Holdings, completed the acquisition of Hillcot. Mr. Flowers is a director of Shinsei Bank, Limited.

During 2003, the Company invested $10,000 in the JCF CFN Entities. The JCF CFN Entities were controlled by JCF Associates I, LLC, the managing member of which was Mr. Flowers. In 2004, the holdings of the JCF CFN Entities were sold.

During the years ended December 31, 2005, 2004 and 2003, Castlewood earned consulting fees of $1,250, $1,250 and $1,250, respectively, from subsidiaries of BH.

In 2002, the Company and BH entered into an investment advisory agreement with Enstar for an agreed annual fee of $400. For the years ended December 31, 2005, 2004 and 2003, the Company incurred fees relating to this agreement of $365, $362 and $330, respectively.

In April 2005, Castlewood (US) Inc. entered into a lease agreement for use of certain office space with its President and Chief Operating Officer running through to 2008 for an annual cost of $131. For the year ended December 31, 2005 Castlewood (US) Inc. incurred rent expense of $119.

As at December 31, 2005 and 2004, no amounts on account of investment fees and other expenses were payable to these related parties and $40 and $Nil, respectively, were receivable from them.

17. LITIGATION

The Company, in common with the insurance and reinsurance industry in general, is subject to litigation and arbitration in the normal course of its business operations. While the outcome of the litigation cannot be predicted with certainty, the Company is disputing and will continue to dispute all allegations that management believes are without merit. As of December 31, 2005, the Company was not a party to any material litigation or arbitration.

18. TAXATION

Under current Bermuda law, Castlewood Holdings and its Bermuda subsidiaries are not required to pay taxes in Bermuda on either income or capital gains. Castlewood Holdings and its Bermuda subsidiaries have received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, Castlewood Holdings and its Bermuda subsidiaries will be exempted from such taxes until the year 2016.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has operating subsidiaries and branch operations in the United States, Barbados, the United Kingdom and Switzerland and is subject to the relevant taxes in those jurisdictions. The weighted average expected tax provision has been calculated using the pre-tax accounting income in each jurisdiction multiplied by that jurisdiction s applicable statutory tax rate.

Deferred income taxes arise from the recognition of temporary differences between income determined for financial reporting purposes and income tax purposes. Such differences result from differing bases of depreciation and amortization for tax and book purposes.

As of December 31, 2005 and 2004, UK insurance subsidiaries and branch operations had tax loss carry-forwards, which do not expire, and deductions available for tax purposes of approximately $272,254 and $223,060, respectively. At the time of the acquisition of each of the Company s U.K. insurance and reinsurance subsidiaries, each company had tax loss carry-forwards that arose prior to acquisition as such entities had performed poorly and generated tax losses. Under U.K. tax law, the tax loss carry-forwards attributable to the acquired companies are retained by them on acquisition by the Company and are available to offset future taxable income generated by the acquired company without time limit and, in accordance with S107(4) of the Finance Act 2000, are also available to offset taxable income generated by the Company s U.K. consulting subsidiaries.

As the insurance and reinsurance subsidiaries investment income is largely offset by expenses, the only future taxable revenue of such entities consists of the reduction in net loss and loss adjustment expense liabilities. As the timing and benefit of such future activities is unpredictable, the Company has determined that it is more likely than not that the carry-forwards will not be utilized and, therefore a valuation allowance of 100% has been provided.

A valuation allowance has been provided for the tax benefit of these items as follows:

	2005	2004
Benefit of loss carry-forward	$ 81,676	$ 66,941
Valuation allowance	(81,676)	(66,941)
	$	$

The actual income tax rate for the years ended December 31, 2005, 2004 and 2003, differed from the amount computed by applying the effective rate of 0% under the Bermuda law to earnings before income taxes as a result of the following:

	2005	2004	2003
Earnings before income taxes	$ 81,624	$ 40,218	$ 32,082
Expected tax rate	0.0%	0.0%	0.0%

Foreign taxes at local expected tax rates	0.7%	4.8%	4.6%
Other	0.4%	0.0%	0.0%
Effective tax rate	1.1%	4.8%	4.6%

19. STATUTORY REQUIREMENTS

The Company s insurance and reinsurance operations are subject to insurance laws and regulations in the jurisdictions in which they operate, including Bermuda, Switzerland and the United Kingdom. Statutory capital

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and surplus as reported to the relevant regulatory authorities for the insurance and reinsurance subsidiaries of the Company as of December 31, 2005 and 2004 was as follows:

	Bermuda		UK		Switzerland	
	2005	2004	2005	2004	2005	2004
Required statutory capital and surplus	$ 15,944	$ 20,514	$ 17,458	$ 16,028	$ 15,481	$ 25,161
Actual statutory capital and surplus	$ 117,622	$ 62,538	$ 123,429	$ 100,992	$ 44,565	$ 29,668

	Bermuda		U.K.		Switzerland	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Statutory Income	$ 59,276	$ 111	$ 28,894	$ (60,592)	$ 20,004	$ (55,929)
Maximum available to be distributed as dividends	$ 101,678	$ 42,024	$ 26,075	$ 5,699	$	$

As at December 31, 2005 and 2004, retained earnings of $8,510 and $8,494 of one of BH s subsidiaries requires regulatory approval prior to distribution.

20. COMMITMENTS

The Company leases office space under operating leases expiring in various years through 2015. The leases are renewable at the option of the lessee under certain circumstances. The following is a schedule of future minimum rental payments on non-cancelable leases as of December 31, 2005:

2006	$ 1,420
2007	880
2008	719
2009	445
2010	229
2011 through 2015	955
	$ 4,648

Rent expense for the years ended December 31, 2005, 2004 and 2003 was $1,696, $1,402 and $1,272, respectively.

21. SEGMENT INFORMATION

The determination of reportable segments is based on how senior management monitors the Company s operations. The Company measures the results of its operations under two major business categories: consulting and reinsurance. Consulting fees for the reinsurance segment are intercompany fees paid to the consulting segment. Salary and benefits for the reinsurance segment relate to the discretionary bonus expense related to net earnings after income taxes of the reinsurance segment.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2005	Consulting	Reinsurance	Total
Consulting fees	$ 38,046	$ (16,040)	$ 22,006
Net investment income	576	27,660	28,236
Net realized gains		1,268	1,268
	38,622	12,888	51,510
Net reduction in loss and loss adjustment expense liabilities		(96,007)	(96,007)
Salaries and benefits	26,864	13,957	40,821
General and administrative expenses	9,246	1,716	10,962
Net foreign exchange loss	10	4,592	4,602
	36,120	(75,742)	(39,622)
Earnings before income taxes, minority interest and share of net earnings of partly-owned companies	2,502	88,630	91,132
Income taxes	(883)	(31)	(914)
Minority interest		(9,700)	(9,700)
Share of net earnings of partly-owned companies		192	192
NET EARNINGS	$ 1,619	$ 79,091	$ 80,710

2004	Consulting	Reinsurance	Total
Consulting fees	$ 32,992	$ (9,289)	$ 23,703
Net investment income	460	10,642	11,102
Net realized losses		(600)	(600)
	33,452	753	34,205
Net reduction in loss and loss adjustment expense liabilities		(13,706)	(13,706)
Salaries and benefits	20,312	5,978	26,290
General and administrative expenses	6,874	3,803	10,677
Net foreign exchange (gain)	(89)	(3,642)	(3,731)
	27,097	(7,567)	19,530
Earnings before income taxes, minority interest and share of net earnings of partly-owned companies	6,355	8,320	14,675
Income taxes	(1,939)	15	(1,924)
Minority interest		(3,097)	(3,097)

Share of net earnings of partly-owned companies			6,881	6,881
Extraordinary gain			21,759	21,759
NET EARNINGS	$ 4,416	$ 33,878	$ 38,294	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2003	Consulting	Reinsurance	Total
Consulting fees	$ 31,112	$ (6,366)	$ 24,746
Net investment income	265	7,767	8,032
Net realized losses	(862)	(98)	(960)
	30,515	1,303	31,818
Net reduction in loss and loss adjustment expense liabilities		(24,044)	(24,044)
Salaries and benefits	12,234	3,427	15,661
General and administrative expenses	6,821	172	6,993
Net foreign exchange (gain)	(219)	(2,143)	(2,362)
	18,836	(22,588)	(3,752)
Earnings before income taxes, minority interest and share of net earnings of partly-owned companies	11,679	23,891	35,570
Income taxes	(1,490)		(1,490)
Minority interest		(5,111)	(5,111)
Share of net earnings of partly owned companies		1,623	1,623
NET EARNINGS	$ 10,189	$ 20,403	$ 30,592

22. CONDENSED UNAUDITED QUARTERLY FINANCIAL DATA

	2005 Quarters Ended			
	December 31	September 30	June 30	March 31
Consulting fees	$ 8,481	$ 5,180	$ 3,857	$ 4,488
Net investment income and net realized gains	8,355	7,866	8,255	5,028
	16,836	13,046	12,112	9,516
Net reduction in loss and loss adjustment expense liabilities	(89,541)	(1,043)	(3,873)	(1,550)
Salaries and benefits	22,292	6,133	7,522	4,874
General and administrative expenses	1,583	3,239	3,457	2,683
Net foreign exchange loss	2,184	223	1,138	1,057
	(63,482)	8,552	8,244	7,064
Income taxes	698	(285)	(151)	(1,176)

Minority interest	(8,269)	(439)	(612)	(380)
Share of net earnings of partly-owned companies	49	63	32	48
NET EARNINGS	$ 72,796	$ 3,833	$ 3,137	$ 944
Net earnings per share Basic	$ 3,966.65	$ 209.27	$ 171.62	$ 51.75
Net earnings per share Diluted	$ 3,882.25	$ 204.42	$ 167.32	$ 50.36
Weighted average shares outstanding Basic	18,352	18,316	18,279	18,242
Weighted average shares outstanding Diluted	18,751	18,751	18,749	18,744

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2004 Quarters Ended			
	December 31	**September 30**	**June 30**	**March 31**
Consulting fees	$ 8,226	$ 4,809	$ 6,290	$ 4,378
Net investment income and net realized gains	4,607	3,208	480	2,207
	12,833	8,017	6,770	6,585
Net reduction in loss and loss adjustment expense liabilities	(7,654)	(1,879)	(2,333)	(1,840)
Salaries and benefits	11,475	6,422	4,241	4,152
General and administrative expenses	2,453	3,251	2,847	2,126
Net foreign exchange (gain)/loss	(2,476)	(282)	104	(1,077)
	3,798	7,512	4,859	3,361
Income taxes	(1,179)	(291)	(188)	(266)
Minority interest	(2,201)	(484)	44	(456)
Share of net earnings of partly-owned companies	4,048	1,807	342	684
Extraordinary gain (Note 3)	21,759			
NET EARNINGS	$ 31,462	$ 1,537	$ 2,109	$ 3,186
Net earnings per share before extraordinary gains Basic	$ 536.64	$ 85.29	$ 117.17	$ 177.00
Extraordinary gain Basic	1,203.42			
Net earnings per share Basic	$ 1,740.06	$ 85.29	$ 117.17	$ 177.00
Earnings per share before extraordinary gains Diluted	$ 531.73	$ 85.10	$ 117.17	$ 177.00
Extraordinary gain Diluted	1,192.40			
Net earnings per share Diluted	$ 1,724.13	$ 85.10	$ 117.17	$ 177.00
Weighted average shares outstanding Basic	18,081	18,020	18,000	18,000
Weighted average shares outstanding Diluted	18,248	18,062	18,000	18,000

23. SUBSEQUENT EVENTS

On March 30, 2006, the Company and Shinsei Bank, Limited (Shinsei), through their jointly owned company Hillcot Holdings, completed the acquisition of Aioi Insurance Company of Europe Limited (Aioi), a reinsurance company based in London, England, for total consideration of £62 million, of which £50 million was paid in cash and £12 million ($20,856) by way of vendor loan note. Subsequent to the acquisition, Aioi s name was changed to Brampton Insurance Company Limited. The acquisition has been accounted for using the purchase method of accounting, which requires that the acquirer record the assets and liabilities acquired at their estimated fair value.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The purchase price and fair value of assets acquired are as follows:

Purchase price	$ 108,885
Direct costs of acquisition	337
	109,222
Net assets acquired at fair value	117,898
Excess of net assets over purchase price (negative goodwill)	(8,676)
Less: Minority interest share of negative goodwill	4,329
	$ (4,347)

Shinsei, the minority interest shareholder of Hillcot Holdings, funded its share of the acquisition with a contribution to Hillcot Holdings surplus of $22,918 and an advance of $20,958. The advance is non-interest bearing and has no fixed terms of repayment. Mr. J. Christopher Flowers, a member of the Company s board of directors, is a director of Shinsei and its largest shareholder.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as at the date of the acquisition:

Cash, investments and accrued interest	$ 322,383
Accounts receivable	10,491
Reinsurance balances payable	(6,728)
Losses and loss adjustment expenses	(208,248)
Net assets acquired at fair value	$ 117,898

The fair values of reinsurance assets and liabilities acquired are derived from probability weighted ranges of the associated projected cash flows, based on actuarially prepared information and management s run-off strategy. Any amendment to the fair values resulting from changes in such information or strategy will be recognized when they occur.

On April 12, 2006, Hillcot Holdings entered into a facility loan agreement for $44,356 with an international bank (the Facility). On April 13, 2006, Hillcot Holdings drew down $44,356 from the Facility, the proceeds of which were used to repay shareholder funds advanced for the acquisition of Aioi. The interest rate on the Facility is LIBOR plus 2% and the Facility is repayable within four years. The Facility is secured by a first charge over Hillcot Holdings shares in Aioi together with a floating charge over Hillcot Holdings assets.

On April 26, 2006, the Company declared and paid a dividend to its Class A, B and C shareholders in an aggregate amount of $27,948 and redeemed 22,138,000 of Class E non-voting redeemable shares.

On May 5, 2006, Aioi completed the repurchase of £40 million ($73,800) of its shares. On May 8, 2006, the proceeds of the share repurchase were used to repay the vendor loan note and accumulated interest of £12.1 million ($22,325); reduce the Facility loan by $25,156; and return $23,167 to Hillcot Holdings shareholders.

On May 23, 2006, the Company entered into a definitive Agreement and Plan of Merger with The Enstar Group, Inc. (Enstar), a Georgia corporation, and CWMS Subsidiary Corp., a Georgia corporation and a direct wholly-owned subsidiary of the Company, pursuant to which CWMS Subsidiary Corp. will be merged (the Merger) with and into Enstar, and Enstar, which will be renamed Enstar USA, Inc., will become a direct wholly-owned subsidiary of the Company. Holders of shares of Enstar common stock will be entitled to receive one ordinary share of the Company in the Merger for each share of Enstar common stock they own.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The board of directors of each of Enstar and the Company unanimously approved the terms and conditions of the Merger Agreement. The transaction is expected to close during the third quarter of 2006.

On May 23, 2006, the Company entered into a Recapitalization Agreement (the Recapitalization Agreement), which provides, among other things, for: a recapitalization of the Company in which all outstanding shares will be exchanged for newly created ordinary shares; the appointment of the board of directors of the Company immediately following the Merger; the repurchase for $20,000 of certain shares of the Company from Trident II, L.P. and its affiliates; payments to certain officers and employees of the Company; the purchase, for $6,200, by the Company of the shares of BH beneficially owned by an affiliate of Trident II, L.P. and the adoption of new bye-laws that will include, among other things, certain restrictions on transfers and voting of the ordinary shares. Company shareholders holding the number of shares required to approve the Recapitalization Agreement and the transactions contemplated thereby have agreed to vote in favor of such agreements and transactions.

The Recapitalization Agreement also restricts the transfer by the Company shareholders party thereto of Company ordinary shares they receive in the recapitalization for one year, subject to certain exceptions, and provides that, at the time of the recapitalization, certain shareholders of the Company will enter into a registration rights agreement entitling them to require the Company to register their ordinary shares of the Company for resale under the United States Securities Act of 1933, as amended, beginning one year after the consummation of the Merger, although Trident II, L.P. and certain of its affiliates also have the right to require the Company to register up to 750,000 of the Company s ordinary shares 90 days from the date of the registration rights agreement and prior to the first anniversary of such date.

On May 23, 2006, the Company entered into a tax indemnification agreement with Mr. Flowers pursuant to which the Company will reimburse and indemnify Mr. Flowers for, and hold him harmless on an after-tax basis against, any increase in Mr. Flower s U.S. federal, state or local income tax liability (including any interests or penalties relating thereto), and reasonable attorneys fees, incurred by Mr. Flowers as a result of certain dispositions of shares of Enstar or dispositions of all or substantially all of the Enstar assets by the Company within the period beginning immediately after the effective time of the Merger and ending five years after the last day of the taxable year that includes the effective time.

The Company has entered into a letter agreement, dated May 23, 2006, with two directors of Enstar, Messrs. Armstrong and Davis, in which the Company, subject to the consummation of the Merger, agrees to repurchase from Messrs. Armstrong and Davis, upon their request, during a 30-day period commencing January 15, 2007, at then prevailing market prices, such number of ordinary shares as provides an amount sufficient for Messrs. Armstrong and Davis to pay taxes on compensation income resulting from the exercise of options by them on May 23, 2006 for 50,000 shares of Enstar common stock in the aggregate. The Company s obligation to repurchase ordinary shares is limited to 25,000 ordinary shares from each of Messrs. Armstrong and Davis.

In June 2006, a subsidiary of the Company entered into a definitive agreement for the purchase of Cavell Holdings Limited (U.K.) (Cavell), a U.K. company, for a purchase price of £31.8 million ($58,800). Cavell owns a U.K. insurance company and a Norwegian reinsurer, both of which are currently in run-off. The transaction is expected to close in the third quarter of 2006.

In June 2006, a subsidiary of the Company also entered into a definitive agreement for the purchase of a minority interest in a U.S. holding company that owns two property and casualty insurers based in the United States. The transaction is expected to close in the fourth quarter of 2006.

On June 7, 2006, the commitment made by the Company in March 2006 to invest an aggregate of $75,000 in J.C. Flowers II L.P. (the JCF II Fund), a private investment fund, was accepted by the JCF II Fund. The Company s commitment may be drawn down by the JCF II Fund over approximately the next five years. No fees will be payable by Castlewood to J.C. Flowers II L.P., J.C. Flowers & Co. LLC, or Mr. Flowers in connection with this investment.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company s 2005 consolidated financial statements, the Company s management determined that the presentation of net foreign exchange loss/(gain) and net reduction in loss and loss adjustment expense liabilities should have been part of expenses, rather than part of income as previously reported. As a result, the accompanying consolidated statements of earnings and certain disclosures for the years ended December 31, 2005, 2004 and 2003 have been restated to reflect the reclassifications between income and expenses. The table below summarizes the effects of the restatement.

	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
Total income	$ 142,915	$ 51,510	$ 51,642	$ 34,205	$ 58,224	$ 31,818
Total expenses	$ 51,783	$ (39,622)	$ 36,967	$ 19,530	$ 22,654	$ (3,752)

The reclassification had no impact on net earnings or any related per share amounts.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of Castlewood Holdings Limited

We have reviewed the accompanying condensed consolidated balance sheet of Castlewood Holdings Limited and subsidiaries (the Company) as of June 30, 2006, and the related condensed consolidated statements of earnings and comprehensive income for the six-month and the three-month periods ended June 30, 2006 and 2005, and statements of cash flows for the six-month periods ended June 30, 2006 and 2005. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Castlewood Holdings Limited and subsidiaries as of December 31, 2005 and the related consolidated statements of earnings, comprehensive income, changes in shareholders equity, and cash flows for the years then ended; and in our report dated July 4, 2006 (September 18, 2006 as to the effects of the restatement discussed in Note 24), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 11, the accompanying 2005 condensed consolidated statement of earnings has been restated.

/s/ Deloitte & Touche

Hamilton, Bermuda
September 18, 2006

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CASTLEWOOD HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
as of June 30, 2006 and December 31, 2005

	June 30, 2006	December 31, 2005
	(in thousands of U.S. dollars, except share data)	
ASSETS		
Total investments	$ 592,213	$ 539,568
Cash and cash equivalents	462,088	280,212
Restricted cash and cash equivalents	51,805	65,117
Reinsurance balances receivable	316,571	250,229
Investment in partly-owned companies	17,743	17,480
Other assets	43,119	47,357
TOTAL ASSETS	$ 1,483,539	$ 1,199,963
LIABILITIES		
Losses and loss adjustment expenses	$ 1,025,971	$ 806,559
Reinsurance balances payable	74,818	30,844
Accounts payable and accrued liabilities	18,204	35,337
Payable for securities purchased	15,030	
Bank loan payable	19,404	
Other liabilities	11,140	25,773
TOTAL LIABILITIES	1,164,567	898,513
MINORITY INTEREST	61,212	40,544
SHAREHOLDERS EQUITY		
Share capital		
Authorized issued and fully paid, par value $1 each (Authorized 2006: 99,000,000; 2005: 99,000,000)		
Ordinary shares (Issued 2006: 18,880; 2005: 18,540)	19	19
Ordinary non-voting redeemable shares (Issued 2006: Nil; 2005: 22,641,774)		22,642
Additional paid-in capital	110,188	89,090
Deferred compensation		(112)
Accumulated other comprehensive income	3,057	1,010
Retained earnings	144,496	148,257
TOTAL SHAREHOLDERS EQUITY	257,760	260,906
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,483,539	$ 1,199,963

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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CASTLEWOOD HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

for the three and six-month periods ended June 30, 2006 and 2005

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005 (As Restated See Note 11)	June 30, 2006	June 30, 2005 (As Restated See Note 11)
	(In thousands of U.S. dollars, except share and per share data)			
Income				
Consulting fees	$ 5,251	$ 3,857	$ 11,600	$ 8,345
Net investment income	11,145	7,651	20,805	13,179
Net realized (losses) gains	(79)	604	(79)	104
	16,317	12,112	32,326	21,628
Expenses				
Net reduction in loss and loss adjustment expense liabilities	(4,323)	(3,873)	(6,780)	(5,423)
Salaries and benefits	6,491	7,522	14,440	12,396
General and administrative expenses	4,995	3,457	8,133	6,140
Interest expense	532		532	
Net foreign exchange (gain) loss	(7,497)	1,138	(7,967)	2,195
	198	8,244	8,358	15,308
Earnings before income taxes, minority interest and share of net earnings of partly-owned companies	16,119	3,868	23,968	6,320
Income taxes	581	(151)	795	(1,327)
Minority interest	(4,974)	(612)	(5,186)	(991)
Share of net earnings of partly-owned companies	151	32	263	79
Net earnings before extraordinary gain	11,877	3,137	19,840	4,081
Extraordinary gain Negative goodwill (net of minority interest of $4,329)			4,347	
Net earnings	$ 11,877	$ 3,137	$ 24,187	$ 4,081
Per Share Data:				
Basic earnings per share before extraordinary gain basic	$ 644.05	$ 171.62	$ 1,075.86	$ 223.26

Extraordinary gain per share basic			235.72	
Basic earnings per share	$ 644.05	$ 171.62	$ 1,311.58	$ 223.26
Diluted earnings per share before extraordinary gain diluted	$ 633.17	$ 167.32	$ 1,057.68	$ 217.66
Extraordinary gain per share diluted			231.74	
Diluted earnings per share	$ 633.17	$ 167.32	$ 1,289.42	$ 217.66
Dividends declared per ordinary share	$ 1,552.67	$	$ 1,552.67	$
Weighted average ordinary shares outstanding basic	18,441	18,279	18,441	18,279
Weighted average ordinary shares outstanding diluted	18,758	18,749	18,758	18,749

See accompanying notes to the unaudited condensed consolidated financial statements

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CASTLEWOOD HOLDINGS LIMITED

UNAUDITED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
for the three and six-month periods ended June 30, 2006 and 2005

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(In thousands of U.S. dollars)			
NET EARNINGS	$ 11,877	$ 3,137	$ 24,187	$ 4,081
Other comprehensive income (loss):				
Unrealized holding gains on investments arising during the period	1,511	1,406	1,391	906
Reclassification adjustment for net realized losses (gains) included in net earnings	79	(604)	79	(104)
Currency translation adjustment	492	(482)	577	(601)
Other comprehensive income:	2,082	320	2,047	201
COMPREHENSIVE INCOME	$ 13,959	$ 3,457	$ 26,234	$ 4,282

See accompanying notes to the unaudited condensed consolidated financial statements

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CASTLEWOOD HOLDINGS LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six-month periods ended June 30, 2006 and 2005

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(In thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 24,187	$ 4,081
Adjustments to reconcile net earnings to cash flows provided by (used in) operating activities:		
Minority interest	5,186	991
Negative goodwill (net of minority interest of $4,329)	(4,347)	
Share of net earnings of partly-owned companies	(263)	(79)
Depreciation and amortization	220	221
Amortization of deferred compensation	112	130
Amortization of bond premiums or discounts	1,362	273
Class D share stock compensation	21,098	2,228
Net realized losses (gains) on sale of available-for-sale securities	79	(604)
Net realized loss on sale of trading securities		500
Recognized foreign exchange gain on derivative instruments		(13)
Share of net earnings of other investments	(114)	
Accretion of bank loan	204	
CHANGES IN ASSETS AND LIABILITIES:		
Proceeds on sale of trading securities		76,695
Reinsurance balances receivable	4,604	(61,724)
Other assets	24,381	596
Losses and loss adjustment expenses	(27,881)	9,586
Reinsurance balances payable	4,522	4,257
Accounts payable and accrued liabilities	(23,142)	(1,793)
Other liabilities	(14,820)	(424)
Net cash flows provided by operating activities	15,388	34,921
INVESTING ACTIVITIES:		
Cash acquired on purchase of subsidiary	117,269	18,006
Cash used for purchase of subsidiary	(88,254)	(1,447)
Distributions from partly-owned companies		10,813
Purchase of available-for-sale securities	(62,358)	(124,279)
Proceeds from sale of available-for-sale securities	145,158	85,838
Maturity of available-for-sale securities	52,105	10,773
Maturity of held-to-maturity securities	30,066	
Purchase of other investments	(428)	
Movement in restricted cash and cash equivalents	14,100	4,454
Purchase of fixed assets	(293)	(721)

Net cash flows provided by investing activities		207,365		3,437
FINANCING ACTIVITIES:				
Redemption of Class E shares		(22,642)		(252)
Distribution of capital to minority shareholders		(11,765)		(548)
Contribution to surplus of subsidiary by minority interest		22,918		
Dividend paid		(27,948)		
Receipt of bank loan		44,356		
Repayment of bank loan		(25,156)		
Repayment of vendor loan note		(20,970)		
Net cash flows used in financing activities		(41,207)		(800)
Translation adjustment		330		(296)
NET INCREASE IN CASH AND CASH EQUIVALENTS		181,876		37,262
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		280,212		301,969
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	462,088	$	339,231
Supplemental Cash Flow Information				
Income taxes recovered (paid)	$	603	$	(1,581)

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and December 31, 2005
(in thousands of U.S. dollars, except share and per share data)
(unaudited)

1. DESCRIPTION OF BUSINESS

Castlewood Holdings Limited (Castlewood Holdings) was incorporated under the laws of Bermuda on August 16, 2001 and with its subsidiaries (collectively, the Company) acquires and manages insurance and reinsurance companies in run-off, and provides management, consultancy and other services to the insurance and reinsurance industry.

The accompanying unaudited interim condensed consolidated financial statements have been prepared on the basis of United States generally accepted accounting principles. In the opinion of management, these consolidated financial statements reflect all the normal recurring adjustments necessary for a fair presentation of the Company s financial position at June 30, 2006 and its results of operations for the six-month and the three-month periods ended June 30, 2006 and June 30, 2005 and its cash flows for the six-month periods ended June 30, 2006 and 2005. The results of operations for any interim period are not necessarily indicative of the results for a full year.

These statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s December 31, 2005 audited financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements In December 2004, the Financial Accounting Standards Board (FASB) issued FAS 123(R) Share Based Payments . This statement requires compensation costs related to share-based payment transactions to be recognized in the financial statements. The amount of compensation costs will be measured based on the grant-date fair value of the awards issued and will be recognized over the period that an employee provides services in exchange for the award or the requisite service or vesting period. FAS 123(R) is effective for the first interim or annual reporting period beginning after June 15, 2005. The Company adopted, prospectively, the fair value recognition provisions of FAS No. 123 (revised) Share-Based Payments (FAS No. 123(R)) for all stock options and restricted shares that were outstanding on January 1, 2006 or that are granted or subsequently modified or cancelled. On May 23, 2006, the Company entered into a merger agreement and a recapitalization agreement. As a result of the execution of these agreements, the accounting treatment for share-based awards under Castlewood s employee share plan changed from book value to fair value. As a result of this modification, the Company recognized additional stock-based compensation of $15,584 for the three month and six months ended June 30, 2006, respectively, due to the adoption of FAS No. 123(R) related to the recording of the employee plan using the fair value method. The effect on the adoption of FAS 123(R) on selected line items was a reduction in deferred compensation of $112 and a reduction of additional paid-in capital of $112.

In November 2005, the Financial Accounting Standards Board (FASB) issued FSP Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP). The FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss by reference to various existing accounting literature. The FSP replaces the guidance set forth in paragraphs 10-18 of EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, with references to existing other-than-temporary impairment guidance. The FSP supersedes EITF D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value and clarifies that an investor should recognize an impairment loss no later

than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company adopted these new pronouncements on January 1 for its other-than-temporary impairment analysis conducted in the period beginning January 1, 2006. The adoption of these new pronouncements did not have a significant impact on the consolidated equity or net earnings of the Company.

In February 2006, the FASB issued FAS No. 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (FAS 155). This statement amends FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS 133), and FASB Statement No. 140 Accounting for Transfers and Servicing of Financial Assets and extinguishments of Liabilities (FAS 140). This statement resolves issues addressed in FAS 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.

The significant points of FAS 155 are that this statement:

permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation;

clarifies which interest-only strips and principal-only strips are not subject to the requirements of FAS 133;

establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;

clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and

amends FAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

FAS 155 is effective for all instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. As the Company does not intend to invest in or issue such hybrid instruments, adoption of FAS 155 is not expected to have any material impact on our results of operations or financial condition.

In March 2006, the FASB issued FAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 (FAS 156). This statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable.

FAS 156 must be adopted as of the beginning of the first fiscal year that begins after September 15, 2006. The Company does not enter into contracts to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to adequately compensate the Company for performing the servicing. As such, adoption of FAS 156 is not expected to have any material impact on the Company s results of operations or financial condition.

In June 2006, the FASB issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109 Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and

measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation will be effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of the adoption of FIN 48 and the impact on its consolidated equity or net earnings.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITION

On March 30, 2006, Hillcot Holdings Ltd. (Hillcot Holdings), a 50.1% owned subsidiary of Castlewood Holdings, acquired Aioi Insurance Company of Europe Limited (Aioi), a reinsurance company based in London, England, for total consideration of £62 million, of which £50 million was paid in cash and £12 million ($20,856) by way of vendor loan note. Subsequent to the acquisition, Aioi s name was changed to Brampton Insurance Company Limited. The acquisition has been accounted for using the purchase method of accounting, which requires that the acquirer record the assets and liabilities acquired at their estimated fair value.

The purchase price and fair value of assets acquired are as follows:

Purchase price	$ 108,885
Direct costs of acquisition	337
	109,222
Net assets acquired at fair value	117,898
Excess of net assets over purchase price (negative goodwill)	(8,676)
Less: Minority interest share of negative goodwill	4,329
	$ (4,347)

The minority interest shareholder of Hillcot Holdings funded its share of the acquisition with a contribution to Hillcot Holdings surplus of $22,918 and an advance of $20,958. The advance was non-interest bearing and was repaid in full prior to June 30, 2006.

Upon acquisition, Hillcot Holdings acquired 156 million shares, £1 par value per share, which represented 100% of the outstanding share capital of Aioi. On May 5, 2006, Aioi completed the repurchase of 40 million shares, £1 par value per share, for £40 million ($73,800). As at December 31, 2005, the statutory capital and surplus of Aioi, of £65.4 million, was £48.8 million higher than the amount of £16.6 million required to meet the statutory minimum. As the vendor refused to complete the repurchase prior to completion of the transaction, for which it gave no reason, Hillcot Holdings agreed to the purchase of Aioi for the consideration of £62 million on the condition that the share repurchase in the amount of £40 million was approved by the financial services regulator in the U.K., the Financial Services Authority (FSA), as part of their approval of the overall purchase transaction. The amount of £40 million was determined following discussions with the FSA and based on maintaining a statutory surplus equal to approximately 150% of the required statutory minimum. On May 8, 2006, the proceeds of the share repurchase were used to repay a vendor loan note and accumulated interest of £12.1 million ($22,325); reducing the facility loan by $25,156 (see Note 6); and returning $23,167 to Hillcot Holdings shareholders.

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed as at the date of the acquisition:

Cash, investments and accrued interest	$ 322,383
Accounts receivable	10,491
Reinsurance balances payable	(6,728)
Losses and loss adjustment expenses	(208,248)
Net assets acquired at fair value	$ 117,898

The fair values of reinsurance assets and liabilities acquired are derived from probability weighted ranges of the associated projected cash flows, based on actuarially prepared information and management s run-off

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

strategy. Any amendment to the fair values resulting from changes in such information or strategy will be recognized when they occur.

In June 2006, a subsidiary of the Company entered into a definitive agreement for the purchase of Cavell Holdings Limited (U.K.) (Cavell), a U.K. company for a purchase price of £31.8 million ($58,800). Cavell owns a U.K. insurance company and a Norwegian reinsurer, both of which are currently in run-off. The transaction is expected to close in the third quarter of 2006.

In June 2006, a subsidiary of the Company also entered into a definitive agreement for the purchase of a minority interest in a U.S. holding company that owns two property and casualty insurers based in Rhode Island. The transaction is expected to close in the fourth quarter of 2006.

4. EMPLOYEE COMPENSATION

On May 23, 2006, the Company entered into a merger agreement and a recapitalization agreement. These agreements provided for the cancellation of the current annual incentive compensation plan and replace it with a new annual incentive compensation plan. As a result of the execution of these agreements, the accounting treatment for share-based awards under Castlewood s employee share plan changed from book value to fair value. As a result of the cancellation of the current annual incentive compensation plan, $21,193 of unpaid bonus accrual was reversed during the quarter ended June 30, 2006. The expense relating to the new annual incentive compensation plan for the three and six months ended June 30, 2006 was $2,096 and $4,268, respectively, as compared to $553 and $720 for the three and six months ended June 30, 2005, respectively.

During the quarter ended June 30, 2006, the Company expensed $19,161 (quarter ended June 30, 2005: $1,805) relating to the employee share plan. During the six months ended June 30, 2006, the Company expensed $19,598 (six months ended June 30, 2005: $2,228) relating to the employee share plan. Included in the amounts for the three and six months ended June 30, 2006 is $15,584 relating to the modification of the Company s employee share plan from a book value plan to a fair value plan.

5. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
BASIC EARNINGS PER SHARE				
Net earnings	$ 11,877	$ 3,137	$ 24,187	$ 4,081
Weighted average shares outstanding basic	18,441	18,279	18,441	18,279
Basic Earnings per Share	$ 644.05	$ 171.62	$ 1,311.58	$ 223.26

DILUTED EARNINGS PER SHARE					
Net earnings		$ 11,877	$ 3,137	$ 24,187	$ 4,081
Weighted average shares outstanding	basic	18,441	18,279	18,441	18,279
Share equivalents: Unvested shares		317	470	317	470
Weighted average shares outstanding	diluted	18,758	18,749	18,758	18,749
Diluted Earnings per Share		$ 633.17	$ 167.32	$ 1,289.42	$ 217.66

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. BANK LOAN

On April 12, 2006, Hillcot Holdings entered into a facility loan agreement for $44,356 with a London based bank (the Facility). On April 13, 2006, Hillcot Holdings drew down $44,356 from the Facility, the proceeds of which were used to repay shareholder funds advanced for the acquisition of Aioi. The interest rate on the Facility is LIBOR plus 2% and the Facility is repayable within 4 years. The Facility is secured by a first charge over Hillcot Holdings s shares in Aioi together with a floating charge over Hillcot Holdings s assets.

On May 8, 2006 Hillcot Holdings reduced its facility loan by $25,156 using the proceeds from the share repurchase of £40 million ($73,800) completed by Aioi.

7. DIVIDEND PAID AND SHARE REDEMPTION

On April 26, 2006 the Company declared and paid a dividend to its Class A, B and C shareholders in an aggregate amount of $27,948 and paid $22,138 to redeem 22,138,000 Class E non-voting redeemable shares at their par value of $1.00 per share in accordance with the provisions of the Company s bye-laws.

8. MERGER

On May 23, 2006, the Company entered into a definitive Agreement and Plan of Merger with The Enstar Group, Inc. (Enstar), a Georgia corporation, and CWMS Subsidiary Corp., a Georgia corporation and a direct wholly-owned subsidiary of the Company, pursuant to which CWMS Subsidiary Corp. will be merged (the Merger) with and into Enstar, and Enstar, which will be renamed Enstar USA, Inc., will become a direct wholly-owned subsidiary of the Company. Holders of shares of Enstar common stock will be entitled to receive one ordinary share of the Company in the Merger for each share of Enstar common stock they own.

The board of directors of each of Enstar and the Company unanimously approved the terms and conditions of the Merger Agreement. The transaction is expected to close during the fourth quarter of 2006.

On May 23, 2006, the Company entered into a Recapitalization Agreement (the Recapitalization Agreement), which provides, among other things, for: a recapitalization of the Company in which all outstanding shares will be exchanged for newly created ordinary shares; the designation of the initial board of directors of the Company immediately following the Merger; repurchases of certain shares of the Company from Trident II, L.P. and its affiliates; payments in respect of certain other shares of the Company; the purchase, by the Company of the shares of BH held by an affiliate of Trident II, L.P. and the adoption of new bye-laws that will include, among other things, certain restrictions on transfers and voting of the ordinary shares. Company shareholders holding the number of shares required to approve the Recapitalization Agreement and the transactions contemplated thereby have agreed to vote in favor of such agreements and transactions.

The Recapitalization Agreement also restricts the transfer by the Company s shareholders party thereto of Company shares received in the recapitalization for one year, subject to certain exceptions, and provides that, at the time of the recapitalization, certain shareholders of the Company will enter into a registration rights agreement entitling them to require Castlewood to register their ordinary shares of Castlewood for resale under the United States Securities Act of 1933, as amended, beginning one year after the consummation of the Merger, although Trident II, L.P. and certain of

its affiliates have the right to register up to 750,000 of the Company s stock 90 days after consummation of the Merger.

On May 23, 2006, the Company entered into a tax indemnification agreement with Mr. Flowers pursuant to which the Company will reimburse and indemnify Mr. Flowers for, and hold him harmless on an after-tax basis against, any increase in Mr. Flower s U.S. federal, state or local income tax liability (including any interests or penalties relating thereto), and reasonable attorneys fees, incurred by Mr. Flowers as a result of

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

certain dispositions of shares of Enstar or dispositions of all or substantially all of the Enstar assets by the Company within the period beginning immediately after the effective time of the Merger and ending five years after the last day of the taxable year that includes the effective time.

The Company has entered into a letter agreement, dated May 23, 2006, with two directors of Enstar, Messrs. Armstrong and Davis, in which the Company, subject to the consummation of the Merger, agrees to repurchase from Messrs. Armstrong and Davis, upon their request, during a 30-day period commencing January 15, 2007, at then prevailing market prices, such number of ordinary shares as provides an amount sufficient for Messrs. Armstrong and Davis to pay taxes on compensation income resulting from the exercise of options by them on May 23, 2006 for 50,000 shares of Enstar common stock in the aggregate. The Company s obligation to repurchase ordinary shares is limited to 25,000 ordinary shares from each of Messrs. Armstrong and Davis.

9. COMMITMENT

On June 7, 2006, the commitment made by the Company in March 2006 to invest an aggregate of $75,000 in J.C. Flowers II L.P. (the JCF II Fund), a private investment fund, was accepted by the JCF II Fund. The Company s commitment may be drawn down by the JCF II Fund over approximately the next six years. In August 2006, the JCF II Fund drew down $5.7 million of the Company s $75 million commitment to the JCF II Fund.

10. SEGMENT INFORMATION

The determination of reportable segments is based on how senior management monitors the Company s operations. The Company measures the results of its operations under two major business categories: reinsurance and consulting. Consulting fees for the reinsurance segment are intercompany fees paid to the consulting segment. Salary and benefits for the reinsurance segment relate to the discretionary bonus expense on the net income before taxes of the reinsurance segment.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended June 30, 2006		
	Reinsurance	Consulting	Total
Consulting fees	$ (5,236)	$ 10,487	$ 5,251
Net investment income and net realized losses	10,730	336	11,066
	5,494	10,823	16,317
Net reduction in loss and loss adjustment expense liabilities	(4,323)		(4,323)
Salaries and benefits	1,768	4,723	6,491
General and administrative expenses	1,452	3,543	4,995
Interest expense	532		532
Net foreign exchange (gain) loss	(8,772)	1,275	(7,497)
	(9,343)	9,541	198
Earnings before income taxes, minority interest and share of income of partly-owned companies	14,837	1,282	16,119
Income taxes	7	574	581
Minority interest	(4,974)		(4,974)
Share of income of partly-owned companies	151		151
Net earnings before extraordinary gain	10,021	1,856	11,877
Extraordinary gain			
Net earnings	$ 10,021	$ 1,856	$ 11,877

	Three Months Ended June 30, 2005		
	Reinsurance	Consulting	Total
Consulting fees	$ (3,979)	$ 7,836	$ 3,857
Net investment income and net realized losses	8,120	135	8,255
	4,141	7,971	12,112
Net reduction in loss and loss adjustment expense liabilities	(3,873)		(3,873)
Salaries and benefits	852	6,670	7,522
General and administrative expenses	589	2,868	3,457
Net foreign exchange loss (gain)	1,149	(11)	1,138

	(1,283)	9,527	8,244
Earnings before income taxes, minority interest and share of income of partly-owned companies	5,424	(1,556)	3,868
Income taxes	(16)	(135)	(151)
Minority interest	(612)		(612)
Share of income of partly-owned companies	32		32
Net earnings	$ 4,828	$ (1,691)	$ 3,137

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Six Months Ended June 30, 2006		
	Reinsurance	Consulting	Total
Consulting fees	$ (8,822)	$ 20,422	$ 11,600
Net investment income and net realized losses	20,149	577	20,726
	11,327	20,999	32,326
Net reduction in loss and loss adjustment expense liabilities	(6,780)		(6,780)
Salaries and benefits	3,619	10,821	14,440
General and administrative expenses	2,129	6,004	8,133
Interest expense	532		532
Net foreign exchange (gain) loss	(9,216)	1,249	(7,967)
	(9,716)	18,074	8,358
Earnings before income taxes, minority interest and share of income of partly-owned companies	21,043	2,925	23,968
Income taxes	44	751	795
Minority interest	(5,186)		(5,186)
Share of income of partly-owned companies	263		263
Net earnings before extraordinary gain	16,164	3,676	19,840
Extraordinary gain	4,347		4,347
Net earnings	$ 20,511	$ 3,676	$ 24,187

	Six Months Ended June 30, 2005		
	Reinsurance	Consulting	Total
Consulting fees	$ (8,063)	$ 16,408	$ 8,345
Net investment income and net realized losses	13,040	243	13,283
	4,977	16,651	21,628
Net reduction in loss and loss adjustment expense liabilities	(5,423)		(5,423)
Salaries and benefits	852	11,544	12,396
General and administrative expenses	1,262	4,878	6,140
Net foreign exchange loss	2,158	37	2,195

	(1,151)	16,459	15,308
Earnings before income taxes, minority interest and share of income of partly-owned companies	6,128	192	6,320
Income taxes	(472)	(855)	(1,327)
Minority interest	(991)		(991)
Share of income of partly-owned companies	79		79
Net earnings	$ 4,744	$ (663)	$ 4,081

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company s 2005 unaudited condensed consolidated financial statements, the Company s management determined that the presentation of net foreign exchange (gain) loss and net reduction in loss and loss adjustment expense liabilities should have been part of expenses, rather than part of income as previously reported. As a result, the accompanying unaudited condensed consolidated statements of earnings and certain disclosures for the three and six-month periods ended June 30, 2005 have been restated to reflect the reclassifications between income and expense. The table below summarizes the effects of the restatement.

	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	As previously reported	As restated	As previously reported	As restated
Total income	$ 15,985	$ 12,112	$ 27,051	$ 21,628
Total expenses	$ 12,117	$ 8,244	$ 20,731	$ 15,308

The reclassification had no impact on net earnings or any related per share amounts.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Castlewood Holdings Limited

We have audited the consolidated financial statements of Castlewood Holdings Limited and subsidiaries (the Company) as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, and have issued our report thereon dated July 4, 2006 (September 18, 2006 as to the effects of the restatement discussed in Note 24) included elsewhere in this Registration Statement. Our audits also included the financial statement schedules listed in the index to the financial statements and schedules of this Registration Statement. These financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 3 to Schedule II, the condensed statements of earnings included in Schedule II has been restated.

/s/ DELOITTE & TOUCHE

Hamilton, Bermuda
July 4, 2006 (September 18, 2006 as
to the effects of the restatement
discussed in Note 3 to Schedule II)

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SCHEDULE I

CASTLEWOOD HOLDINGS LIMITED

SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

	As of December 31, 2005		
Type of Investment	**Cost**	**Market Value**	**Amount at Which Shown in the Balance Sheet**
	(in thousands of U.S. dollars)		
Fixed Maturities:			
Bonds:			
United States government and government agencies and authorities	$ 218,977	$ 215,673	$ 218,977
All other corporate bonds	77,607	75,597	77,607
Total fixed maturities	296,584	291,270	296,584
Short-term investments	216,624	216,624	216,624
Investment in limited partnership	24,532	24,532	24,532
Private investment fund	1,828	1,828	1,828
Total investments	$ 539,568	$ 534,254	$ 539,568

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SCHEDULE II

CASTLEWOOD HOLDINGS LIMITED

CONDENSED BALANCE SHEETS
as of December 31, 2005 and 2004

	2005	2004
	(in thousands of U.S. dollars, except share data)	
ASSETS		
Cash and cash equivalents	$ 3,197	$ 4,414
Balances due from subsidiaries	56,608	53,290
Investments in subsidiaries	201,962	106,982
Goodwill	21,222	21,222
Accounts receivable and other assets	6	1,023
TOTAL ASSETS	$ 282,995	$ 186,931
LIABILITIES		
Accounts payable and accrued liabilities	$ 2,019	124
Balances due to subsidiaries	3,172	3,172
TOTAL LIABILITIES	5,191	3,296
MINORITY INTEREST	17,908	8,208
SHAREHOLDERS EQUITY		
Ordinary shares, par value $1 per share, issued and outstanding (2005: 22,660,313) (2004: 22,912,057)	22,661	22,912
Additional paid-in capital	89,090	85,340
Deferred compensation	(112)	(372)
Retained earnings	148,257	67,547
TOTAL SHAREHOLDERS EQUITY	259,896	175,427
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 282,995	$ 186,931

See accompanying Notes to the Condensed Financial Statements.

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CASTLEWOOD HOLDINGS LIMITED

CONDENSED STATEMENTS OF EARNINGS (AS RESTATED SEE NOTE 3)
for the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(in thousands of U.S. dollars)		
INCOME			
Net investment income (loss)	$ 113	$ 173	$ (366)
Dividend income from subsidiaries	2,051	10,500	74,014
	2,164	10,673	73,648
EXPENSES			
Salaries and benefits	5,851	3,605	896
General and administrative expenses	590	345	32
Foreign exchange losses (gains)	293	(276)	(337)
	6,734	3,674	591
(LOSS) EARNINGS BEFORE EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF CONSOLIDATED SUBSIDIARIES	(4,570)	6,999	73,057
EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF CONSOLIDATED SUBSIDIARIES	94,980	34,392	(37,354)
MINORITY INTEREST	(9,700)	(3,097)	(5,111)
NET EARNINGS	$ 80,710	$ 38,294	$ 30,592

See accompanying Notes to the Condensed Financial Statements.

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CASTLEWOOD HOLDINGS LIMITED

CONDENSED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	(in thousands of U.S. dollars)		
OPERATING ACTIVITIES:			
Net cash flows (used in) provided by operating activities	$ (2,986)	$ 2,185	$ 12,726
INVESTING ACTIVITIES:			
Cash used for purchase of subsidiaries			(23,277)
Cash used for purchase of other investments			(10,200)
Dividends received from subsidiaries	2,051	10,500	74,014
Net cash flows provided by investing activities	2,051	10,500	40,537
FINANCING ACTIVITIES:			
Dividends paid		(7,750)	(53,801)
Contribution of capital			14,338
Redemption of ordinary shares	(282)	(4,618)	(12,990)
Net cash flows used in financing activities	(282)	(12,368)	(52,453)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,217)	317	810
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,414	4,097	3,287
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,197	$ 4,414	$ 4,097

See accompanying Notes to the Condensed Financial Statements.

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CASTLEWOOD HOLDINGS LIMITED

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
December 31, 2005, 2004 and 2003
(in thousands of U.S. dollars)

1. DESCRIPTION OF BUSINESS

Castlewood Holdings Limited (Castlewood Holdings) was incorporated under the laws of Bermuda on August 16, 2001 and with its subsidiaries (collectively the Company) acquires and manages insurance and reinsurance companies in run-off, and provides management, consultancy and other services to the insurance and reinsurance industry.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation The condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying condensed financial statements have been prepared using the equity method to account for the investments in subsidiaries. Under the equity method, the investments in consolidated subsidiaries are stated at cost plus the equity in undistributed earnings of consolidated subsidiaries since the date of acquisition. These condensed financial statements should be read in conjunction with the Company s consolidated financial statements.

3. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company s 2005 condensed financial statements, the Company s management determined that the presentation of net foreign exchange loss/(gain) should have been part of expenses, rather than part of income as previously reported. As a result, the accompanying condensed statements of earnings for the years ended December 31, 2005, 2004 and 2003 have been restated to reflect the reclassification between income and expenses. The table below summarizes the effects of the restatement.

	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
Total income	$ 1,871	$ 2,164	$ 10,949	$ 10,673	$ 73,985	$ 73,648
Total expenses	6,441	6,734	3,950	3,674	928	591

The reclassification had no impact on net earnings.

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SCHEDULE III

CASTLEWOOD HOLDINGS LIMITED

SUPPLEMENTARY INSURANCE INFORMATION

Year Ended December 31, 2005

	Deferred Acquisition Costs	Reserves for Loss and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Losses and Loss Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Net Premiums Written
				(in thousands of U.S. dollars)					
Reinsurance	$	$ 806,559	$	$	$ 27,660	$ (96,007)	$	$ 15,673	$
Consulting					576			36,110	
Total	$	$ 806,559	$	$	$ 28,236	$ (96,007)	$	$ 51,783	$

Year Ended December 31, 2004

	Deferred Acquisition Costs	Reserves for Loss and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Losses and Loss Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Net Premiums Written
Reinsurance	$	$ 1,047,313	$	$	$ 10,642	$ (13,706)	$	$ 9,781	$
Consulting					460			27,186	
Total	$	$ 1,047,313	$	$	$ 11,102	$ (13,706)	$	$ 36,967	$

Year Ended December 31, 2003

	Deferred Acquisition Costs	Reserves for Loss and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Losses and Loss Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Net Premiums Written
Reinsurance	$	$ 381,531	$	$	$ 7,767	$ (24,044)	$	$ 3,599	$

Consulting					265			19,055		
Total	$	$ 381,531	$	$	$ 8,032	$ (24,044)	$	$ 22,654	$	

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SCHEDULE IV

CASTLEWOOD HOLDINGS LIMITED

SUPPLEMENTARY REINSURANCE INFORMATION
For Years Ended December 31, 2005, 2004 and 2003

	Gross	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
			(in thousands of U.S. dollars)		
Year Ended December 31, 2005	$	$	$	$	$
Year Ended December 31, 2004	$	$	$	$	$
Year Ended December 31, 2003	$	$	$	$	$

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SCHEDULE VI

CASTLEWOOD HOLDINGS LIMITED

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS
For Years Ended December 31, 2005, 2004 and 2003

	Deferred Acquisition Costs	Reserves for Loss and Loss Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Net Losses and Loss Expenses Incurred in Current Year	Net Losses and Loss Expenses Incurred in Prior Year	Net Paid Losses and Loss Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Net Premiums Written
					(in thousands of U.S. dollars)						
2005	$	$ 806,559	$	$	$ 28,236	$	$ (96,007)	$ 69,007	$	$ 51,783	$
2004		1,047,313			11,102		(13,706)	19,019		36,967	
2003		381,531			8,032		(24,044)	4,094		22,654	
Total	$	$ 2,235,403	$	$	$ 47,370	$	$ (133,757)	$ 92,120	$	$ 111,404	$

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Annex A

AGREEMENT AND PLAN OF MERGER
AMONG
CASTLEWOOD HOLDINGS LIMITED
CWMS SUBSIDIARY CORP.
AND
THE ENSTAR GROUP, INC.
DATED AS OF MAY 23, 2006

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List of Exhibits

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AGREEMENT AND PLAN OF MERGER, dated as of May 23, 2006 (this Agreement), among Castlewood Holdings Limited, a Bermuda company (Parent), CWMS Subsidiary Corp., a Georgia corporation and a direct wholly-owned subsidiary of Parent (Merger Sub), and The Enstar Group, Inc., a Georgia corporation (the Company and together with Parent and Merger Sub, the parties and each, a party).

WITNESSETH:

WHEREAS, the respective Boards of Directors of the Company, Parent and Merger Sub deem it advisable and in the best interests of their corporations and shareholders that the Company and Parent engage in a business combination in order to advance the long-term strategic business interests of the Company and Parent;

WHEREAS, in furtherance thereof, the respective Boards of Directors of the Company, Parent and Merger Sub have approved and declared advisable this Agreement and the merger (the Merger) of Merger Sub with and into the Company, on the terms and subject to the conditions set forth in this Agreement, and the Board of Directors of the Company has resolved to recommend that the Company s stockholders vote for the adoption of this Agreement;

WHEREAS, Parent and certain members of Parent have entered into an agreement, dated as of the date hereof (the Parent Recapitalization Agreement), pursuant to which, subject to the terms and conditions thereof, certain changes to the capitalization of Parent shall be effected prior to the Merger (collectively, the Parent Recapitalization);

WHEREAS, Parent and certain shareholders of the Company (the Principal Shareholders) are entering into an agreement, dated as of the date hereof (the Support Agreement), pursuant to which, subject to the terms and conditions thereof, the Principal Shareholders have agreed, among other things, to vote their shares of common stock, par value $0.01 per share, of the Company (Company Common Stock) in favor of the adoption and approval of this Agreement, the Merger and the other transactions contemplated hereby;

WHEREAS, for Federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code), and the regulations promulgated thereunder (each, a Treasury Regulation), and by executing this Agreement the parties hereby adopt this Agreement as a plan of reorganization for purposes of Section 368(a) of the Code and the Treasury Regulations.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth in this Agreement, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

THE MERGER; CERTAIN RELATED MATTERS

Section 1.1 *The Merger.* Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Georgia Business Corporation Code (the GBCC), Merger Sub shall be merged with and into the Company at the Effective Time. Following the Merger, the separate corporate existence of Merger Sub shall cease and the Company shall continue as the surviving corporation in the Merger (with respect to all post-closing periods, the Surviving Corporation). At the Effective Time, the effect of the Merger shall be as provided in this Agreement, the Certificate of Merger and Section 14-2-1106 of the GBCC. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

Section 1.2 *Closing*. Upon the terms and subject to the conditions set forth in Article VI, and the termination rights set forth in Article VII, the closing of the Merger (the Closing) will take place as promptly as practicable (but no later than the third Business Day) after the satisfaction or waiver (subject to

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applicable law) of the conditions (excluding conditions that, by their nature, cannot be satisfied until the Closing Date, but subject to the fulfillment or waiver of those conditions) set forth in Article VI, unless this Agreement has been previously terminated pursuant to its terms or unless another time or date is agreed to in writing by the parties (the actual date of the Closing being referred to herein as the Closing Date). The Closing shall be held at the offices of Debevoise & Plimpton LLP, 919 Third Avenue, New York, New York, 10022, at 9:00 a.m. New York City time, unless another place is agreed to in writing by the parties. Business Day shall mean any day other than a day on which banks are required or authorized to close in the City of New York.

Section 1.3 *Effective Time.* Subject to the provisions of this Agreement, as soon as practicable following the satisfaction or waiver (subject to applicable law) of the conditions set forth in Article VI, on the Closing Date the parties shall (i) file a certificate of merger as contemplated by the GBCC (the Certificate of Merger), together with any required related certificates, with the Secretary of State of the State of Georgia, in such form as is required by, and executed in accordance with, Section 14-2-1105(b) of the GBCC and (ii) make all other filings or recordings required under the GBCC, including publication of the notice of merger contemplated by Section 14-2-1105.1 of the GBCC. The Merger shall become effective at such time as the Certificate of Merger is duly filed with the Secretary of State of the State of Georgia on the Closing Date, or at such subsequent time as Parent and the Company shall agree and as shall be specified in the Certificate of Merger (the date and time the Merger becomes effective being the Effective Time).

Section 1.4 *Articles of Incorporation.* The articles of incorporation of the Company shall be amended and restated at the Effective Time to be in the form of Exhibit 1.4 and, as so amended and restated, such articles of incorporation shall be the articles of incorporation of the Surviving Corporation (the Articles of Incorporation), until thereafter amended as provided therein or by applicable law; provided, however, that such Articles of Incorporation shall be amended to reflect that the name of the Surviving Corporation shall be Enstar USA, Inc.

Section 1.5 *By-Laws.* The by-laws of Merger Sub in effect immediately prior to the Effective Time shall be the by-laws of the Surviving Corporation (the By-Laws) until thereafter amended as provided therein or by applicable law.

Section 1.6 *Directors.* The directors of Merger Sub immediately prior to the Effective Time shall, from and after the Effective Time, be directors of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Articles of Incorporation and the By-Laws.

Section 1.7 *Officers.* The officers of the Company immediately prior to the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Articles of Incorporation and the By-Laws.

Section 1.8 *Effect on Capital Stock.*

(a) At the Effective Time, by virtue of the Merger and without any action on the part of any holder thereof, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time, together with the Company Rights, shall be converted into the right to receive one (the Exchange Ratio) validly issued, fully paid and non-assessable ordinary share, par value $1.00 per share, of Parent (Parent Ordinary Shares) (together with any cash in lieu of fractional Parent Ordinary Shares to be paid pursuant to Section 2.5, the Merger Consideration). Company Rights shall mean the rights associated with the Rights Agreement, dated as of January 20, 1997, as amended, between the Company and American Stock Transfer and Trust Company (the Company Rights Agreement).

(b) At the Effective Time, by virtue of the Merger and without any action on the part of any holder thereof, all shares of Company Common Stock and all Company Rights issued and outstanding immediately prior to the Effective Time shall cease to be outstanding and shall be canceled and retired, and each certificate which immediately prior to the Effective Time represented any such shares of Company Common Stock and/or Company Rights (the Certificates) shall thereafter represent only the right to receive the Merger

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Consideration with respect to such shares of Company Common Stock and Company Rights formerly represented thereby, and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.3.

(c) At the Effective Time, by virtue of the Merger and without any action on the part of the Company, each share of Company Common Stock held by the Company as treasury stock immediately prior to the Effective Time shall be cancelled and retired and no payment shall be made with respect thereto.

(d) At the Effective Time, by virtue of the Merger and without any action on the part of any holder thereof, each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time, shall be converted into one validly issued, fully paid and non-assessable share of common stock of the Surviving Corporation and such shares shall constitute the only issued and outstanding shares of common stock of the Surviving Corporation.

Section 1.9 *Treatment of Company Stock Options.*

(a) *Company Stock Options.* At the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, Parent will assume each then outstanding option to purchase shares of Company Common Stock (a Company Stock Option) granted pursuant to any compensatory plan, program or arrangement providing for the purchase of Company Common Stock (each, a Company Stock Plan), whether or not exercisable at the Effective Time and regardless of the exercise price thereof, in a manner consistent with the requirements of Section 424(a) of the Code. Pursuant to the immediately preceding sentence, the following process shall be applied to effect the assumption of such Company Stock Options. Parent shall determine the ratio (the Company Option Ratio) of (i) the exercise price for a share of Company Common Stock subject to each Company Stock Option (the Company Exercise Price) to (ii) the average closing price of a share of Company Common Stock for the five trading days ending on the trading day immediately prior to the Effective Time (the Company Closing Value). Parent shall also determine the product of (i) the remainder of (A) the Company Closing Value minus (B) the Company Exercise Price, multiplied by (ii) the number of shares of Company Common Stock subject to such Company Stock Option (such product hereinafter called the Company Option Spread). Parent shall establish the exercise price to purchase each Parent Ordinary Share (the Parent Exercise Price) under each assumed option such that the ratio of (i) the Parent Exercise Price to (ii) the average closing price of each Parent Ordinary Share for the five trading days starting with the first trading day occurring after the Effective Time (the Parent Closing Value) is equal to the Company Option Ratio. Parent shall determine the number of Parent Ordinary Shares subject to each assumed Company Stock Option by dividing (i) the Company Option Spread by (ii) the remainder of (A) the Parent Closing Value minus (B) the Parent Exercise Price; provided, that if the Company Option Spread is zero, the number of Parent Ordinary Shares subject to each assumed Company Stock Option shall equal the Company Closing Value multiplied by the number of shares of Company Common Stock subject to such Company Stock Option and divided by the Parent Closing Value; provided, further, that any fractional Parent Ordinary Share resulting from such quotient shall be cashed out based on the Parent Closing Value and taking into account the applicable portion of the Parent Exercise Price related thereto. Each assumed Company Stock Option shall be deemed vested immediately following the Effective Time as to the same percentage of the total number of shares subject thereto as it was vested immediately prior to the Effective Time, except to the extent such Company Stock Option by its written terms as set forth in the relevant option agreement as in effect immediately prior to the date hereof provides for acceleration of vesting by reason of the transactions contemplated hereby. Each assumed Company Stock Option will otherwise continue to have, and be subject to, the same terms and conditions as in effect immediately prior to the Effective Time.

(b) *Registrations.* Prior to the Closing, Parent shall take all corporate action necessary to reserve for issuance a sufficient number of Parent Ordinary Shares for delivery upon exercise of Company Stock Options. Reasonably promptly after the Effective Time, Parent shall file a registration statement on Form S-8 (or any successor form), with respect to the Parent Ordinary Shares subject to such options and shall use commercially reasonable efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of

the prospectus or prospectuses contained therein) for so long as such options remain outstanding.

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(c) *Section 16 Matters.* Prior to the Effective Time, each of Parent and the Company shall take all such reasonable steps as may be required and are consistent with applicable law and regulations to cause any dispositions of Company Common Stock (including derivative securities with respect to Company Common Stock) or acquisitions of Parent Ordinary Shares (including derivative securities with respect to Parent Ordinary Shares) in the transactions contemplated by this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company, to be exempt under Rule 16b-3 promulgated under the Exchange Act.

Section 1.10 *Company Restricted Stock Units.* Each restricted stock unit issued under The Enstar Group, Inc. Deferred Compensation and Stock Plan for Non-Employee Directors (the Directors Deferred Plan) that is outstanding immediately prior to the Effective Time shall automatically convert, as of the Effective Time, from a right in respect of a share of Company Common Stock into a right in respect of the Merger Consideration. The Company has amended the Directors Deferred Plan to provide that (i) no portion of any retainer or other fees payable currently to a director from and after the date hereof shall be distributable in the Company Common Stock and (ii) all amounts deferred under the Directors Deferred Plan, or credited as dividends equivalents thereunder, from and after the date hereof (the Additional Accruals), shall be valued by reference to the Company s Common Stock prior to the Effective Time and the Parent Ordinary Shares from and after the Effective Time, but such Additional Accruals shall be distributable solely in cash, in accordance with the otherwise applicable distributions provisions of the Directors Deferral Plan.

Section 1.11 *Certain Adjustments.* If, except pursuant to the Parent Recapitalization, between the date of this Agreement and the Effective Time, the outstanding Parent Ordinary Shares or shares of Company Common Stock shall have been changed into a different number of shares or different class by reason of any reclassification, recapitalization, stock split, split-up, combination or exchange of shares or a stock dividend or dividend payable in any other securities shall be declared with a record date within such period, or any similar event shall have occurred, the Exchange Ratio shall be appropriately adjusted to provide to the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such event.

ARTICLE II

EXCHANGE OF CERTIFICATES

Section 2.1 *Exchange Fund.* Prior to the Effective Time, Parent shall appoint a commercial bank or trust company to act as exchange agent hereunder (which entity shall be reasonably acceptable to the Company) for the purpose of exchanging Certificates for the Merger Consideration (the Exchange Agent). At or prior to the Effective Time, Parent shall deposit with the Exchange Agent, in trust for the benefit of holders of record, as of the Effective Time, of Company Common Stock, certificates representing the Parent Ordinary Shares issuable pursuant to Section 1.8 in exchange for outstanding shares of Company Common Stock. Parent agrees to make available, or cause the Surviving Corporation to make available, directly or indirectly to the Exchange Agent, from time to time as needed, cash sufficient to pay cash in lieu of fractional shares pursuant to Section 2.5 and any dividends and other distributions pursuant to Section 2.3. Any cash and certificates of Parent Ordinary Shares deposited with the Exchange Agent shall hereinafter be referred to as the Exchange Fund. The Exchange Agent shall invest any cash included in the Exchange Fund as directed by Parent on a daily basis; provided, that no such gain or loss thereon shall affect the amounts payable to the holders of shares of Company Common Stock pursuant to Article I and this Article II. Any interest and other income resulting from such investments shall promptly be paid to Parent.

Section 2.2 *Exchange Procedures.* Promptly after the Effective Time, the Surviving Corporation shall cause the Exchange Agent to mail to each holder of record, as of the Effective Time, of Company Common Stock (i) a letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the Company Common Stock shall pass, only upon proper delivery of the Certificates to the Exchange Agent, and which letter shall be in

customary form and have such other provisions as Parent may reasonably specify (such letter to be reasonably acceptable to the Company prior to the Effective Time) and (ii) instructions for effecting the surrender of such Certificates in exchange for the applicable Merger Consideration. Upon surrender of a Certificate to the Exchange Agent together with such letter of transmittal, duly executed and

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completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor (A) one or more certificates for Parent Ordinary Shares representing, in the aggregate, the whole number of Parent Ordinary Shares that such holder has the right to receive pursuant to Section 1.8 (after taking into account all shares of Company Common Stock surrendered by such holder) and (B) a check in the amount equal to the cash that such holder has the right to receive pursuant to the provisions of this Article II, consisting of cash in lieu of any fractional Parent Ordinary Shares pursuant to Section 2.5 and dividends and other distributions pursuant to Section 2.3. No interest will be paid or will accrue on any cash payable pursuant to Section 2.3 or Section 2.5. In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, one or more certificates for Parent Ordinary Shares evidencing, in the aggregate, the proper number of Parent Ordinary Shares, a check in the proper amount of cash in lieu of any fractional Parent Ordinary Shares pursuant to Section 2.5 and any dividends or other distributions to which such holder is entitled pursuant to Section 2.3, may be issued with respect to such Company Common Stock to such a transferee if the Certificate representing such shares of Company Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid.

Section 2.3 *Distributions with Respect to Unexchanged Shares.* All Parent Ordinary Shares to be issued pursuant to the Merger shall be deemed issued and outstanding as of the Effective Time. No dividends or other distributions declared or made in respect of the Parent Ordinary Shares shall be paid to the holder of any Certificate until the holder of such Certificate shall surrender such Certificate in accordance with this Article II. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to such holder, without interest, all dividends or other distributions payable with respect to the Parent Ordinary Shares delivered to such holder pursuant to Section 2.2 with a record date after the Effective Time but prior to such surrender and a payment date prior to such surrender.

Section 2.4 *No Further Ownership Rights in Company Common Stock.* All Parent Ordinary Shares issued and cash paid upon conversion of shares of Company Common Stock in accordance with the terms of Article I and this Article II (including any cash paid pursuant to Section 2.3 or 2.5) shall be deemed to have been issued or paid in full satisfaction of all rights pertaining to the shares of Company Common Stock.

Section 2.5 *No Fractional Parent Ordinary Shares.*

(a) No certificates or scrip representing fractional Parent Ordinary Shares or book-entry credit of the same shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a shareholder of Parent.

(b) Notwithstanding any other provision of this Agreement, each holder of shares of Company Common Stock converted pursuant to the Merger who would otherwise have been entitled to receive a fraction of Parent Ordinary Shares (after taking into account all Certificates delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a Parent Ordinary Share multiplied by (ii) the average closing price for a share of Company Common Stock as reported on the NASDAQ National Market System (Nasdaq) for the five trading days ending on the trading day prior to the Closing Date divided by (iii) the Exchange Ratio.

(c) As promptly as practicable after the determination of the amount of cash, if any, to be paid to holders of fractional interests, the Exchange Agent shall so notify Parent, and Parent shall deposit or cause the Surviving Corporation to deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

Section 2.6 *Termination of Exchange Fund.* Any portion of the Exchange Fund which remains undistributed to the holders of Certificates for six months after the Effective Time shall be delivered to Parent or otherwise on the instruction of Parent, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to Parent for the Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby to which such holders are entitled pursuant to Section 1.8 and Section 2.2, any cash in lieu of fractional Parent Ordinary Shares to which such

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holders are entitled pursuant to Section 2.5 and any dividends or distributions with respect to Parent Ordinary Shares to which such holders are entitled pursuant to Section 2.3. Any such portion of the Exchange Fund remaining unclaimed by holders of shares of Company Common Stock five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity) shall, to the extent permitted by law, become the property of Parent free and clear of any claims or interest of any Person previously entitled thereto. None of Parent, Merger Sub, the Company, the Surviving Corporation or the Exchange Agent shall be liable to any Person in respect of any Merger Consideration from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Governmental Entity shall mean (i) any nation or government, any state or other political subdivision or instrumentality thereof, (ii) any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, (iii) any court, tribunal or arbitrator, or (iv) any self regulatory organization. Person shall mean individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Securities Exchange Act of 1934, as amended, the Exchange Act).

Section 2.7 *Lost Certificates.* If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional Parent Ordinary Shares to which such holders are entitled pursuant to Section 2.5, and unpaid dividends and distributions on Parent Ordinary Shares to which such holders are entitled pursuant to Section 2.3, as the case may be, deliverable in respect thereof, pursuant to this Agreement.

Section 2.8 *Withholding Rights.* Each of Parent, the Surviving Corporation and the Exchange Agent shall be entitled to deduct and withhold from the Merger Consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock or Company Stock Options such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code and Treasury Regulations, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by Parent, the Surviving Corporation or the Exchange Agent, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock or Company Stock Options in respect of which such deduction and withholding was made by Parent, the Surviving Corporation and the Exchange Agent.

Section 2.9 *Further Assurances.* After the Effective Time, the officers and directors of the Surviving Corporation shall be authorized to execute and deliver, in the name and on behalf of the Company or Merger Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Sub, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

Section 2.10 *Stock Transfer Books.* The stock transfer books of the Company shall be closed immediately upon the Effective Time and there shall be no further registration of transfers of shares of Company Common Stock thereafter on the records of the Company. From and after the Effective Time, any Certificates presented to the Exchange Agent or Parent for any reason shall be cancelled and converted into the right to receive the Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby (including any cash in lieu of fractional Parent Ordinary Shares to which the holders thereof are entitled pursuant to Section 2.5) and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.3.

Section 2.11 *Affiliates.* Notwithstanding anything to the contrary herein, to the fullest extent permitted by law, no certificates representing Parent Ordinary Shares or cash shall be delivered to a Person who may be deemed an affiliate (an Affiliate) of the Company in accordance with Section 5.9 for purposes of Rule 145

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under the Securities Act of 1933, as amended (the Securities Act), and applicable rules and regulations of the Securities and Exchange Commission (the SEC) until such Person has executed and delivered an affiliate agreement in the form of Exhibit 2.11 to this Agreement pursuant to which such Affiliate shall agree to be bound by the provisions of Rule 145 promulgated under the Securities Act (an Affiliate Agreement) to Parent.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 *Representations and Warranties of Parent.* Except (x) as set forth in the Parent disclosure letter delivered by Parent to the Company prior to the execution of this Agreement (the Parent Disclosure Letter) (each section of which qualifies the correspondingly numbered representation and warranty or covenant and any other representation or warranty, if it is readily apparent that the disclosure set forth in the Parent Disclosure Letter is applicable to such other representation or warranty) or (y) as disclosed in the Company SEC Reports as of the date hereof, but only to the extent the exception is reasonably apparent from such disclosure, Parent represents and warrants to the Company as follows:

(a) *Organization, Standing and Power; Subsidiaries*. Each of Parent and each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, as the case may be, has the requisite corporate (or similar) power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failures to be so organized, existing and in good standing or to have such power and authority, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary other than in such jurisdictions where the failures so to qualify or to be in good standing, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent. Exhibit 21 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005 (Company Exhibit 21) includes all the Subsidiaries of Parent. All the outstanding shares of capital stock of, or other equity interests in, each Subsidiary of Parent have been validly issued and are fully paid and non-assessable and are owned directly or indirectly by Parent, free and clear of all Liens and free of any other restriction except for restrictions imposed by applicable securities laws. Except for the Subsidiaries listed on Company Exhibit 21, neither Parent nor any of its Subsidiaries is the record or beneficial owner, directly or indirectly, of any capital stock or other equity ownership interest in any other Person.

(i) For purposes of this Agreement:

(A) *Lien* means any mortgage, pledge, deed of trust, hypothecation, right of others, claim, security interest, encumbrance, burden, title defect, title retention agreement, lease, sublease, license, occupancy agreement, easement, covenant, condition, encroachment, voting trust agreement, interest, option, right of first offer, negotiation or refusal, proxy, lien, charge or other restrictions or limitations of any nature whatsoever.

(B) *Material Adverse Effect* means, with respect to any entity, any event, change, circumstance or effect that, individually or in the aggregate, is or would be reasonably likely to be materially adverse to (x) the business, financial condition, assets or results of operations of such entity and its Subsidiaries, taken as a whole, other than any event, change, circumstance or effect relating (i) to the economy or financial markets in general, (ii) to changes in general in the industries in which such entity operates, provided, however, that the effect of such changes shall be included to the extent of, and in the amount of, the disproportionate impact (if any) they have on such entity relative to the other participants in such industry, (iii) to changes in applicable law or regulations or in generally accepted accounting principles (GAAP), provided, however, that the effect of such changes shall be included to the extent of, and in the amount of, the disproportionate impact (if any) they have on such entity relative to other

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Persons with similar lines of business, or (iv) to the announcement of this Agreement or the transactions contemplated hereby; or (y) the ability of such entity and its Subsidiaries to consummate the transactions contemplated by this Agreement and by the Parent Recapitalization Agreement.

(C) *Subsidiary* when used with respect to any party means any corporation or other Person, whether incorporated or unincorporated, (x) of which such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interests in such partnership) or (y) at least 50% of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other Person is directly or indirectly owned or controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries; provided, that when used with respect to the Company, Subsidiary shall not refer to Parent and its Subsidiaries.

(D) *Board of Directors* means the Board of Directors of any specified Person and any committees thereof.

(b) *Capital Structure*.

(i) As of the date hereof, the authorized capital stock of Parent consisted of (A) Class A Ordinary Shares, par value $1.00 per share (Parent Class A Shares), of which 6,000 shares were outstanding, (B) Class B Ordinary Shares, par value $1.00 per share (Parent Class B Shares), of which 6,000 shares were outstanding, (C) Class C Ordinary Shares, par value $1.00 per share (Parent Class C Shares and together with Parent Class A Shares and Parent Class B Shares, the Parent Voting Ordinary Shares), of which 6,153 shares were outstanding, (D) Class D Non-Voting Ordinary Shares, par value $1.00 per share, of which 740.658 shares were outstanding, and (E) Class E Non-Voting Ordinary Redeemable Shares, par value $1.00 per share, of which zero shares were outstanding. As of the Effective Time and prior to the issuance of the Merger Consideration, the amended constitutive documents of Parent attached to the Parent Recapitalization Agreement shall have become effective, the Parent Recapitalization shall have occurred and the authorized capital stock of Parent shall consist of (x) 100,000,000 Parent Ordinary Shares, of which 6,139,425 shares will be outstanding, (y) 6,000,000 non-voting ordinary shares, par value $1.00 per share, of which 2,972,892 will be outstanding, and (z) 50,000,000 preferred shares, par value $1.00 per share, none of which will be issued. All issued and outstanding shares of the capital stock of Parent are, and when Parent Ordinary Shares are issued in the Merger or upon exercise of Company Stock Options converted in the Merger pursuant to Section 1.9, such shares will be, duly authorized, validly issued, fully paid and non-assessable and free of any preemptive rights.

(ii) Except as otherwise set forth in this Section 3.1(b), as contemplated by Section 1.8, Section 1.9, Section 1.10 and pursuant to the Parent Recapitalization, there are no securities, options, warrants, calls, rights commitments, agreements, arrangements or undertakings of any kind outstanding or to which Parent or any of its Subsidiaries is a party or by which any of them is bound obligating Parent or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of Parent or any of its Subsidiaries or obligating Parent or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. Except pursuant to the Parent Recapitalization, there are no outstanding obligations of Parent or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of Parent or any of its Subsidiaries. There are no outstanding obligations of Parent or any of its Subsidiaries to provide funds or make any investment in any of its Subsidiaries or any other entity, nor has Parent or any of its Subsidiaries granted or agreed to grant to any Person any stock appreciation rights or similar equity based rights.

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(c) *Authority; No Conflicts*.

(i) Parent has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject to the approval of the Bermuda Monetary Authority of the issuance of the Parent Ordinary Shares to be issued in the Merger (and the subsequent free transferability of the corresponding shares between nonresident persons for exchange control purposes), and the adoption and approval of this Agreement, the Parent Recapitalization Agreement and the transactions contemplated hereby and thereby by the members of Parent. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent subject to the adoption and approval of this Agreement, the Parent Recapitalization Agreement and the transactions contemplated hereby and thereby by the members of Parent. This Agreement has been duly executed and delivered by Parent and constitutes a valid and binding agreement of Parent, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery of this Agreement by Parent does not or will not, as the case may be, and the consummation by Parent of the Merger and the other transactions contemplated hereby will not, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to any right of, or result by its terms in the, termination, amendment, cancellation or acceleration of any obligation or the loss of any material benefit under, or the creation of any Lien on, or the loss of, any assets pursuant to: (A) any provision of the memorandum of association, bye-laws or other organizational or constitutive documents of Parent or any Subsidiary of Parent, or (B) except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Parent or any Subsidiary of Parent or their respective properties or assets.

(iii) No consent, approval, order or authorization of, clearance by, or registration, declaration or filing with any Governmental Entity is required by or with respect to Parent or any Subsidiary of Parent in connection with the execution and delivery of this Agreement by Parent or the consummation of the Merger and the other transactions contemplated hereby, except for those required under or in relation to (A) the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), (B) state securities or blue sky laws, (C) the Securities Act, (D) the Exchange Act, (E) the GBCC with respect to the filing of the Certificate of Merger and related documents, (F) rules and regulations of the Nasdaq, (G) antitrust or other competition laws, of the European Union or other jurisdictions, (H) permits, filings and approvals required by the applicable insurance regulatory authorities as set forth in Schedule 3.1(c)(iii) of the Parent Disclosure Letter and (I) the approval of the issuance of the Parent Ordinary Shares to be issued in the Merger (and of the subsequent free transferability of the corresponding shares between nonresident persons for exchange control purposes) by the Bermuda Monetary Authority and (J) such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent. Consents, approvals, orders, authorizations registrations, declarations and filings required under or in relation to any of the foregoing clauses (A) through (I) are hereinafter referred to as Necessary Consents.

(d) *Financial Statements; Undisclosed Liabilities; Indebtedness*.

(i) Parent has made available to the Company complete and correct copies of the consolidated balance sheet of Parent and its consolidated subsidiaries as at December 31, 2003, December 31, 2004 and December 31, 2005, along with the consolidated statement of earnings, comprehensive income, changes in shareholders equity and cash flows of Parent and its consolidated subsidiaries

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for the fiscal year ending December 31, 2003, December 31, 2004 and December 31, 2005, in each case together with the related audit report of Deloitte & Touche, Parent s independent public accountants (all such financial statements collectively, the Parent Financial Statements). Each of the Parent Financial Statements (including the related notes and schedules) (A) is true and correct in all material respects and presents fairly, in all material respects, the consolidated financial position of Parent and its consolidated subsidiaries and the results of their operations and their cash flows as of the respective dates or for the respective periods set forth therein, (B) has been derived from the accounting books and records of Parent and its subsidiaries, and (C) has been prepared in accordance with GAAP consistently applied during the periods involved.

(ii) Except as reflected or reserved against in the Parent Financial Statements, Parent and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a balance sheet of Parent and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, other than obligations under this Agreement or the Parent Recapitalization Agreement or liabilities incurred in the ordinary course of business and that, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent. None of Parent or any of its Subsidiaries has outstanding Indebtedness. For the purposes of this Agreement, Indebtedness means, without duplication, (A) any indebtedness for borrowed money, (B) any capital lease and (C) any indebtedness evidenced by any note, bond, debenture or other debt security, in the case of clauses (A), (B) and (C), whether incurred, assumed, guaranteed or secured or unsecured, and guarantees of any of the foregoing of any other Person.

(iii) The reserves reflected in the Parent Financial Statements for payment of benefits, losses, claims, expenses and similar purposes (including claims litigation) under all presently issued insurance, reinsurance and other applicable agreements issued by Parent and its Subsidiaries were determined in accordance with prudent industry standards consistently applied, are fairly stated in accordance with sound actuarial principles and are in material compliance with the requirements of applicable Law. Except as disclosed in the Parent Financial Statements, there are no agreements or arrangements to which any of Parent or its Subsidiaries is a party relating to finite or other non-traditional reinsurance.

(e) *Information Supplied.* None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in (A) the registration statement on Form S-4 with respect to issuance of Parent Ordinary Shares in the Merger (the Form S-4) will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act or (B) the SEC proxy materials which shall constitute the Company Proxy Statement/Prospectus (such proxy statement/prospectus, and any amendments thereto, the Company Proxy Statement/Prospectus) will, on the date it is first mailed to the Company s shareholders or at the time of the Company Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Form S-4 and the Company Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder. Notwithstanding the foregoing provisions of this Section 3.1(e), no representation or warranty is made by Parent with respect to statements made or incorporated by reference in the Form S-4 or the Company Proxy Statement/Prospectus based on information supplied by the Company for inclusion or incorporation by reference therein.

(f) *Board Approval.* The Board of Directors of Parent, by resolutions duly adopted by unanimous vote at a meeting duly called and held and not subsequently rescinded or modified in any way, has duly (i) determined that this Agreement and the Merger are advisable and are fair to and in the best interests of Parent and its stockholders and (ii) adopted and approved this Agreement and approved the Merger and the other transactions contemplated by this Agreement.

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(g) *Vote Required.* The affirmative votes of the holders of a majority of the outstanding shares of capital stock of Parent (voting together as a single class, or separately on a class-by-class basis as described in Schedule 3.1(j) of the Parent Disclosure Letter (the Parent Shareholder Approval) and the holders of a majority of the voting shares of Merger Sub are the only votes of the holders of any class or series of Parent s or Merger Sub s capital stock necessary to consummate the transactions contemplated hereby. The agreement of members set forth in Section 8 of the Recapitalization Agreement includes members holding the number of shares necessary to adopt the Recapitalization Agreement and the Merger Agreement and to approve the Merger and the Recapitalization and the other transactions contemplated by the Merger Agreement and the Recapitalization Agreement and is otherwise sufficient to obtain the Parent Shareholder Approval. None of Parent, Merger Sub or any of their respective affiliates or associates (as such terms are defined in Section 14-2-1132 of the GBCC) is an interested shareholder (as such term is defined in Section 14-2-1132 of the GBCC).

(h) *Litigation; Compliance with Laws.*

(i) Other than insurance claims litigation in the ordinary course of business consistent with past practice that is reserved against or otherwise disclosed in the Parent Financial Statements and is not material to Parent individually or in the aggregate, there are no suits, actions or proceedings (collectively Actions) pending or, to the knowledge of Parent, threatened, against or affecting Parent or any Subsidiary of Parent which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on Parent, nor are there any judgments, decrees, injunctions, rulings or orders of any Governmental Entity or arbitrator outstanding against Parent or any Subsidiary of Parent which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on Parent. For purposes of this Agreement, known or knowledge means, with respect to any party, the actual knowledge of such party s officers and senior management and such knowledge as would be reasonably expected to be known by such officers and senior management in the ordinary and usual course of the performance of their professional responsibilities to such party.

(ii) Except as would, in the aggregate, not reasonably be expected to have a Material Adverse Effect on Parent, Parent and its Subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals (including all insurance permits and licenses) of all Governmental Entities which are necessary for the operation of the businesses of Parent and its Subsidiaries, taken as a whole (the Parent Permits). Parent and its Subsidiaries are in compliance with the terms of the Parent Permits and none of the Parent Permits are suspended or, to the knowledge of Parent, threatened to be suspended, except where the failures to so comply or such suspensions or threats of suspension, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent. Neither Parent nor any of its Subsidiaries is in violation of, and Parent and its Subsidiaries have not received any notices of violation with respect to, any laws, ordinances or regulations of any Governmental Entity (including insurance laws and regulations), except for violations which, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent.

(iii) Parent and its Subsidiaries are in compliance, and since January 1, 2001 have complied in all material respects, with each national, federal, state, provincial, local, municipal, or transnational constitution, law, directive, administrative ruling, order, ordinance, code, statute, regulation or treaty (Law) that is or was applicable to it or to the conduct or operation of the business of Parent and its Subsidiaries or the ownership or use of any of their assets. Neither Parent nor any of its Subsidiaries has caused or taken any action that could reasonably be expected to result in any material liability relating to any Law. Neither Parent nor its Subsidiaries have been subject to any disqualification that would be a basis for denial, suspension, nonrenewal or revocation of any material Governmental Authorization required of an insurance company, and there is no basis for, or proceeding or investigation that is reasonably likely to become a basis for, any disqualification, denial, suspension, nonrenewal, revocation, cancellation or modification of any such Governmental Authorization.

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(iv) Schedule 3.1(h)(iv) of the Parent Disclosure Letter sets forth all jurisdictions where Parent or any of its Subsidiaries writes or is authorized to conduct the business of insurance. Parent and its Subsidiaries meet all statutory or regulatory requirements and have obtained all Governmental Authorizations required to be an authorized insurer in all jurisdictions set forth or required to be set forth in Schedule 3.1(h)(iv) of the Parent Disclosure Letter. Parent and its Subsidiaries hold all Governmental Authorizations necessary to conduct the business of insurance as currently conducted by them. Such Governmental Authorizations are, and upon consummation of the Merger will continue to be, in full force and effect, and Parent and its Subsidiaries are in compliance with the terms and conditions thereof. Each filing or other Governmental Authorization effected by any of Parent or its Subsidiaries in connection with the insurance, reinsurance or other business of Parent was true, correct and complete in all material respects at the time such filing or Governmental Authorization was effected. Without limiting the generality of the foregoing, the Subsidiaries of Parent are, where required (A) duly licensed or authorized as insurance companies and reinsurers under the applicable Laws and (B) duly authorized under the applicable Law to conduct each line of business conducted by the Subsidiaries or reported as being written in the Parent Financial Statements. To the knowledge of Parent and its Subsidiaries, no proceeding or customer complaint has been filed with the insurance regulatory authorities which could reasonably be expected to lead to the denial, suspension, nonrenewal, revocation, material limitation or material restriction of any such Governmental Authorization.

(v) No claims and assessments against Parent or its Subsidiaries by any insurance guaranty association or other similar association or body (in connection with a fund relating to insolvent insurers) is pending, Parent and its Subsidiaries have not received notice of any such claim or assessment, and, to the knowledge of Parent, there is no basis for the assertion of any such claim or assessment against Parent or its Subsidiaries by any insurance guaranty association.

(vi) For purposes of this Agreement, Governmental Authorization shall mean any approval, franchise, certificate of authority, order, consent, judgment, decree, license, permit, waiver or other authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Entity or pursuant to any Law.

(i) *Absence of Certain Changes or Events.* Except for obligations under or actions required by this Agreement, the Parent Recapitalization Agreement or the transactions contemplated hereby or thereby, and except as permitted by Section 4.1, since December 31, 2005, (i) Parent and its Subsidiaries have conducted their business only in the ordinary course; (ii) through the date hereof, there has not been any declaration, setting aside or payment of any dividend or other distribution in cash, stock or property in respect of Parent s capital stock; (iii) there has not been any action taken by Parent or any of its Subsidiaries during the period from December 31, 2005 through the date of this Agreement that, if taken during the period from the date of this Agreement through the Effective Time would constitute a breach of Section 4.1 or Section 4.4; and (iv) except as required by GAAP, there has not been any change by Parent in accounting principles, practices or methods. Since December 31, 2005, there have not been any changes, circumstances or events which, in the aggregate, have had, or would reasonably be expected to have, a Material Adverse Effect on Parent.

(j) *Financial Advisors.* No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker s or finder s fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement, based upon arrangements made by or on behalf of Parent.

(k) *Employees; Employee Benefit Plans and Related Matters; ERISA.*

(i) *Employees.* Section 3.1(k)(i) of the Parent Disclosure Letter sets forth a complete list of (A) all agreements (other than customary offer letters) by and between Parent and any of its Subsidiaries and their respective employees relating to employment matters and (B) all such agreements to which Parent or any of its Subsidiaries are a party that contain change of control (or similar) provisions that would be triggered by the transactions contemplated hereby. Parent has

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previously furnished to the Company correct and complete copies of each of the agreements set forth in Section 3.1(k)(i) of the Parent Disclosure Letter.

(ii) *Employee Benefit Plans.* Schedule 3.1(k) of the Parent Disclosure Letter sets forth a complete and correct list of each Benefit Plan of Parent and each of its Subsidiaries (Parent Benefit Plan). With respect to each such Parent Benefit Plan, Parent has provided or made available to the Company complete and correct copies of such Parent Benefit Plan, if written, or a description of such Parent Benefit Plan if not written, and related documents including the most recent summary plan description, the Forms 5500 for the three most recent years, the most recent favorable determination letter, the most recent actuarial valuation and nondiscrimination testing for the most recent three years. Except with respect to amendments or modifications required solely to avoid early recognition of income and the additional taxes imposed under Section 409A of the Code or required by applicable Law, none of Parent or any of its Subsidiaries has communicated to any current or former employee thereof any intention or commitment to modify any Parent Benefit Plan or to establish or implement any other employee or retiree benefit or compensation plan or arrangement.

(iii) *Compliance; Liability.* Each of the Parent Benefit Plans has been operated and administered in all material respects in compliance with its terms, all applicable Laws and all applicable collective bargaining agreements and, if applicable, in good faith compliance with Section 409A of the Code. Each Parent Benefit Plan which is intended to be qualified within the meaning of Code section 401(a) is so qualified and has received a favorable determination letter from the United States Internal Revenue Service (the IRS) with respect to all plan document qualification requirements for which the applicable remedial amendment period under Section 401(b) of the Code has closed, any amendments required by such determination letter were made as and when required by such determination letter and nothing has occurred, whether by action or failure to act, that could reasonably be expected to cause the loss of such qualification. There are no material pending or threatened claims by or on behalf of any participant in any of the Parent Benefit Plans, or otherwise involving any such Parent Benefit Plan or the assets of any Parent Benefit Plan, other than routine claims for benefits. The Parent Benefit Plans are not presently under audit or examination (nor has notice been received of a potential audit or examination) by the IRS, the United States Department of Labor (Department of Labor), or any other governmental agency or entity, domestic or foreign. Neither Parent nor any of its Subsidiaries has ever maintained or contributed to or been obligated to contribute to a Multiemployer Plan (as such term is defined by Section 4001(a)(3) of ERISA) or to a plan subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code. Neither Parent nor any of its Subsidiaries has any actual or potential liability (i) under Section 4069, 4201 or 4212(c) of ERISA or any similar foreign law, or (ii) attributable to any employee benefit plan (as defined in section 3(3) of ERISA) covering any employees of any entity other than Parent or any of its Subsidiaries that is or was treated as a single employer with Parent or any of its Subsidiaries within the meaning of Section 414(b), 414(c), 414(m), or 414(o) of the Code, or section 4001(b) of ERISA. Except as is otherwise required by applicable Law, no person is or will become entitled to post-employment welfare benefits of any kind by reason of employment with Parent or any of its Subsidiaries. The entering into this Agreement or the consummation of the transactions contemplated by this Agreement will not, separately or together with any other event, result in an increase in the amount of compensation or benefits or the acceleration of the vesting or timing of payment of any compensation or benefits payable to or in respect of any current or former employee, officer, director or independent contractor of Parent or any of its Subsidiaries and no payment or deemed payment by Parent or any of its Subsidiaries will arise or be made as a result of the entering into of this Agreement or the consummation of the transactions contemplated by this Agreement that would not be deductible pursuant to Section 280G of the Code.

(iv) For purposes of this Agreement, Benefit Plans means, with respect to any Person, each foreign or domestic employee benefit plan, scheme, program, policy, arrangement and contract (including, but not limited to, any employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), whether or not subject

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to ERISA, and any bonus, deferred compensation, stock bonus, stock purchase, restricted stock, stock option, employment, termination, stay agreement or bonus, change in control and severance plan, program, policy, arrangement and contract, written or oral) which is currently maintained or contributed to (or required to be contributed to) by Parent or the Company, as the case may be, or any of their Subsidiaries, or with respect to which Parent or the Company, as the case may be, or any of their Subsidiaries, has any liability.

(l) *No Restrictions on the Merger; Takeover Statutes.* The Board of Directors of Parent has taken all necessary action to render any potentially applicable anti-takeover or similar statute or regulation or provision of the memorandum of association or bye-laws, or other organizational or constitutive document or governing instruments of Parent or any of its Subsidiaries, inapplicable to this Agreement and the transactions contemplated hereby.

(m) *Environmental Matters.* Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent, each of Parent and its Subsidiaries complies and since December 31, 2001 has always complied with all applicable statutes, laws and regulations relating to the environment or occupational health and safety (Environmental Laws) and, to the knowledge of Parent, no material expenditures are or will be required to comply with any such existing Environmental Laws. None of Parent or its Subsidiaries has caused or taken or failed to take any action that could reasonably be expected to result in any material liability or obligation relating to any Environmental Law.

(n) *Intellectual Property.* Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent (A) Parent and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Liens), all Intellectual Property used in or necessary for the conduct of its business as currently conducted; (B) to the knowledge of Parent, the use of any Intellectual Property by Parent and its Subsidiaries does not infringe on or otherwise violate the rights of any Person and is in accordance with any applicable license pursuant to which Parent or any Subsidiary acquired the right to use any Intellectual Property; (C) to the knowledge of Parent, no Person is challenging, infringing on or otherwise violating any right of Parent or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to Parent or its Subsidiaries; and (D) neither Parent nor any of its Subsidiaries has received any written notice or otherwise has knowledge of any pending claim, order or proceeding with respect to any Intellectual Property used by Parent and its Subsidiaries. For purposes of this Agreement, Intellectual Property shall mean all (i) trademarks, service marks, trade names, trade dress, domain names, copyrights and similar rights, including registrations and applications to register or renew the registration of any of the foregoing, (ii) letters patent, patent applications, inventions, processes, designs, formulae, trade secrets, know-how, confidential information, computer software, data and documentation, website content, and all similar intellectual property rights, (iii) tangible embodiments of any of the foregoing in any medium, (iv) information technology, and (v) licenses of any of the foregoing.

(o) *Taxes.*

(i) Parent and each of its Subsidiaries has timely filed, or has caused to be timely filed, all Tax Returns required to be filed, and all such Tax Returns are true, complete and accurate, except to the extent any failure to file or any inaccuracies in any filed Tax Returns would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Parent. All Taxes shown to be due on such Tax Returns, have been timely paid, except to the extent that any failure to have so paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Parent or to the extent such taxes are being contested in good faith and by appropriate proceedings and for which reserves have been properly maintained in accordance with GAAP. All Taxes required to be withheld by Parent and each of its Subsidiaries have been timely withheld and paid to the proper taxing authority, except to the extent that any failure to have so withheld or paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Parent or to the extent such taxes are being contested in good faith and

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by appropriate proceedings and for which reserves have been properly maintained in accordance with GAAP.

(ii) The Parent Financial Statements reflect an adequate reserve in accordance with GAAP for all Taxes payable by Parent and its Subsidiaries for all taxable periods and portions thereof through the date of such Parent Financial Statements, except to the extent that the failure to have so reserved would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Parent. No deficiency with respect to any Taxes has been proposed, asserted or assessed in writing against Parent or any of its Subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending, except to the extent any such deficiency or request for waiver, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent.

(iii) The United States, United Kingdom and Belgian Federal income and VAT Tax Returns as applicable of Parent and each of its Subsidiaries consolidated in such Tax Returns for all years through 2002 either have been examined by and settled with the applicable governmental entity or the statutes of limitation for assessment of deficiency with respect thereto have expired. All material assessments for Taxes due with respect to such completed and settled examinations or any concluded litigation have been fully paid.

(iv) There are no material Liens for Taxes (other than for current Taxes not yet due and payable and for Taxes being contested in good faith) on the assets of Parent or any of its Subsidiaries. Neither Parent nor any of its Subsidiaries is bound by any Tax sharing agreements with third parties.

(v) Neither Parent nor any of its Subsidiaries has taken or agreed to take any action that would prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(vi) For purposes of this Agreement:

(A) *Taxes* includes any tax, value-added tax, levy, impost, duty, charge, assessment or fee of any nature, whenever created or imposed, and whether of the United States or elsewhere, and whether imposed by a local, municipal, governmental, state, foreign, federal or other Governmental Entity, or in connection with any agreement with respect to Taxes, including all interest, penalties and additions imposed with respect to such amounts.

(B) *Tax Return* means all Federal, state, local, provincial and foreign Tax returns, declarations, statements, reports, schedules, forms and information returns and any amended Tax return relating to Taxes.

(p) *Contracts.* There are no contracts to which any of Parent or its Subsidiaries is a party, by which any of its assets may be bound or affected, or under which any of Parent or its Subsidiaries receives any benefit, in each case that (i) is material to the business, results of operations, condition (financial or otherwise), assets or liabilities of Parent and its Subsidiaries, taken as a whole, (ii) imposes material obligations (whether or not monetary) on Parent or any of its Subsidiaries, or (iii) is otherwise necessary or advisable for the proper and efficient operation of any of Parent or its Subsidiaries (any such contract, together with any other contract or agreement to which Parent or any of its Subsidiaries is a party or by which any of their respective assets are bound or affected, a Parent Contract). Each Parent Contract is, and following the consummation of the transactions contemplated herein will continue to be, legal under applicable Law, valid, binding, enforceable and in full force and effect and contains no provision relating to change in control or other terms that will become applicable or inapplicable upon such consummation. To the knowledge of Parent, no party is in breach or default, or has repudiated any provision, of any such Parent Contract and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification or acceleration under any such Parent Contract. No Parent Contract, applicable Law or Governmental Authorization exists that restricts the right of any of Parent or its Subsidiaries to carry on or continue after the Closing Date its business in the ordinary course consistent with past practice.

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(q) *Assets.*

(i) Parent and its Subsidiaries own, or otherwise have sufficient and legally enforceable rights to use, all of the properties and assets (real, personal or mixed, tangible or intangible), necessary for the conduct of, or otherwise material to, their business and operations as they are currently conducted (the Parent Assets). Parent and its Subsidiaries have valid title to, or in the case of leased property have valid leasehold interests in, all such Parent Assets, including all such Parent Assets reflected in the Parent Financial Statements or acquired since such date (except as may have been disposed of since such date in the ordinary course of business consistent with past practice), in each case free and clear of any Lien, except Parent Permitted Liens. Schedule 3.1(q)(i) of the Parent Disclosure Letter sets forth a complete and correct list of each of the countries in which Parent Assets are located.

(ii) Parent Permitted Liens means (A) Liens reserved against or reflected in the Parent Financial Statements, to the extent so reserved or reflected or described in the notes thereto, (B) Liens for Taxes not yet due and payable or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on Parent s books in accordance with GAAP, (C) those Liens set forth in Schedule 3.1(q)(ii) of the Parent Disclosure Letter and (D) those Liens that, individually and in the aggregate with all other Parent Permitted Liens, do not and will not materially interfere with the use of the properties or assets of Parent and its Subsidiaries taken as a whole as currently used, or otherwise have or result in a Material Adverse Effect on Parent.

(r) *Real Property.*

(i) Parent and its Subsidiaries have good, valid and marketable fee simple title to the Parent Owned Real Property, free and clear of any Liens other than Parent Permitted Liens. Each Parent Lease grants the lessee under such lease the exclusive right to use and occupy the premises and rights demised thereunder free and clear of any Lien other than Parent Permitted Liens. Each of Parent and its Subsidiaries has good and valid title to the leasehold estate or other interest created under its respective Parent Leases free and clear of any Liens other than Parent Permitted Liens. Each of Parent and its Subsidiaries enjoys peaceful and undisturbed possession under its respective Parent Leases of its respective Parent Leased Real Property. The Parent Real Property constitutes all the interests in real property necessary for the conduct of, or otherwise material to, the business of Parent and its Subsidiaries.

(ii) Parent Leases means the real property leases, subleases, licenses and use or occupancy agreements pursuant to which Parent or any of its Subsidiaries is the lessee, sublessee, licensee, user or occupant of real property, or interests therein, necessary for the conduct of, or otherwise material to, the business of Parent and its Subsidiaries as it is currently conducted. Parent Leased Real Property means all interests in real property pursuant to the Parent Leases. Parent Owned Real Property means the real property owned by Parent and its Subsidiaries necessary for the conduct of, or otherwise material to, the business of Parent and its Subsidiaries as it is currently conducted. Parent Real Property means the Parent Owned Real Property and the Parent Leased Real Property.

(s) *Insurance.* All insurance policies maintained by or on behalf of any of Parent and its Subsidiaries under which any such entity is insured (other than reinsurance or similar agreements) as of the date hereof are in full force and effect, and all premiums due thereon have been paid. Parent and its Subsidiaries have complied in all material respects with the terms and provisions of such policies. The insurance coverage provided by such policies is suitable for the business and operations of Parent and its Subsidiaries.

(t) *Affiliate Transactions.* Schedule 3.1(t) of the Parent Disclosure Letter contains a complete and correct list of all agreements, contracts, transfers or pledges of assets or transfers or assumptions of liabilities or other commitments or transactions, whether or not entered into in the ordinary course of business, to or by which Parent or any of its Subsidiaries, on the one hand, and (i) the members or

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stockholders of Parent or any of its Subsidiaries or any of their respective affiliates (other than Parent or any of its Subsidiaries), or (ii) the directors of the Parent or any of its Subsidiaries (other than the Principal Shareholders), on the other hand, are or have been a party or otherwise bound or affected, and that (x) are currently pending or in effect or by which the Parent or any of its Subsidiaries are bound or obligated or (y) involve continuing liabilities or obligations that, individually or in the aggregate, have been, are or will be $50,000 or more to Parent or any of its Subsidiaries.

(u) *Disclosure.* No representation or warranty made by Parent contained in this Agreement nor any certificate furnished by or on behalf of Parent pursuant to Article VI contains or will contain any untrue statement of a material fact, or omits or will omit to state any material fact required to make the statements contained herein or therein not misleading.

Section 3.2 *Representations and Warranties of the Company.* Except (x) as set forth in the Company disclosure letter delivered by the Company to Parent prior to the execution of this Agreement (the Company Disclosure Letter) (each section of which qualifies the correspondingly numbered representation and warranty or covenant and any other representation or warranty, if it is readily apparent that the disclosure set forth in the Company Disclosure Letter is applicable to such other representation or warranty) or (y) as disclosed in the Company SEC Reports as of the date hereof, but only to the extent the exception is reasonably apparent from such disclosure, and assuming for purposes of the Company s representations and warranties and the conditions to Parent s obligations to effect the Merger set forth in Section 6.2(a) that the representations and warranties of Parent set forth in Section 3.1 are accurate, but only to the extent that the same affect the truth, accuracy or validity of the Company s representations or warranties, the Company represents and warrants to Parent as follows:

(a) *Organization, Standing and Power; Subsidiaries.* Each of the Company and each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, as the case may be, has the requisite corporate (or similar) power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failures to be so organized, existing and in good standing or to have such power and authority, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary other than in such jurisdictions where the failures so to qualify or to be in good standing, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company. Company Exhibit 21 includes all the Subsidiaries of the Company. All the outstanding shares of capital stock of, or other equity interests in, each Subsidiary of the Company have been validly issued and are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all Liens and free of any other restriction except for restrictions imposed by applicable securities laws. Except for the Subsidiaries listed on Company Exhibit 21, neither the Company nor any of its Subsidiaries is the record or beneficial owner, directly or indirectly, of any capital stock or other equity ownership interest in any other Person.

(b) *Capital Structure.*

(i) As of the date hereof, the authorized capital stock of the Company consisted of 55,000,000 shares of Company Common Stock, of which 5,739,378 shares were outstanding and 445,882 shares were held in the treasury of the Company. All issued and outstanding shares of the capital stock of the Company are duly authorized, validly issued, fully paid and free of any preemptive rights. Section 3.2(b)(i)(1) of the Company Disclosure Letter contains a correct and complete list as of the date hereof of the number of outstanding Company Stock Options, the exercise price of all Company Stock Options and the number of shares of Company Common Stock issuable at such exercise price. Section 3.2(b)(i)(2) of the Company Disclosure Letter contains a correct and complete list as of the date hereof of the number of restricted stock units issued under the Directors Deferred Plan.

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(ii) Except as otherwise set forth in this Section 3.2(b), there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind outstanding or to which the Company or any of its Subsidiaries is a party or by which any of them is bound obligating the Company or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of the Company or any of its Subsidiaries or obligating the Company or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. There are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries. There are no outstanding obligations of the Company or any of its Subsidiaries to provide funds or make any investment in any of its Subsidiaries or any other entity, nor has the Company or any of its Subsidiaries granted or agreed to grant to any Person any stock appreciation rights or similar equity based rights.

(c) *Authority; No Conflicts.*

(i) The Company has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject in the case of the consummation of the Merger to the adoption and approval of this Agreement by Company Shareholder Approval and the filing and recordation of appropriate merger documents as required by the GBCC. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject in the case of the consummation of the Merger to the adoption and approval of this Agreement by the Company Shareholder Approval. This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery of this Agreement by the Company does not or will not, as the case may be, and the consummation by the Company of the Merger and the other transactions contemplated hereby will not, conflict with, or result in any violation of, or result in a default (with or without notice or lapse of time, or both) under, or give rise to any right of, or result by its terms in the, termination, amendment, cancellation or acceleration of any obligation or the loss of any material benefit under, or the creation of any Lien on, or the loss of, any assets pursuant to (A) any provision of the articles of incorporation, bylaws, or other organizational or constitutive documents of the Company or any Subsidiary of the Company or (B) except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any Subsidiary of the Company or their respective properties or assets.

(iii) No consent, approval, order or authorization of, clearance by, or registration, declaration or filing with, any Governmental Entity is required by or with respect to the Company or any Subsidiary of the Company in connection with the execution and delivery of this Agreement by the Company or the consummation of the Merger and the other transactions contemplated hereby, except the Necessary Consents and such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company.

(d) *Reports and Financial Statements; Undisclosed Liabilities, Indebtedness.*

(i) The Company has filed or furnished all registration statements, prospectuses, reports, schedules, forms, statements and other documents required to be filed or furnished by it with the

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SEC since January 1, 2000 (collectively, including all exhibits thereto, the Company SEC Reports). For purposes of the representations set forth in Section 3.2, any reference to or representation relating to the Company SEC Reports shall not include any matters related to Parent or any of its Subsidiaries or documents or other information provided to the Company by Parent or any of its Subsidiaries. None of the Company SEC Reports, as of their respective dates (and, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing), (x) contained or will contain any untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or (y) failed to comply in any material respect with the applicable requirements of the Securities Act and the Exchange Act, as the case may be, and the applicable rules and regulations of the SEC thereunder. Each of the financial statements (including the related notes and schedules) included or incorporated by reference in the Company SEC Reports (A) presents fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries and the consolidated results of its operations and its cash flows as of the respective dates or for the respective periods set forth therein, (B) has been derived from the accounting books and records of the Company and its subsidiaries, and (C) has been prepared in accordance with GAAP consistently applied during the periods involved.

(ii) Except as reflected or reserved against in the Company SEC Reports, the Company and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a balance sheet of the Company and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, other than obligations under this Agreement or the Parent Recapitalization Agreement or liabilities incurred in the ordinary course of business and that, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company. None of the Company or its Subsidiaries has any outstanding Indebtedness.

(iii) The reserves reflected in the Company SEC Reports for payment of benefits, losses, claims, expenses and similar purposes (including claims litigation) under all presently issued insurance, reinsurance and other applicable agreements issued by the Company and its Subsidiaries were determined in accordance with prudent industry standards consistently applied, are fairly stated in accordance with sound actuarial principles and are in material compliance with the requirements of applicable Law. Except as disclosed in the Company SEC Reports, there are no agreements or arrangements to which any of the Company or its Subsidiaries is a party relating to finite or other non-traditional reinsurance.

(iv) The Company maintains internal controls over financial reporting as required by Rule 13a-15 under the Exchange Act. Such internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are reasonably designed to ensure that all material information (both financial and non-financial) required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such information is accumulated and communicated to the Company s management as appropriate to allow timely decisions regarding required disclosure and to make the certifications of the chief executive officer and chief financial officer of the Company required under the Exchange Act with respect to such reports.

(e) *Information Supplied.* None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in (A) the Form S-4 will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, or (B) the Company Proxy Statement/Prospectus will, on the date it is first mailed to the Company s shareholders or at the time of the Company Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not

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misleading. The Form S-4 and the Company Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder. Notwithstanding the foregoing provisions of this Section 3.2(e), no representation or warranty is made by the Company with respect to statements made or incorporated by reference in the Form S-4 or the Company Proxy Statement/Prospectus based on information supplied by Parent for inclusion or incorporation by reference therein.

(f) *Board Approval.* The Board of Directors of the Company, by resolutions duly adopted by unanimous vote at a meeting duly called and held and not subsequently rescinded or modified in any way (the Company Board Approval), has duly (i) determined that this Agreement and the Merger are advisable and are fair to and in the best interests of the Company and its shareholders, (ii) adopted and approved this Agreement and approved the Merger and the other transactions contemplated by this Agreement and (iii) recommended that the shareholders of the Company adopt and approve this Agreement and directed that this Agreement and the transactions contemplated hereby be submitted for consideration by the Company s shareholders at the Company Shareholders Meeting.

(g) *Vote Required.* The affirmative votes of the holders of the majority of the voting power of the Company Common Stock to adopt and approve this Agreement (the Company Shareholder Approval) are the only votes of the holders of any class or series of the Company s capital stock necessary to consummate the transactions contemplated hereby.

(h) *Litigation; Compliance with Laws.*

(i) Other than insurance claims litigation in the ordinary course of business consistent with past practice that is reserved against or otherwise disclosed in the financial statements included or incorporated by reference in the Company SEC Reports and is not material to the Company individually or in the aggregate, there are no Actions pending or, to the knowledge of the Company, threatened, against or affecting the Company or any Subsidiary of the Company which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company, nor are there any judgments, decrees, injunctions, rulings or orders of any Governmental Entity or arbitrator outstanding against the Company or any Subsidiary of the Company which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company.

(ii) Except as would, in the aggregate, not reasonably be expected to have a Material Adverse Effect on the Company, the Company and its Subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals (including all insurance permits and licenses) of all Governmental Entities which are necessary for the operation of the businesses of the Company and its Subsidiaries, taken as a whole (the Company Permits). The Company and its Subsidiaries are in compliance with the terms of the Company Permits and none of the Company Permits are suspended or, to the knowledge of Company, threatened to be suspended, except where the failures to so comply or such suspensions or threats of suspension, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company. Neither the Company nor any of its Subsidiaries is in violation of, and the Company and its Subsidiaries have not received any notices of violation with respect to, any laws, ordinances or regulations of any Governmental Entity (including insurance laws and regulations), except for violations which, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company.

(iii) The Company and its Subsidiaries are in compliance, and since January 1, 2001 complied in all material respects, with each Law that is or was applicable to it or to the conduct or operation of the business of the Company and its Subsidiaries or the ownership or use of any of their assets. Neither the Company nor any of its Subsidiaries have caused or taken any action that could reasonably be expected to result in any material liability relating to any Law. Neither the Company nor its Subsidiaries have been subject to any disqualification that would be a basis for denial, suspension, nonrenewal or revocation of any material Governmental Authorization required of an insurance company and there is no basis for, or proceeding or investigation that is reasonably likely

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to become a basis for, any disqualification, denial, suspension, nonrenewal, revocation, cancellation or modification of any such Governmental Authorization.

(iv) Schedule 3.2(h)(iv) of the Company Disclosure Letter sets forth all jurisdictions where the Company or any of its Subsidiaries writes or is authorized to conduct the business of insurance. The Company and its Subsidiaries meet all statutory or regulatory requirements and have obtained all Governmental Authorizations required to be an authorized insurer in all jurisdictions set forth or required to be set forth in Schedule 3.2(h)(iv) of the Company Disclosure Letter. The Company and its Subsidiaries hold all Governmental Authorizations necessary to conduct the business of insurance as currently conducted by them. Such Governmental Authorizations are, and upon consummation of the Merger will continue to be, in full force and effect, and the Company and its Subsidiaries are in compliance with the terms and conditions thereof. Each filing or other Governmental Authorization effected by any of the Company or its Subsidiaries in connection with the insurance, reinsurance or other business of the Company was true, correct and complete in all material respects at the time such filing or Governmental Authorization was effected. Without limiting the generality of the foregoing, the Subsidiaries of the Company are, where required (A) duly licensed or authorized as insurance companies and reinsurers under the applicable Laws and (B) duly authorized under the applicable Law to conduct each line of business conducted by the Subsidiaries or reported as being written in the Company SEC Reports. To the knowledge of the Company and its Subsidiaries, no proceeding or customer complaint has been filed with the insurance regulatory authorities which could reasonably be expected to lead to the denial, suspension, nonrenewal, revocation, material limitation or material restriction of any such Governmental Authorization.

(v) No claims and assessments against the Company or its Subsidiaries by any insurance guaranty association or other similar association or body (in connection with a fund relating to insolvent insurers) is pending, the Company and its Subsidiaries have not received notice of any such claim or assessment, and, to the knowledge of Company, there is no basis for the assertion of any such claim or assessment against the Company or its Subsidiaries by any insurance guaranty association.

(i) *Absence of Certain Changes or Events.* Except for obligations under or actions required by this Agreement, the Parent Recapitalization Agreement or the transactions contemplated hereby or thereby, and except as permitted by Section 4.2, since December 31, 2005, (i) the Company and its Subsidiaries have conducted their business only in the ordinary course consistent with prior practice; (ii) through the date hereof, there has not been any declaration, setting aside or payment of any dividend or other distribution in cash, stock or property in respect of the Company s capital stock; (iii) there has not been any action by the Company or any of its Subsidiaries during the period from December 31, 2005 through the date of this Agreement that, if taken during the period from the date of this Agreement through the Effective Time would constitute a breach of Section 4.2; and (iv) except as required by GAAP, there has not been any change by the Company in accounting principles, practices or methods. Since December 31, 2005, there have not been any changes, circumstances or events which, in the aggregate, have had, or would reasonably be expected to have, a Material Adverse Effect on the Company.

(j) *Financial Advisors.* No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker s or finder s fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement, based upon arrangements made by or on behalf of the Company.

(k) *Employees; Employee Benefit Plans and Related Matters; ERISA.*

(i) *Employees.* Section 3.2(k)(i) of the Company Disclosure Letter sets forth a complete list of (A) all agreements (other than customary offer letters) by and between the Company and any of its Subsidiaries and their respective employees relating to employment matters and (B) all such agreements to which the Company or any of its Subsidiaries are a party that contain change of control (or similar) provisions that would be triggered by the transactions contemplated hereby. The

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Company has previously furnished to Parent correct and complete copies of each of the agreements set forth in Section 3.2(k)(i) of the Company Disclosure Letter.

(ii) *Employee Benefit Plans.* Schedule 3.2(k)(ii) of the Company Disclosure Letter sets forth a complete and correct list of each Benefit Plan of the Company and each of its Subsidiaries (Company Benefit Plan). With respect to each such Company Benefit Plan, the Company has provided or made available to Parent complete and correct copies of such Company Benefit Plan, if written, or a description of such Company Benefit Plan if not written, and related documents including the most recent summary plan description, the Forms 5500 for the three most recent years, the most recent favorable determination letter, the most recent actuarial valuation and nondiscrimination testing for the most recent three years. Except with respect to amendments or modifications required solely to avoid early recognition of income and the additional taxes imposed under Section 409A of the Code or required by applicable Law, none of the Company or any of its Subsidiaries has communicated to any current or former employee thereof any intention or commitment to modify any Company Benefit Plan or to establish or implement any other employee or retiree benefit or compensation plan or arrangement.

(iii) *Compliance; Liability.* Each of the Company Benefit Plans has been operated and administered in all material respects in compliance with its terms, all applicable laws and all applicable collective bargaining agreements and, if applicable, in good faith compliance with Section 409A of the Code. Each Company Benefit Plan which is intended to be qualified within the meaning of Code section 401(a) is so qualified and has received a favorable determination letter from the IRS with respect to all plan document qualification requirements for which the applicable remedial amendment period under Section 401(b) of the Code has closed, any amendments required by such determination letter were made as and when required by such determination letter and nothing has occurred, whether by action or failure to act, that could reasonably be expected to cause the loss of such qualification. There are no material pending or threatened claims by or on behalf of any participant in any of the Company Benefit Plans, or otherwise involving any such Company Benefit Plan or the assets of any Company Benefit Plan, other than routine claims for benefits. The Company Benefit Plans are not presently under audit or examination (nor has notice been received of a potential audit or examination) by the IRS, the Department of Labor, or any other governmental agency or entity, domestic or foreign. Neither the Company nor any of its Subsidiaries has ever maintained or contributed to or been obligated to contribute to a Multiemployer Plan (as such term is defined by Section 4001(a)(3) of ERISA) or to a plan subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code. Neither the Company nor any of its Subsidiaries has any actual or potential liability (i) under Section 4069, 4201 or 4212(c) of ERISA or any similar foreign law, or (ii) attributable to any employee benefit plan (as defined in section 3(3) of ERISA) covering any employees of any entity other than the Company or any of its Subsidiaries that is or was treated as a single employer with the Company or any of its Subsidiaries within the meaning of Section 414(b), 414(c), 414(m), or 414(o) of the Code, or section 4001(b) of ERISA. Except as is otherwise required by applicable Law, no person is or will become entitled to post-employment welfare benefits of any kind by reason of employment with Company or any of its Subsidiaries. The entering into this Agreement or the consummation of the transactions contemplated by this Agreement will not, separately or together with any other event, result in an increase in the amount of compensation or benefits or the acceleration of the vesting or timing of payment of any compensation or benefits payable to or in respect of any current or former employee, officer, director or independent contractor of Company or any of its Subsidiaries and no payment or deemed payment by Company or any of its Subsidiaries will arise or be made as a result of the entering into of this Agreement or the consummation of the transactions contemplated by this Agreement that would not be deductible pursuant to Section 280G of the Code.

(l) *No Restrictions on the Merger; Takeover Statutes.*

(i) The Board of Directors of the Company has taken all necessary action to render any potentially applicable anti-takeover or similar statute or regulation or provision of the certificate of

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incorporation or bylaws, or other organizational or constitutive document or governing instruments of the Company or any of its Subsidiaries, inapplicable to this Agreement, the Support Agreement, the Recapitalization Agreement and the transactions contemplated hereby and thereby. The approval of this Agreement, the Merger, the Support Agreement, the Recapitalization Agreement and the transactions contemplated hereby and thereby by the Board of Directors of the Company referred to in Section 3.2(f) constitutes approval of this Agreement, the Merger, the Support Agreement, the Recapitalization Agreement and the transactions contemplated hereby and thereby for purposes of Section 14-2-1132 of the GBCC and represents the only action necessary to ensure that Section 14-2-1132 shall not apply to this Agreement, the Support Agreement, the Recapitalization Agreement or the consummation of the Merger or the other transactions contemplated hereby and thereby.

(ii) The Company has taken all action necessary to ensure that the entering into of this Agreement, the Merger, the Support Agreement, the Recapitalization Agreement and the other transactions contemplated hereby and thereby will not result in the grant of any rights to any person under the Company Rights Agreement or enable or require the Company Rights to be exercised, distributed or triggered.

(m) *Environmental Matters.* Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company, each of the Company and its Subsidiaries complies and since December 31, 2001 has always complied with all Environmental Laws and, to the knowledge of the Company, no material expenditures are or will be required to comply with any such existing Environmental Laws. None of the Company or its Subsidiaries has caused or taken or failed to take any action that could reasonably be expected to result in any material liability or obligation relating to any Environmental Law.

(n) *Intellectual Property.* Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company, (i) the Company and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Liens), all Intellectual Property used in or necessary for the conduct of its business as currently conducted; (ii) to the knowledge of the Company, the use of any Intellectual Property by the Company and its Subsidiaries does not infringe on or otherwise violate the rights of any Person and is in accordance with any applicable license pursuant to which the Company or any Subsidiary acquired the right to use any Intellectual Property; (iii) to the knowledge of the Company, no Person is challenging, infringing on or otherwise violating any right of the Company or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to the Company or its Subsidiaries; and (iv) neither the Company nor any of its Subsidiaries has received any written notice or otherwise has knowledge of any pending claim, order or proceeding with respect to any Intellectual Property used by the Company and its Subsidiaries.

(o) *Taxes.*

(i) The Company and each of its Subsidiaries has timely filed, or has caused to be timely filed, all Tax Returns required to be filed, and all such Tax Returns are true, complete and accurate, except to the extent any failure to file or any inaccuracies in any filed Tax Returns would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company. All Taxes shown to be due on such Tax Returns have been timely paid, except to the extent that any failure to have so paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company or to the extent such taxes are being contested in good faith and by appropriate proceedings and for which reserves have been properly maintained in accordance with GAAP. All Taxes required to be withheld by the Company and each of its Subsidiaries have been timely withheld and paid to the proper taxing authority, except to the extent that any failure to have so withheld or paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company or to the extent such taxes are being contested in good faith and by appropriate proceedings and for which reserves have been properly maintained in accordance with GAAP.

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(ii) The most recent financial statements contained in the Company SEC Reports reflect an adequate reserve in accordance with GAAP for all Taxes payable by the Company and its Subsidiaries for all taxable periods and portions thereof through the date of such financial statements, except to the extent that the failure to have so reserved would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company. No deficiency with respect to any Taxes has been proposed, asserted or assessed in writing against the Company or any of its Subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending, except to the extent any such deficiency or request for waiver, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company.

(iii) The Federal income Tax Returns of the Company and each of its Subsidiaries consolidated in such Tax Returns for all years through 2001 either have been examined by and settled with the IRS or the statutes of limitation for assessment of deficiency with respect thereto have expired (except that such returns may remain open to the limited extent that they effect years subsequent to the taxable year ended August 31, 2001). All material assessments for Taxes due with respect to such completed and settled examinations or any concluded litigation have been fully paid.

(iv) There are no material Liens for Taxes (other than for current Taxes not yet due and payable and for Taxes being contested in good faith) on the assets of the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries is bound by any Tax sharing agreements with third parties.

(v) Neither the Company nor any of its Subsidiaries has taken or agreed to take any action that would prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(p) *Contracts.* There are no contracts to which any of the Company or its Subsidiaries is a party, by which any of its assets may be bound or affected, or under which any of the Company or its Subsidiaries receives any benefit, in each case that (i) is material to the business, results of operations, condition (financial or otherwise), assets or liabilities of the Company and its Subsidiaries, taken as a whole (ii) imposes material obligations (whether or not monetary) on the Company or any of its Subsidiaries, or (iii) is otherwise necessary or advisable for the proper and efficient operation of any of the Company or its Subsidiaries (any such contract, together with any other contract or agreement to which Company or any of its Subsidiaries is a party or by which any of their respective assets are bound or affected, a Company Identified Contract). Each Company Identified Contract is, and following the consummation of the transactions contemplated herein will continue to be, legal under applicable Law, valid, binding, enforceable and in full force and effect and contains no provision relating to change in control or other terms that will become applicable or inapplicable upon such consummation. To the knowledge of the Company, no party is in breach or default, or has repudiated any provision, of any such Company Identified Contract and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification or acceleration under any such Company Identified Contract. No Company Identified Contract, applicable Law or Governmental Authorization exists that restricts the right of any of the Company or its Subsidiaries to carry on or continue after the Closing Date its business in the ordinary course consistent with past practice.

(q) *Assets.*

(i) The Company and its Subsidiaries own, or otherwise have sufficient and legally enforceable rights to use, all of the properties and assets (real, personal or mixed, tangible or intangible), necessary for the conduct of, or otherwise material to, their business and operations as they are currently conducted (the Company Assets). The Company and its Subsidiaries have valid title to, or in the case of leased property have valid leasehold interests in, all such Company Assets, including all such Company Assets reflected in the financial statements included in the Company SEC Reports or acquired since such date (except as may have been disposed of since such date in the ordinary course of business consistent with past practice), in each case free and clear of any

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Lien, except Company Permitted Liens. Schedule 3.2(q)(i) of the Company Disclosure Letter sets forth a complete and correct list of each of the countries in which Company Assets are located.

(ii) *Company Permitted Liens* means (A) Liens reserved against or reflected in the financial statements included in the Company SEC Reports, to the extent so reserved or reflected or described in the notes thereto, (B) Liens for Taxes not yet due and payable or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on Company s books in accordance with GAAP, (C) those Liens set forth in Schedule 3.2(q)(ii) of the Company Disclosure Letter and (D) those Liens that, individually and in the aggregate with all other Company Permitted Liens, do not and will not materially interfere with the use of the properties or assets of Parent and its Subsidiaries taken as a whole as currently used, or otherwise have or result in a Material Adverse Effect on the Company.

(r) *Real Property.*

(i) The Company and its Subsidiaries have good, valid and marketable fee simple title to the Company Owned Real Property, free and clear of any Liens other than Company Permitted Liens. Each Company Lease grants the lessee under such lease the exclusive right to use and occupy the premises and rights demised thereunder free and clear of any Lien other than Company Permitted Liens. Each of the Company and its Subsidiaries has good and valid title to the leasehold estate or other interest created under its respective Company Leases free and clear of any Liens other than Company Permitted Liens. Each of the Company and its Subsidiaries enjoys peaceful and undisturbed possession under its respective Company Leases of its respective Company Leased Real Property. The Company Real Property constitutes all the interests in real property necessary for the conduct of, or otherwise material to, the business of the Company and its Subsidiaries.

(ii) *Company Leases* means the real property leases, subleases, licenses and use or occupancy agreements pursuant to which the Company or any of its Subsidiaries is the lessee, sublessee, licensee, user or occupant of real property, or interests therein, necessary for the conduct of, or otherwise material to, the business of the Company and its Subsidiaries as it is currently conducted. Company Leased Real Property means all interests in real property pursuant to the Company Leases. Company Owned Real Property means the real property owned by the Company and its Subsidiaries necessary for the conduct of, or otherwise material to, the business of the Company and its Subsidiaries as it is currently conducted. Company Real Property means the Company Owned Real Property and the Company Leased Real Property.

(s) *Insurance.* All insurance policies maintained by or on behalf of any of the Company and its Subsidiaries under which any such entity is insured (other than reinsurance or similar agreements) as of the date hereof are in full force and effect, and all premiums due thereon have been paid. The Company and its Subsidiaries have complied in all material respects with the terms and provisions of such policies. The insurance coverage provided by such policies is suitable for the business and operations of the Company and its Subsidiaries.

(t) *Affiliate Transactions.* Schedule 3.2(t) of the Company Disclosure Letter contains a complete and correct list of all agreements, contracts, transfers or pledges of assets or transfers or assumptions of liabilities or other commitments or transactions, whether or not entered into in the ordinary course of business, to or by which the Company or any of its Subsidiaries, on the one hand, and (i) the Principal Shareholders or any of their respective affiliates (other than the Company or any of its Subsidiaries), or (ii) the directors of the Company or any of its Subsidiaries (other than the Principal Shareholders), on the other hand, are or have been a party or otherwise bound or affected, and that (x) are currently pending or in effect or by which the Company or any of its Subsidiaries are bound or obligated or (y) involve continuing liabilities or obligations that, individually or in the aggregate, have been, are or will be $50,000 or more to the Company or any of its Subsidiaries.

(u) *Disclosure*. No representation or warranty made by the Company contained in this Agreement nor any certificate furnished by or on behalf of the Company pursuant to Article VI contains or will

contain any untrue statement of a material fact, or omits or will omit to state any material fact required to make the statements contained herein or therein not misleading.

Section 3.3 *Representations and Warranties of Parent and Merger Sub.* Parent and Merger Sub represent and warrant to the Company as follows:

(a) *Organization.* Merger Sub is a corporation duly formed, validly existing and in good standing under the laws of Georgia. Merger Sub is a direct wholly-owned subsidiary of Parent.

(b) *Corporate Authorization.* Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Sub. This Agreement has been duly executed and delivered by Merger Sub and constitutes a valid and binding agreement of Merger Sub, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law). The copies of the Articles of Incorporation and the By-Laws of Merger Sub which were previously furnished or made available to the Company are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(c) *Non-Contravention.* The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby do not and will not contravene or conflict with the Articles of Incorporation or the By-Laws of Merger Sub or any applicable Law binding on Merger Sub.

(d) *No Business Activities.* Merger Sub has not conducted any activities other than in connection with the organization of Merger Sub, the negotiation and execution of this Agreement and any amendments thereto and the consummation of the transactions contemplated hereby. The Merger Sub has no Subsidiaries.

Section 3.4 *Representations and Warranties of the Parties.* Each party hereto represents and warrants to the other parties that it is the explicit intent of each party hereto that, except for the express representations and warranties contained in this Article III and in any certificates delivered pursuant to Article VI, none of Parent, Merger Sub or the Company is making any representation or warranty whatsoever, whether express or implied, including any implied representation or warranty as to condition, merchantability or suitability as to any of the properties or assets of it or any of its Subsidiaries. It is understood that any cost estimates, projections or other predictions, any forward-looking financial information or any memoranda or offering materials or presentations relating to the business of any party provided to any of the other parties are not and shall not be deemed to be or to include representations or warranties of the first party or any of the first party s Subsidiaries or affiliates.

ARTICLE IV

COVENANTS RELATING TO CONDUCT OF BUSINESS

Section 4.1 *Covenants of Parent.* During the period from the date of this Agreement and continuing until the Effective Time, Parent agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or pursuant to the Parent Recapitalization Agreement):

(a) *Ordinary Course.* Parent and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, including with respect to their claims paying policies and practices, and shall use their reasonable best efforts to preserve intact their

present lines of business, maintain their rights and franchises and preserve their relationships with all third parties having business dealings with them.

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(b) *Dividends; Changes in Share Capital.* Parent shall not (i) declare or pay any dividends or distributions on or make other distributions in respect of any of its capital stock, (ii) split, combine, reclassify or amend any terms of its capital stock or issue or authorize any other securities in respect of or in substitution for, shares of its capital stock or (iii) repurchase, redeem or otherwise acquire, directly or indirectly, any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock.

(c) *Issuance of Securities.* Parent shall not issue or sell, or authorize the issuance or sale of, any shares of its capital stock or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares, or enter into any commitment, arrangement, undertaking or agreement with respect to any of the foregoing, except that, subject to the next following sentence, Parent may issue up to 198 Class D Non-Voting Ordinary Shares, par value $1.00 per share, to up to 35 employees of Parent and may enter into agreements reasonably acceptable to the Company related to the issuance of such shares. Notwithstanding anything herein to the contrary, at no time shall Parent permit the parties to the Parent Recapitalization Agreement to hold fewer than 80% of the Class D Non-Voting Ordinary Shares or such Class D Non-Voting Ordinary Shares to be held by more than 35 holders thereof.

(d) *Governing Documents.* Parent shall not amend its memorandum of association, bye-laws or other governing documents or agree to take or authorize any action to wind up its affairs, liquidate or dissolve or change its corporate or other organizational form.

(e) *No Related Actions.* Parent will not agree or commit to do any of the foregoing.

Section 4.2 *Covenants of the Company.* During the period from the date of this Agreement and continuing until the Effective Time, the Company agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement, the Parent Recapitalization Agreement or pursuant to the exercise of any Company Stock Option):

(a) *Ordinary Course.* The Company and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, including with respect to their claims paying policies and practices, and shall use their reasonable best efforts to preserve intact their present lines of business, maintain their rights and franchises and preserve their relationships with all third parties having business dealings with them.

(b) *Dividends; Changes in Share Capital.* Except for a dividend of up to $17,560,000 payable in cash to shareholders of the Company prior to the Effective Time, the Company shall not, and in the case of clauses (ii) and (iii) below shall cause its Subsidiaries not to, (i) declare or pay any dividends or distributions on or make other distributions in respect of any of its capital stock, (ii) split, combine, reclassify or amend any terms of their respective capital stock or issue or authorize any other securities in respect of or in substitution for, shares of their respective capital stock, or (iii) repurchase, redeem or otherwise acquire, directly or indirectly, any shares of their respective capital stock or any securities convertible into or exercisable for any shares of their respective capital stock.

(c) *Issuance of Securities.* The Company shall not, and shall cause its Subsidiaries to not, issue or sell, or authorize the issuance or sale of, any shares of their respective capital stock or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares, or enter into any commitment, arrangement, undertaking or agreement with respect to any of the foregoing.

(d) *Governing Documents.* The Company shall not amend its memorandum of association, bye-laws or other governing documents or agree to take or authorize any action to wind up its affairs, liquidate or dissolve or change its corporate or other organizational form and shall cause its Subsidiaries to not amend their articles of incorporation, bylaws or other governing documents in a manner materially adverse to Parent.

(e) *Indebtedness.* The Company shall not, and shall cause its Subsidiaries not to, (i) incur or guarantee any indebtedness for borrowed money or issue debt securities; (ii) make any loans or capital contributions to, or investments in, any other Person (other than to wholly-owned Subsidiaries of the

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Company or loans, contributions or investments that have been committed or otherwise agreed to prior to the date hereof); or (iii) enter into any material commitment or transaction requiring a capital expenditure by the Company or its Subsidiaries; provided, that Parent s consent to any of the transactions contemplated by this subsection shall not be unreasonably withheld.

(f) *Acquisitions.* The Company shall not, and shall cause its Subsidiaries not to, (i) acquire (by merger, consolidation, or acquisition of stock or assets) any Person or division thereof (other than an entity that is a wholly-owned subsidiary of the Company as of the date of this Agreement); or (ii) sell, transfer, or encumber any assets of the Company or any of its Subsidiaries; provided, that Parent s consent to any of the transactions contemplated by this subsection shall not be unreasonably withheld.

(g) *No Related Actions.* The Company will not, and (to the extent the foregoing applies to its Subsidiaries) will cause its Subsidiaries not to, agree or commit to do any of the foregoing.

Section 4.3 *Governmental Filings.* Each party shall (a) confer on a regular basis with the other and (b) report to the other (to the extent permitted by law or regulation or any applicable confidentiality agreement) on material operational matters. The Company and Parent (i) shall cooperate with each other in making all filings required to be filed by each of them with the SEC (and all other Governmental Entities) between the date of this Agreement and the Effective Time, (ii) shall timely file all such reports and (iii) shall (to the extent permitted by law or regulation or any applicable confidentiality agreement) notify the other party of the filing of all such reports, announcements and publications promptly after the same are filed. For purposes of this Agreement other party means, with respect to the Company, Parent and means, with respect to Parent, the Company, unless the context otherwise requires.

Section 4.4 *Actions Regarding Benefit Plans.* During the period from the date of this Agreement and continuing until the Effective Time, except as provided in the Parent Recapitalization Agreement, neither party shall, and each party shall cause its Subsidiaries, its Board of Directors (and committees thereof), the Board of Directors (and committees thereof) of its Subsidiaries, its employees and the employees of its Subsidiaries not to, (a) take or cause to be taken any action that would increase any payment, acceleration, termination, forgiveness of indebtedness, vesting, distribution, compensation or benefits or obligation to fund benefits, or increase the number of participants, in each case, with respect to any Benefit Plan of such party; or (b) create or adopt any new Benefit Plan.

ARTICLE V

ADDITIONAL AGREEMENTS

Section 5.1 *Preparation of Proxy Statement; Shareholders Approval.*

(a) As promptly as reasonably practicable following the date hereof, the Company shall prepare and file with the SEC the Company Proxy Statement/Prospectus and Parent shall prepare and file the Form S-4. The Form S-4 and the Company Proxy Statement/Prospectus shall comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder. Each of Parent and the Company shall use reasonable best efforts to have the Company Proxy Statement/Prospectus cleared by the SEC and the Form S-4 declared effective by the SEC as promptly as practicable after the date hereof and to keep the Form S-4 effective as long as is necessary to consummate the Merger and the transactions contemplated thereby. Parent and the Company shall, as promptly as practicable after receipt thereof, provide the other party copies of any written comments and advise the other party of any oral comments, with respect to the Form S-4 or the Company Proxy Statement/Prospectus, received from the SEC. Parent and the Company shall provide the other party with a reasonable opportunity to review and comment on any amendment or supplement to the Form S-4 or the Company Proxy Statement/Prospectus prior to filing such with the SEC, and will promptly provide the other party with a copy of all

such filings made with the SEC. Notwithstanding any other provision herein to the contrary, no amendment or supplement (including by incorporation by reference) to the Company Proxy Statement/Prospectus or the Form S-4 shall be made without the approval of both parties, which approval shall not be unreasonably withheld or delayed. The Company shall use reasonable best efforts to cause the Company Proxy Statement/Prospectus to be mailed to

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the Company s shareholders as soon as reasonably practicable after the Form S-4 is declared effective under the Securities Act. Parent shall take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or filing a general consent to service of process) required to be taken under any applicable state securities laws in connection with the issuance of Parent Ordinary Shares in the Merger, and the Company shall furnish all information concerning the Company and the holders of Company Common Stock as may be reasonably requested in connection with any such action. Each party shall advise the other party, promptly after it receives notice thereof, of the time when the Form S-4 has become effective, the issuance of any stop order, the suspension of the qualification of the Parent Ordinary Shares issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Company Proxy Statement/Prospectus or the Form S-4. If at any time prior to the Effective Time any information relating to Parent or the Company, or any of their respective affiliates, officers or directors, should be discovered by Parent or the Company which should be set forth in an amendment or supplement to any of the Form S-4 or the Company Proxy Statement/Prospectus so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other party hereto and, to the extent required by law, rules or regulations, an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and disseminated to the shareholders of the Company.

(b) The Company shall duly take (subject to compliance with the provisions of Section 3.1(e) by Parent and all applicable laws) all necessary, proper and advisable action to call, give notice of, convene and hold a meeting of its shareholders on a date as soon as reasonably practicable (the Company Shareholders Meeting) for the purpose of obtaining the Company Shareholder Approval with respect to the adoption and approval of this Agreement and shall take reasonable and lawful action to solicit the adoption and approval of this Agreement by the Company s shareholders; and the Board of Directors of the Company shall recommend adoption and approval of this Agreement by the shareholders of the Company to the effect as set forth in Section 3.2(f) (the Company Recommendation), and shall not withdraw, modify or qualify in any material respect (or propose to withdraw, modify or qualify in any material respect) in any manner adverse to Parent such recommendation (collectively, a Change in the Company Recommendation); provided, that the Board of Directors of the Company may effect a Change in the Company Recommendation pursuant to Section 5.4(d); and provided, further, that the foregoing shall not prohibit accurate disclosure (and such disclosure shall not be deemed to be a Change in the Company Recommendation) of factual information regarding the business, financial condition or results of operations of Parent or the Company or other material facts or developments in the Form S-4 or the Company Proxy Statement/Prospectus or otherwise. This Agreement shall be submitted to the shareholders of the Company at the Company Shareholders Meeting for the purpose of adopting the Agreement and approving the Merger; provided, that this Agreement shall not be required to be submitted to the shareholders of the Company at the Company Shareholders Meeting if there has been a Change in the Company Recommendation pursuant to Section 5.4(d) or this Agreement has been terminated pursuant to Section 7.1.

Section 5.2 *Access to Information/Employees.*

(a) Upon reasonable notice, each party shall (and shall cause its Subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other authorized representatives of the other party reasonable access during normal business hours, during the period prior to the Effective Time, to all its properties, books, contracts, commitments, records, officers and employees and, during such period, such party shall (and shall cause its Subsidiaries to) furnish promptly to the other party (i) a copy of each report, schedule, registration statement and other document filed, published, announced or received by it during such period pursuant to the requirements of Federal or state securities laws, as applicable (other than documents which such party is not permitted to disclose under applicable law), and (ii) all other information concerning it and its business, properties and personnel as such other party may reasonably request (including consultation on a regular basis with such parties, agents, advisors, attorneys

and representatives with respect to litigation matters); provided, however, that either party may restrict the foregoing access to the extent that (A) in the reasonable judgment of such party, any law, treaty, rule or regulation of any Governmental Entity applicable to

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such party requires such party or its Subsidiaries to restrict or prohibit access to any such properties or information, (B) in the reasonable judgment of such party, the information is subject to confidentiality obligations to a third party, or (C) disclosure of any such information or document could result in the loss of attorney-client privilege; provided, however, that with respect to this clause (C), the parties and/or counsel for the parties shall use their reasonable best efforts to enter into such joint defense agreements or other arrangements, as appropriate, so as to avoid the loss of attorney-client privilege. Each party shall hold, and shall cause its respective directors, officers, employees, Affiliates, agents and advisors to hold, any such information obtained pursuant to this Section 5.2, as well as any information about any Takeover Proposal, in confidence to the extent required by, and in accordance with, the provisions of the Confidentiality Agreement. For purposes of this Agreement, Confidentiality Agreement means the letter agreement, dated May 4, 2006, between Parent and the Company.

Section 5.3 *Reasonable Best Efforts.*

(a) Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under this Agreement and applicable laws and regulations to consummate the Merger and the other transactions contemplated by this Agreement as soon as practicable after the date hereof, including (i) preparing and filing as promptly as practicable all documentation to effect all necessary applications, notices, petitions, filings and other documents and to obtain as promptly as practicable all consents, clearances, waivers, licenses, orders, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger and each of the other transactions contemplated by this Agreement and the Parent Recapitalization Agreement and (ii) taking all reasonable steps as may be necessary to obtain all such material consents, clearances, waivers, licenses, registrations, permits, authorizations, orders and approvals. In furtherance and not in limitation of the foregoing, each party hereto agrees to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act and any other Regulatory Law with respect to the transactions contemplated hereby as promptly as practicable after the date hereof and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and any other Regulatory Law and use reasonable best efforts to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

(b) To the extent permissible under applicable law or any rule, regulation or restriction of a Governmental Entity, each of Parent and the Company shall, and shall cause its respective Subsidiaries to, in connection with the efforts referenced in Section 5.3(a) to obtain all requisite material approvals, clearances and authorizations for the transactions contemplated by this Agreement under the HSR Act or any other Regulatory Law, use its reasonable best efforts to (i) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party, (ii) promptly inform the other party of any communication received by such party from, or given by such party to, the Antitrust Division of the Department of Justice (the DOJ), the Federal Trade Commission (the FTC) or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby, (iii) permit the other party, or the other party s legal counsel, to review any communication given by it to, and consult with each other in advance of any meeting or conference with, the DOJ, the FTC or any such other Governmental Entity or, in connection with any proceeding by a private party, with any other Person and (iv) give the other party the opportunity to attend and participate in such meetings and conferences. For purposes of this Agreement, Regulatory Law means the Sherman Act, as amended, Council Regulation No. 4064/89 of the European Community, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other Federal, state and foreign, if any, statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other laws that are designed or intended to prohibit, restrict or regulate (i) foreign investment or (ii) actions having the purpose or effect of monopolization or restraint of trade or lessening of competition.

(c) If any objections are asserted with respect to the transactions contemplated hereby under any Regulatory Law or if any suit is instituted by any Governmental Entity or any private party challenging any of

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the transactions contemplated hereby as violative of any Regulatory Law, each of Parent and the Company shall use its reasonable best efforts to resolve any such objections or challenge as such Governmental Entity or private party may have to such transactions under such Regulatory Law so as to permit consummation of the transactions contemplated by this Agreement.

Section 5.4 *No Solicitation; Change of Recommendation.*

(a) *No Solicitation.* The Company agrees that following the date of this Agreement and prior to the earlier of the Effective Time or the Termination Date, neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall use its reasonable best efforts to cause its and its Subsidiaries employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, initiate inquiries regarding or solicit the making of any Takeover Proposal. The Company further agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall use its reasonable best efforts to cause its and its Subsidiaries employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, engage in any negotiations concerning a Takeover Proposal. Notwithstanding anything in this Agreement to the contrary, the Company and the Company s Board of Directors shall be permitted to (A) comply with Rule 14d-9, Rule 14e-2 and other applicable rules promulgated under the Exchange Act with regard to a Takeover Proposal or (B) engage in any discussions or negotiations with, or provide any information to, any Person in response to an unsolicited Takeover Proposal by any such Person; provided, that prior to its receipt of any information from the Company, such Person shall be required to enter into a customary confidentiality agreement with the Company containing terms no less restrictive than the terms of the Confidentiality Agreement and the Company shall provide Parent with copies of all information provided to such Person to the extent that such information has not been previously provided to Parent; provided, further that any information provided to such Person shall be concurrently provided to the Parent. The Company agrees that it will, and will cause its officers, directors and representatives to, immediately cease and cause to be terminated any negotiations existing as of the date of this Agreement with any parties conducted heretofore with respect to any Takeover Proposal. The Company agrees that it will use reasonable best efforts to promptly inform its directors, officers, key employees, agents and representatives of the obligations undertaken in this Section 5.4. Nothing in this Section 5.4 shall permit Parent or the Company to terminate this Agreement (except as specifically provided in Article VII).

(b) The Company shall as soon as reasonably practicable (and in any event within forty-eight (48) hours) notify Parent in writing of the receipt of any Takeover Proposal or of any request for information or inquiry that would reasonably be expected to lead to the receipt of a Takeover Proposal, the terms and conditions of any such Takeover Proposal, request or inquiry, and the identity of the Person making such Takeover Proposal, request or inquiry. The Company shall inform Parent on a reasonably prompt basis of the status and material terms of any discussions regarding, or relating to, any Takeover Proposal (including amendments) and, as promptly as practicable, of any change in the price or material terms of and conditions regarding the Takeover Proposal.

(c) For purposes of this Agreement:

Takeover Proposal means any proposal or offer in respect of (i) a merger, consolidation, business combination, share exchange, reorganization, recapitalization, sale of substantially all of the assets, liquidation, dissolution or similar transaction involving the Company (any of the foregoing, a Business Combination Transaction) with any Person other than Parent, Merger Sub or any controlled Affiliate thereof (a Third Party), (ii) the Company s acquisition of any Third Party in a Business Combination Transaction in which the shareholders of the Third Party immediately prior to consummation of such Business Combination Transaction will own more than 35% of the Company s outstanding capital stock immediately following such Business Combination Transaction, including the issuance by the Company of more than 35% of any class of its voting equity securities as consideration for assets or securities of a Third Party,

or (iii) any acquisition, whether by tender or exchange offer or otherwise, by any Third Party

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of 35% or more of any class of capital stock of the Company or of 35% or more of the consolidated assets of the Company, in a single transaction or a series of related transactions.

Superior Proposal means a bona fide written proposal or offer made by a Third Party in respect of a Business Combination Transaction involving, or any purchase or acquisition of, (i) all or substantially all of the voting power of the Company s capital stock or (ii) all or substantially all of the consolidated assets of the Company, which Business Combination Transaction or other purchase or acquisition contains terms and conditions that the Board of Directors determines in good faith, after consultation with its outside counsel, would result in a transaction that if consummated would be more favorable, from a financial point of view, to the shareholders of the Company than the Merger.

(d) *Change of Recommendation.* Neither the Board of Directors of the Company nor any committee thereof shall (i) effect a Change in the Company Recommendation or (ii) approve any letter of intent, memorandum of understanding, merger agreement or other agreement relating to, or that may reasonably be expected to lead to, any Takeover Proposal. Notwithstanding the foregoing, the Board of Directors of the Company may effect a Change in the Company Recommendation; provided, that the Board of Directors of the Company determines in good faith, after consultation with its outside legal counsel, that the failure to do so would be reasonably likely to be inconsistent with the fiduciary duties owed by the Company s Board of Directors to the shareholders of the Company under applicable Law; provided, further, that the Board of Directors of the Company may effect a Change in the Company Recommendation in response to a Superior Proposal only (i) after the Company provides to Parent a written notice (a Notice of Superior Proposal) (x) advising Parent that the Board of Directors of the Company has received a Superior Proposal, (y) specifying the terms and conditions of such Superior Proposal and including a copy thereof and (z) identifying the Person making such Superior Proposal, (ii) after negotiating in good faith with Parent to make such adjustments in the terms and conditions of this Agreement as would enable the Company to proceed with the Company Recommendation without a Change in the Company Recommendation if and to the extent Parent elects to seek to make such adjustments; provided, however, that Parent shall not be obliged to propose or agree to any such adjustment, and (iii) if Parent does not, within the earlier of (A) five calendar days of Parent s receipt of the Notice of Superior Proposal or (B) three Business Days prior to the scheduled meeting of the shareholders of the Company called for the purpose of obtaining the Company Shareholder Approval, make an offer that the Board of Directors of the Company determines in good faith to be as favorable to the Company s shareholders as such Superior Proposal.

Section 5.5 *Fees and Expenses.* Subject to Section 7.2, whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such Expenses, except, if the Merger is consummated, Parent or its relevant Subsidiary shall pay, or cause to be paid, any and all property or transfer taxes imposed on the Company or its Subsidiaries. As used in this Agreement, Expenses includes all out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated hereby, including the preparation, printing, filing and mailing of the Company Proxy Statement/Prospectus and the solicitation of shareholder adoption and approval and all other matters related to the transactions contemplated hereby.

Section 5.6 *Directors and Officers Indemnification and Insurance.*

(a) From and after the Effective Time Parent agrees that it will and will cause the Surviving Corporation to (i) indemnify and hold harmless, against any costs or expenses (including attorney s fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, and provide advancement of expenses to, all past and present directors, officers, employees and agents of the Company and its Subsidiaries (in all of their capacities) (A) to the same extent such persons are indemnified or have the right to advancement of expenses as of the date of this Agreement by the

Company pursuant to the Company s articles of incorporation, bylaws and indemnification agreements, if any, in existence on the date hereof with any directors, officers or employees of the Company and its Subsidiaries and (B) without limitation to clause (A),

to the fullest extent permitted by law, in each case, for acts or omissions at or prior to the Effective Time (including for acts or omissions occurring in connection with the adoption and approval of this Agreement and the consummation of the transactions contemplated hereby), (ii) include and cause to be maintained in effect in the Surviving Corporation s and Parent s (or any successor s) articles of incorporation and by-laws or similar organizational or constitutive documents for a period of six years after the Effective Time, the current provisions, or in the case of Parent, substantially similar provisions (to the fullest extent permitted under Bermuda law) regarding elimination of liability of directors, indemnification of officers, directors and employees and advancement of expenses contained in the articles of incorporation and bylaws of the Company and (iii) cause to be maintained for a period of six years after the Effective Time the current policies of directors and officers liability insurance and fiduciary liability insurance maintained by the Company (provided, that Parent (or any successor) may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured) with respect to claims arising from facts or events that occurred on or before the Effective Time (including for acts or omissions occurring in connection with the adoption and approval of this Agreement and the consummation of the transactions contemplated hereby). Such substitute policies shall be issued by insurance companies having the same or better ratings and levels of creditworthiness as the insurance companies that have issued the current policies. The obligations of Parent and the Surviving Corporation under this Section 5.6 shall not be terminated or modified in such a manner as to adversely affect any indemnitee to whom this Section 5.6 applies without the consent of such affected indemnitee (it being expressly agreed that the indemnitees to whom this Section 5.6 applies shall be third party beneficiaries of this Section 5.6).

(b) If Parent or any of its successors or assigns (i) shall consolidate with or merge into any other corporation or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) shall transfer all or substantially all of its properties and assets to any individual, corporation or other entity, then, and in each such case, proper provisions shall be made so that the successors and assigns of Parent shall assume all of the obligations set forth in this Section 5.6.

Section 5.7 *Public Announcements.* Parent and the Company shall use reasonable best efforts to develop a joint communications plan and each party shall use reasonable best efforts (a) to ensure that all press releases and other public statements with respect to the transactions contemplated hereby shall be consistent with such joint communications plan, and (b) unless otherwise required by applicable law or by obligations pursuant to any listing agreement with or rules of any securities exchange, to consult with each other before issuing any press release or, to the extent practical, otherwise making any public statement with respect to this Agreement or the transactions contemplated hereby. In addition to the foregoing, except to the extent disclosed in or consistent with the Form S-4 or the Company Proxy Statement/Prospectus in accordance with the provisions of Section 5.1, neither Parent nor the Company shall issue any press release or otherwise make any public statement or disclosure concerning the other party or the other party s business, financial condition or results of operations without the consent of the other party, which consent shall not be unreasonably withheld or delayed; provided, that the foregoing shall be subject to the requirements of law and to each party s obligations pursuant to any listing agreement or the rules of any national securities exchange.

Section 5.8 *Listing of Parent Ordinary Shares.* Parent shall use its reasonable best efforts to cause Parent Ordinary Shares to be issued in the Merger and the Parent Ordinary Shares held by the stockholders of Parent immediately prior to the Effective Time and the Parent Ordinary Shares to be reserved for issuance upon exercise of the Company Stock Options to be approved for listing on the Nasdaq, subject to official notice of issuance, prior to the Closing Date.

Section 5.9 *Company Affiliates; Restrictive Legend.* The Company will use its reasonable best efforts to deliver or cause to be delivered to Parent, as promptly as practicable on or following the date hereof, from each person identified by the Company as an Affiliate of the Company, an executed Affiliate Agreement. Parent will give stop transfer instructions to its transfer agent with respect to any Parent Ordinary Shares received pursuant to the Merger by any

shareholder of the Company who may reasonably be deemed to be an Affiliate of the Company and there will be placed on the certificates representing such Parent Ordinary Shares, or any substitutions therefor, a legend stating in substance that the shares were issued in a transaction to which Rule 145 promulgated under the Securities Act applies and may only be transferred (i) in conformity with

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Rule 145 or (ii) in accordance with a written opinion of counsel, reasonably acceptable to Parent in form and substance, that such transfer is exempt from registration under the Securities Act.

Section 5.10 *Tax Treatment.* Parent and the Company intend the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code. Each of Parent and the Company, and each of their respective controlled affiliates shall, to the extent consistent with their rights and obligations under this Agreement, use their reasonable best efforts to cause the Merger to so qualify, and the Company shall use its reasonable best efforts to obtain the opinion of Debevoise & Plimpton LLP referred to in Section 6.1(j). For purposes of such tax opinions, each of Parent and the Company shall provide representation letters reasonably requested by such counsel, each dated on or before the date the Form S-4 shall become effective, and subsequently, on the Closing Date. Except for actions specifically contemplated by this Agreement, each of Parent and the Company and each of their respective controlled affiliates shall use their reasonable best efforts not to take any action, fail to take any action, cause any action to be taken or not taken, or suffer to exist any condition, which action or failure to take action or condition would prevent, or would be reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

ARTICLE VI

CONDITIONS PRECEDENT

Section 6.1 *Conditions to Each Party s Obligation to Effect the Merger.* The respective obligations of the Company and Parent to effect the Merger are subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Governmental and Regulatory Approvals.* Other than the filing provided for under Section 1.3 and filings pursuant to the HSR Act (which are addressed in Section 6.1(c)), all consents, clearances, approvals and actions of, filings with and notices to any Governmental Entity required of Parent, the Company or any of their Subsidiaries in connection with the execution and delivery of this Agreement and the consummation of the Merger and the other transactions contemplated hereby shall have been made or obtained (as the case may be), except for those the failure of which to be made or obtained, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Parent and its Subsidiaries (including the Surviving Corporation and its Subsidiaries), taken together after giving effect to the Merger; provided, that each of the consents, clearances, approvals and actions of, filings with and notices to any Governmental Entity listed on Schedule 6.1(a) of the Parent Disclosure Letter shall have been obtained or made (as the case may be).

(b) *No Injunctions or Restraints, Illegality.* No Laws shall have been adopted or promulgated, and no temporary restraining order, preliminary or permanent injunction or other order, judgment, decision, opinion or decree issued by a court or other Governmental Entity of competent jurisdiction in the United States, Bermuda or the European Union shall be in effect, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger.

(c) *HSR Act.* The waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired, and any investigation opened by means of a second request for additional information or otherwise shall have been terminated or closed.

(d) *Effectiveness of the Form S-4.* The Form S-4 shall have been declared effective by the SEC under the Securities Act. No stop order suspending the effectiveness of the Form S-4 shall have been issued by the SEC and no proceedings for that purpose shall have been threatened by the SEC or shall have been initiated by the SEC and not concluded or withdrawn.

(e) *Nasdaq Listing.* The shares of Parent Ordinary Shares to be issued in the Merger and such other Parent Ordinary Shares to be reserved for issuance in connection with the Merger shall have been approved for listing on the Nasdaq, subject to official notice of issuance.

(f) *Blue Sky Approvals.* Parent shall have received all state securities and blue sky permits and approvals necessary to consummate the transactions contemplated hereby.

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(g) *Shareholder Approval.* The Company shall have obtained the Company Shareholder Approval in connection with the adoption and approval of this Agreement by the shareholders of the Company.

(h) *Parent Approval.* Parent shall have obtained the Parent Shareholder Approval.

(i) *Parent Recapitalization.* The Parent Recapitalization shall have been consummated pursuant to the Parent Recapitalization Agreement.

(j) *The Company Rights Agreement.* No Stock Acquisition Date or Distribution Date (as such terms are defined in Company Rights Agreement) shall have occurred pursuant to Company Rights Agreement.

(k) *Tax Opinions.* The Company and Parent shall have received from Debevoise & Plimpton LLP, counsel to the Company, on or before the date the Form S-4 shall become effective, and subsequently on the Closing Date, written opinions dated as of such dates, and in form and substance reasonably satisfactory to the Company, to the effect that the Merger should qualify as a reorganization within the meaning of Section 368(a) of the Code.

Section 6.2 *Additional Conditions to Obligations of Parent.* The obligations of Parent to effect the Merger are subject to the satisfaction of, or waiver by Parent, on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* Each of the representations and warranties of the Company set forth in this Agreement that is qualified as to Material Adverse Effect shall be true and correct, and each of the representations and warranties of the Company set forth in this Agreement that is not so qualified shall be true and correct (disregarding for purposes of this provision any qualification as to materiality), except where the failure to be so true and correct, individually or in the aggregate, would not have a Material Adverse Effect on the Company, in each case, as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent in either case that such representations and warranties speak as of another date), and Parent shall have received a certificate of the chief executive officer, and the chief financial officer of the Company to such effect.

(b) *Performance of Obligations of the Company.* The Company shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date and shall have complied with Section 4.2(b) and (c) in all respects, and Parent shall have received a certificate of the chief executive officer and the chief financial officer of the Company to such effect.

Section 6.3 *Additional Conditions to Obligations of the Company.* The obligations of the Company to effect the Merger are subject to the satisfaction of, or waiver by the Company, on or prior to the Closing Date of the following additional conditions:

(a) *Representations and Warranties.* Each of the representations and warranties of Parent or Merger Sub set forth in this Agreement that is qualified as to Material Adverse Effect shall be true and correct, and each of the representations and warranties of Parent or Merger Sub set forth in this Agreement that is not so qualified shall be true and correct (disregarding for purposes of this provision any qualification as to materiality), except where the failure to be so true and correct, individually or in the aggregate, would not have a Material Adverse Effect on Parent or Merger Sub, in each case, as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent in either case that such representations and warranties speak as of another date), and the Company shall have received a certificate of the chief executive officer and the chief financial officer of Parent and of Merger Sub to such effect.

(b) *Performance of Obligations of Parent and Merger Sub.* Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required to be performed by either of them under this

Agreement at or prior to the Closing Date and Parent shall have complied with Section 4.1(c) in all respects, and the Company shall have received a certificate of the chief executive officer and the chief financial officer of Parent and of Merger Sub to such effect.

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(c) *Indemnity Agreement.* The shareholder listed on Schedule 6.3(c) of the Parent Disclosure Letter shall have received from Parent an indemnity agreement with respect to the Gain Recognition Agreement anticipated to be filed by such shareholder in accordance with Treasury Regulation Section 1.367(a)-8.

ARTICLE VII

TERMINATION AND AMENDMENT

Section 7.1 *General.* This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Effective Time notwithstanding adoption and approval thereof by the shareholders of the Company:

(a) by mutual written consent duly authorized by the Boards of Directors of the Company and Parent;

(b) by the Company or Parent if the Closing shall not have occurred on or before January 31, 2007 (the Termination Date); provided, however, that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose failure to fulfill any material obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur before such date;

(c) by the Company, if Parent or Merger Sub shall have breached in any material respect any of its representations or warranties or failed to perform in any material respect any of its covenants or other agreements contained in this Agreement, which breach or failure to perform (i) is incapable of being cured by Parent or Merger Sub, as appropriate, prior to the Termination Date and (ii) renders the condition set forth in Section 6.3(a) or 6.3(b) incapable of being satisfied prior to the Termination Date;

(d) by Parent, if the Company shall have breached in any material respect any of its representations or warranties or failed to perform in any material respect any of its covenants or other agreements contained in this Agreement, which breach or failure to perform (i) is incapable of being cured by the Company prior to the Termination Date and (ii) renders the condition set forth in Section 6.2(a) or 6.2(b) incapable of being satisfied prior to the Termination Date;

(e) by the Company or Parent, upon written notice to the other party, if a Governmental Entity of competent jurisdiction in the United States or of the European Union shall have issued an order, judgment, decision, opinion, decree or ruling or taken any other action (which the party seeking to terminate shall have used its reasonable best efforts to resist, resolve, annul, quash, or lift, as applicable, subject to the provisions of Section 5.3) permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, and such order, decree, ruling or action shall have become final and non-appealable; provided, however, that the party seeking to terminate this Agreement pursuant to this clause (e) has fulfilled its obligations under Section 5.3;

(f) by Parent if (i) the Company or its Board of Directors materially breaches any provision of Section 5.4 and such breach is not cured within five Business Days after receiving notice of such breach, (ii) the Board of Directors of the Company shall have effected a Change in the Company Recommendation, whether or not permitted by the terms hereof, or (iii) for any reason the Company fails to call or hold the Company Shareholders Meeting within six months of the date hereof;

(g) by the Company, if (i) there has been a Change in the Company Recommendation pursuant to Section 5.4(d), (ii) the Company notifies Parent in writing that it intends to approve and enter into an agreement concerning a transaction that constitutes a Superior Proposal, attaching the most current version of such agreement (or a description of the material terms and conditions thereof) to such notice, and (iii) Parent does not make, within five Business Days

of receipt of such notice, an offer that the Board of Directors of the Company determines in good faith is at least as favorable to the Company s shareholders as such Superior Proposal, it being understood that the Company shall not approve or enter into any such binding agreement during such five-day period; and

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(h) by the Company or Parent, if the Company Shareholder Approval shall not have been received at a duly held meeting of the shareholders of the Company called for such purpose (including any adjournment or postponement thereof).

Section 7.2 *Obligations in Event of Termination.* In the event of any termination of this Agreement as provided in Section 7.1, this Agreement shall forthwith become wholly void and of no further force and effect (except with respect to Section 3.1(j), Section 3.2(j), Section 5.2 (as it relates to confidential information only), Section 5.5, this Section 7.2 and Article VIII, which shall remain in full force and effect) and there shall be no liability on the part of the Company, Parent or Merger Sub; provided, however, that termination shall not preclude any party from suing the other party for, or relieve any party hereto from any liability arising from a, willful breach of this Agreement.

Section 7.3 *Amendment.* This Agreement may be amended by the parties, by action taken or authorized by their respective Boards of Directors, at any time before or after adoption and approval of the matters presented in connection with the Merger by the shareholders of the Company and Parent, but, after any such approval, no amendment shall be made which by law or in accordance with the rules of any relevant stock exchange requires further approval by such shareholders without such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

Section 7.4 *Extension; Waiver.* At any time prior to the Effective Time, the parties, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

ARTICLE VIII

GENERAL PROVISIONS

Section 8.1 *Non-Survival of Representations, Warranties and Agreements.* None of the representations, warranties, covenants and other agreements in this Agreement or in any instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time, except for those covenants and agreements contained herein and therein (including Section 5.6) that by their terms apply or are to be performed in whole or in part after the Effective Time and this Article VIII.

Section 8.2 *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by telecopy or telefacsimile, upon confirmation of receipt, (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the tenth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be

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delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(a) if to Parent or Merger Sub, to:

Castlewood Holdings Limited
P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
Fax: (441) 292-6603
Attention: Paul O Shea

with a copy to:

Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103
Fax: (215) 988-2757
Attention: Daniel W. Krane, Esq.

(b) if to the Company to:

The Enstar Group, Inc.
The Thompson House
401 Madison Avenue
Montgomery, Alabama 36104
Fax: (646) 349-4897
Attention: John J. Oros

with a copy to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, NY 10022
Fax: (212) 909-6836
Attention: Robert F. Quaintance, Jr., Esq.

Section 8.3 *Interpretation.* When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation.

Section 8.4 *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same

counterpart.

Section 8.5 *Entire Agreement; No Third Party Beneficiaries.* This Agreement (including the Exhibits and Schedules hereto), the Parent Recapitalization Agreement, the Support Agreement and the Confidentiality Agreement constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature

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whatsoever under or by reason of this Agreement, other than Section 5.6 (which is intended to be for the benefit of the individuals covered thereby, and may be enforced by such individuals).

Section 8.6 *Governing Law.* This Agreement shall be governed and construed in accordance with the laws of the State of New York, without giving effect to its principles and rules of conflict of laws to the extent such principles or rules would require the application of the law of another jurisdiction; provided, however, that issues involving the consummation and effects of the Merger shall be governed by the GBCC.

Section 8.7 *Severability.* If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Notwithstanding the foregoing, upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 8.8 *Assignment.* Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other party, and any attempt to make any such assignment without such consent shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 8.9 *Submission to Jurisdiction; Waivers.* Each of the parties hereto (i) consents to submit itself to the personal jurisdiction of the United States District Court for the Southern District of New York or any court of the State of New York located in such district in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement and (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction or venue by motion or other request for leave from any such court. THE PARTIES HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY OF THEM AGAINST ANY OTHER PARTY HERETO IN ANY MATTERS ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT.

Section 8.10 *Enforcement.* The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of New York, this being in addition to any other remedy to which they are entitled at law or in equity.

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IN WITNESS WHEREOF, Parent, Merger Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

CASTLEWOOD HOLDINGS LIMITED

By: /s/ R. J. Harris

Name: R. J. Harris

Title: Chief Financial Officer

CWMS SUBSIDIARY CORP.

By: /s/ Cheryl D. Davis

Name: Cheryl D. Davis

Title: Director

THE ENSTAR GROUP, INC.

By: /s/ Nimrod T. Frazer

Name: Nimrod T. Frazer

Title: Chairman and CEO

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Annex B

SUPPORT AGREEMENT
AMONG
CASTLEWOOD HOLDINGS LIMITED
J. CHRISTOPHER FLOWERS
NIMROD T. FRAZER
AND
JOHN J. OROS
DATED AS OF MAY 23, 2006

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SUPPORT AGREEMENT

This SUPPORT AGREEMENT, dated as of May 23, 2006 (this Agreement), is among Castlewood Holdings Limited, a Bermuda company (Parent), and certain stockholders signatory hereto (each a Stockholder , and collectively, the Stockholders).

Recitals

WHEREAS, concurrently with the execution and delivery of this Agreement, Parent, CWMS Subsidiary Corp., a Georgia corporation and a wholly owned subsidiary of Parent (Merger Sub), and The Enstar Group, Inc., a Georgia corporation (the Company), are entering into an Agreement and Plan of Merger (as the same may from time to time be amended, modified, supplemented or restated, the Merger Agreement ; capitalized terms used herein without definition shall have the respective meanings ascribed to them in the Merger Agreement) pursuant to which Merger Sub will be merged with and into the Company (the Merger) upon the terms and subject to the conditions set forth therein;

WHEREAS, each Stockholder is the owner of the number of shares of common stock, par value $0.01 per share, of the Company (the Company Common Stock) set forth opposite such Stockholder s name on Exhibit A attached hereto (the Existing Subject Shares , and all Existing Subject Shares owned by the Stockholders, together with any other shares of capital stock of the Company acquired by the Stockholders after the date hereof and during the term of this Agreement, collectively, the Subject Shares); and

WHEREAS, as an essential condition and inducement to their willingness to enter into the Merger Agreement, Parent and Merger Sub have required that the Stockholders enter into this Agreement and the Stockholders have agreed to do so.

NOW, THEREFORE, to induce Parent and Merger Sub to enter into, and in consideration of their entering into, the Merger Agreement, and in consideration of the premises and the representations, warranties, covenants and agreements set forth in this Agreement, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

VOTING OF SUBJECT SHARES

Section 1.1 *Agreement to Vote.* From the date hereof until the termination of this Agreement in accordance with Section 5.1, except to the extent waived in writing by Parent, at any meeting of the stockholders of the Company, however called, or at any adjournment thereof, or in connection with any written consent of the stockholders of the Company or in any other circumstances upon which a vote, consent or other approval of all or some of the stockholders of the Company is sought, each Stockholder shall vote (or cause to be voted) all of its Subject Shares (a) in favor of (i) adoption of the Merger Agreement, (ii) approval of the Merger and (iii) approval of the other transactions contemplated by the Merger Agreement and (b) against (i) any Takeover Proposal other than as contemplated by the Merger Agreement and (ii) any other transaction or proposal involving the Company or any of its Subsidiaries that would prevent, nullify, materially interfere with or delay the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement. Each Stockholder further agrees not to commit or agree to take any action inconsistent with the foregoing.

Section 1.2 *IRREVOCABLE PROXY.* SOLELY FOR THE PURPOSE OF VOTING IN ACCORDANCE WITH SECTION 1.1 OF THIS AGREEMENT, EACH STOCKHOLDER HEREBY IRREVOCABLY GRANTS TO AND APPOINTS RICHARD HARRIS AND PAUL O SHEA, IN THEIR RESPECTIVE CAPACITIES AS OFFICERS OF PARENT, AND ANY INDIVIDUAL WHO SHALL HEREAFTER SUCCEED TO ANY SUCH OFFICE OF

PARENT, AND EACH OF THEM INDIVIDUALLY, THE STOCKHOLDER S PROXY AND ATTORNEY-IN-FACT (WITH FULL POWER OF SUBSTITUTION), FOR AND IN THE NAME, PLACE AND STEAD OF THE STOCKHOLDER, TO REPRESENT AND VOTE (BY VOTING AT ANY MEETING OF THE STOCKHOLDERS OF THE COMPANY OR BY WRITTEN

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CONSENT IN LIEU THEREOF) WITH RESPECT TO THE SUBJECT SHARES OWNED OR HELD BY SUCH STOCKHOLDER REGARDING THE MATTERS REFERRED TO IN SECTION 1.1 (IF, BUT ONLY IF, SUCH STOCKHOLDER FAILS TO VOTE AS SET FORTH IN SECTION 1.1) UNTIL THE TERMINATION OF THIS AGREEMENT IN ACCORDANCE WITH SECTION 5.1, TO THE SAME EXTENT AND WITH THE SAME EFFECT AS THE STOCKHOLDER MIGHT OR COULD DO UNDER APPLICABLE LAW, RULES AND REGULATIONS. THE PROXY GRANTED PURSUANT TO THIS SECTION 1.2 IS COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE. EACH STOCKHOLDER WILL TAKE SUCH FURTHER ACTION AND EXECUTE SUCH OTHER INSTRUMENTS AS MAY BE NECESSARY TO EFFECTUATE THE INTENT OF THIS PROXY. EACH STOCKHOLDER HEREBY REVOKES ANY AND ALL PREVIOUS PROXIES OR POWERS OF ATTORNEY GRANTED WITH RESPECT TO ANY OF THE SUBJECT SHARES OWNED OR HELD BY SUCH STOCKHOLDER REGARDING THE MATTERS REFERRED TO IN SECTION 1.1.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS

Each Stockholder, severally and not jointly, represents and warrants to Parent (as to such Stockholder only) as follows:

Section 2.1 *Authority.* The Stockholder has the requisite power and authority to enter into this Agreement and to perform its obligations hereunder. This Agreement has been duly authorized, executed and delivered by the Stockholder.

Section 2.2 *No Conflicts; Required Filings and Consents.* Neither the execution and delivery of this Agreement nor compliance with the terms hereof by the Stockholder will (a) violate, conflict with or result in a breach, or constitute a default under any provision of, any trust agreement, loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement binding the Stockholder or its properties or assets or (b) except for filings with the SEC and the applicable requirements of state securities or blue sky laws, state takeover laws and the pre-merger notification requirements of the HSR Act, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity, except where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, prevent or materially delay the performance by the Stockholder of any of its obligations under this Agreement.

Section 2.3 *Ownership of the Subject Shares.* The Stockholder is the record or beneficial owner of its Existing Subject Shares, free and clear of any mortgage, lien, pledge, charge, encumbrance, security interest or other adverse claim. As of the date hereof, the Stockholder does not own, of record or beneficially, any shares of outstanding capital stock of the Company other than its Existing Subject Shares. The Stockholder has (a) sole power of disposition, (b) sole voting power (to the extent such securities have voting power) and (c) sole power to demand dissenter s or appraisal rights, in each case with respect to all of its Existing Subject Shares and with no restrictions on such rights. None of the Stockholder s Existing Subject Shares is subject to any agreement, arrangement or restriction with respect to the voting of such Existing Subject Shares, except as contemplated by this Agreement. There are no agreements or arrangements of any kind, contingent or otherwise, obligating the Stockholder to Transfer or cause to be Transferred any of its Existing Subject Shares, and no Person has any contractual or other right or obligation to purchase or otherwise acquire any of such Existing Subject Shares.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent represents and warrants to each Stockholder as follows:

Section 3.1 *Authority.* Parent has all requisite power and authority to enter into this Agreement and to perform its obligations hereunder. This Agreement has been duly authorized, executed and delivered by Parent.

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Section 3.2 *No Conflicts; Required Filings and Consents.* Neither the execution and delivery of this Agreement nor compliance with the terms hereof by Parent will (a) violate, conflict with or result in a breach, or constitute a default under any provision of, any trust agreement, loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement binding on Parent or Parent s property or assets or (b) require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity, except where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, prevent or materially delay the performance by Parent of any of its obligations under this Agreement.

ARTICLE IV

ADDITIONAL COVENANTS OF THE STOCKHOLDERS

Section 4.1 *No Transfer of Subject Shares.* Each Stockholder agrees, while this Agreement is in effect, not to (i) sell, transfer, assign, grant a participation interest in or option for, pledge, hypothecate or otherwise dispose of or encumber (each, a Transfer), or enter into any agreement, contract or option with respect to the Transfer of, any of its Subject Shares, other than pursuant to the Merger Agreement, (ii) grant any proxies or powers of attorney, deposit any of its Subject Shares into any voting trust or enter into any voting arrangement, whether by proxy, power of attorney, voting agreement or otherwise, with respect to any of its Subject Shares, other than pursuant to this Agreement, (iii) take any other action that would make any representation or warranty of the Stockholder contained herein untrue or incorrect or have the effect of preventing or disabling the Stockholder from performing its obligations under this Agreement or (iv) commit or agree to take any of the foregoing actions. Notwithstanding the foregoing, the restriction on Transfers set forth in clause (i) of the preceding sentence shall not apply to a Transfer (a) to a trust under which distributions may be made only to such Stockholder or his or her immediate family members, (b) to a charitable remainder trust, the income from which will be paid to such Stockholder during his or her life, or (c) to a corporation, partnership, limited liability company or other entity, all of the equity interests in which are held by such Stockholder and his or her immediate family members, provided in the case of the foregoing clauses (a) (c) that such Stockholder has sole record ownership and control of the entity referred to and such entity agrees to be bound by this Agreement.

Section 4.2 *Additional Securities.*

(a) In the event any Stockholder becomes the legal or beneficial owner of (i) any additional shares of capital stock or other securities of the Company, (ii) any securities which may be converted into or exchanged for such shares or other securities or (iii) any securities issued in replacement of, or as a dividend or distribution on, or otherwise in respect of, such shares or other securities (collectively, Additional Securities), then the terms of this Agreement shall apply to any of such Additional Securities and such Additional Securities shall be considered Subject Shares for purposes hereof.

(b) Each Stockholder agrees that this Agreement and the obligations hereunder shall attach to the Subject Shares and shall be binding upon any Person to which legal or beneficial ownership of the Subject Shares shall pass, whether by operation of law or otherwise, including, without limitation, the Stockholder s heirs, guardians, administrators or successors and their respective successors or assigns. Notwithstanding any Transfer of the Subject Shares, the transferor shall remain liable for the performance of all obligations of such transferor under this Agreement.

Section 4.3 *Stockholder Capacity.* Each Stockholder enters into this Agreement solely in its respective capacity as the record and beneficial owner of its Subject Shares. Nothing contained in this Agreement shall limit the rights and obligations of any Stockholder in its respective capacity as a director or officer of the Company, and the agreements set forth herein shall in no way restrict any director or officer of the Company in the exercise of his or her fiduciary duties as a director or officer of the Company.

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ARTICLE V

MISCELLANEOUS

Section 5.1 *Termination.* This Agreement shall terminate upon the earlier of (a) the Effective Time, (b) the date on which the Board of Directors of the Company has effected a Change in the Company Recommendation pursuant to the Merger Agreement and at least two (2) of the three (3) Stockholders have elected by written notice to Parent to terminate this Agreement; provided, that the first Stockholder electing to terminate this Agreement in accordance with this subsection shall continue to be fully bound by all of the provisions of this Agreement unless and until a second Stockholder elects to terminate this Agreement in accordance with this subsection, (c) the termination of the Merger Agreement in accordance with its terms and (d) January 31, 2007. Upon termination of this Agreement in accordance with this Section 5.1, this Agreement shall become null and void and of no effect with no liability on the part of any party hereto; provided, however, that no such termination shall relieve any party from liability for any breach hereof prior to such termination.

Section 5.2 *Non-Survival.* None of the representations, warranties, covenants and other agreements in this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time.

Section 5.3 *Governing Law.* This Agreement shall be governed and construed in accordance with the laws of the State of New York, without giving effect to its principles and rules of conflict of laws to the extent such principles or rules would require the application of the law of another jurisdiction.

Section 5.4 *Jurisdiction.* Each of the parties hereto consents to submit itself to the personal jurisdiction of the United States District Court for the Southern District of New York or any court of the State of New York located in such district in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement.

Section 5.5 *WAIVER OF JURY TRIAL.* EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM ARISING OUT OF THIS AGREEMENT.

Section 5.6 *Specific Performance.* Each Stockholder acknowledges and agrees that (a) the covenants, obligations and agreements of the Stockholder contained in this Agreement relate to special, unique and extraordinary matters, (b) Parent is and will be relying on such covenants, obligations and agreements in connection with entering into the Merger Agreement and the performance of Parent s obligations under the Merger Agreement and (c) a violation of any of the covenants, obligations or agreements of the Stockholder contained in this Agreement will cause Parent irreparable injury for which adequate remedies are not available at law. Therefore, each Stockholder agrees that Parent shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) as a court of competent jurisdiction may deem necessary or appropriate to restrain the Stockholder from committing any violation of such covenants, obligations or agreements.

Section 5.7 *Amendment, Waivers, etc.* Neither this Agreement nor any term hereof may be amended other than by an instrument in writing signed by Parent and each Stockholder. No provision of this Agreement may be waived, discharged or terminated other than by an instrument in writing signed by the party against whom the enforcement of such waiver, discharge or termination is sought.

Section 5.8 *Assignment; No Third Party Beneficiaries.* This Agreement shall not be assignable or otherwise transferable by a party without the prior consent of the other parties, and any attempt to so assign or otherwise transfer this Agreement without such consent shall be void and of no effect. This Agreement shall be binding upon the respective heirs, successors, legal representatives and permitted assigns of the parties hereto. Nothing in this Agreement shall be construed as giving any Person, other than the parties hereto and their heirs, successors, legal representatives and permitted assigns, any right, remedy or claim under or in respect of this Agreement or any provision hereof.

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Section 5.9 *Expenses.* Except as otherwise provided herein, all costs and expenses incurred in connection with the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses.

Section 5.10 *Notices.* All notices, consents, requests, instructions, approvals and other communications provided for in this Agreement shall be in writing and shall be deemed validly given upon personal delivery or one day after being sent by overnight courier service or by telecopy (so long as for notices or other communications sent by telecopy, the transmitting telecopy machine records electronic conformation of the due transmission of the notice), at the following address or telecopy number, or at such other address or telecopy number as a party may designate to the other parties:

(A) if to Parent to:

Castlewood Holdings Limited
P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
Fax: (441) 292-6603
Attention: Paul O Shea

with a copy to:

Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103
Fax: (215) 988-2757
Attention: Daniel W. Krane, Esq.

(B) if to the Stockholders to:

J. Christopher Flowers
717 Fifth Avenue
26th Floor
New York, NY 10022
Fax: (646) 349-4891
Attention: J. Christopher Flowers

Nimrod T. Frazer
The Thompson House
401 Madison Avenue
Montgomery, Alabama 36104
Fax: (334) 834-2530
Attention: Nimrod T. Frazer

John J. Oros
717 Fifth Avenue
26th Floor
New York, NY 10022

Fax: (646) 349-4897
Attention: John J. Oros

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with a copy to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, NY 10022
Fax: (212) 909-6836
Attention: Robert F. Quaintance, Jr., Esq.

Section 5.11 *Severability.* If any term or provision of this Agreement is held to be invalid, illegal, incapable of being enforced by any rule of law, or public policy, or unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties hereto to the maximum extent possible. In any event, the invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of this Agreement, including that provision, in any other jurisdiction.

Section 5.12 *Integration.* This Agreement, the Merger Agreement and the Parent Recapitalization Agreement constitute the full and entire understanding and agreement of the parties with respect to the subject matter hereof and supersede all other prior understandings or agreements among the parties relating to the subject matter hereof.

Section 5.13 *Section Headings.* The article and section headings of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

Section 5.14 *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and date first above written.

CASTLEWOOD HOLDINGS LIMITED

By: /s/ R. J. HARRIS

Name: R. J. Harris

Title: Chief Financial Officer

J. CHRISTOPHER FLOWERS

By: /s/ J. CHRISTOPHER FLOWERS

Name: J. Christopher Flowers

Title:

NIMROD T. FRAZER

By: /s/ NIMROD T. FRAZER

Name: Nimrod T. Frazer

Title: Chairman and CEO

JOHN J. OROS

By: /s/ JOHN J. OROS

Name: John J. Oros

Title: Director

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EXHIBIT A
TO SUPPORT AGREEMENT

Certain Stockholders

Name of Stockholder	Number of Shares of Company Common Stock Owned and Outstanding	Percentage of Total Outstanding Shares of Company Common Stock*	Number of Shares of Company Common Stock Beneficially Owned	Percentage of Total Beneficially Owned Shares of Company Common Stock
J. Christopher Flowers	1,221,555	21.27%	1,226,070	21.33%
Nimrod T. Frazer	305,001	5.31%	435,001	7.41%
John J. Oros	200,000	3.48%	450,000	7.51%

* Calculated by dividing the number of shares owned and outstanding by 5,742,909 shares outstanding.

Calculated by dividing the number of shares beneficially owned by the sum of 5,742,909 shares outstanding and the options and/or deferred units held by such Stockholder.

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Annex C

RECAPITALIZATION AGREEMENT

This RECAPITALIZATION AGREEMENT, dated as of May 23, 2006 (this Agreement), is made and entered into by and among Castlewood Holdings Limited, a Bermuda company (the Company); The Enstar Group, Inc., a Georgia corporation, (Enstar); Trident II, L.P., a Cayman Islands limited partnership (Trident); Marsh & McLennan Capital Professionals Fund, L.P., a Cayman Islands limited partnership (CPF), Marsh & McLennan Employees Securities Company, L.P., a Cayman Islands limited partnership (ESC , and, together with CPF, the Trident Funds); Dominic F. Silvester (DS), Paul J. O Shea (POS), Nicholas A. Packer (NAP , and, together with DS and POS, the Company Principals); R&H Trust Co. (NZ) Limited, a New Zealand company, as trustee of The Left Trust, a trust duly formed under the laws of the British Virgin Islands, and R&H Trust Co. (BVI) Ltd., a British Virgin Islands company, as trustee of (a) The Right Trust, a trust duly formed under the laws of the British Virgin Islands, (b) The Elbow Trust, a trust duly formed under the laws of the British Virgin Islands, and (c) The Hove Trust, a trust duly formed under the laws of the British Virgin Islands (collectively, together with DS, the Company Principal Shareholders); and certain other members of the Company signatory hereto (the Employee Shareholders , and together with the Company Principals, the Company Principal Shareholders, Enstar, Trident and the Trident Funds, the Shareholders ; and, together with the Company, the Parties and each a Party).

WHEREAS, the Company, CWMS Subsidiary Corp., a Georgia corporation and a direct wholly-owned subsidiary of the Company (Merger Sub), and Enstar have entered into a Merger Agreement, dated as of the date hereof (as amended, supplemented or otherwise modified, the Merger Agreement), which provides, among other things, for the merger (the Merger) of Merger Sub with and into Enstar, with Enstar continuing as the surviving corporation; capitalized terms used herein without definition shall have the respective meanings ascribed to them in the Merger Agreement;

WHEREAS, in connection with the Merger, the Parties wish to provide for (i) certain repurchases of shares of the Company, (ii) a change in the Company s name and authorized share capital as described on Exhibit A attached hereto (as so changed, the Amendments to the Memorandum of Association) and the amendment and restatement of the Company Bye-Laws (as so amended, the Amended and Restated Bye-Laws) in the form attached hereto as Exhibit B, (iii) a recapitalization of the Company pursuant to which outstanding shares will be exchanged for newly created shares (the Recapitalization), (iv) the designation of members of the Board of Directors of the Company immediately following the Merger, (v) the purchase by the Company from BI International (BI International) of the shares of B.H. Acquisition Ltd., a Bermuda company (BHAL), beneficially owned by BI International (the BHAL Shares), and (vi) certain other matters.

NOW, THEREFORE, in consideration of the premises and mutual covenants and conditions set forth herein, the Parties agree as follows:

Section 1. *Events at Closing.* At the Closing but immediately prior to the Effective Time (the Recapitalization Time), the Parties shall cause the following events to occur, or such events shall occur automatically pursuant to the terms hereof, as the case may be:

(a) *Repurchase of Class B Shares.* The Company shall purchase pro rata in accordance with their holdings from Trident and the Trident Funds, and Trident and the Trident Funds shall sell to the Company, 1,797.555 Class B Shares (as defined in the Amended and Restated Bye-Laws of the Company as in effect as of the date hereof (the Company Bye-Laws)). Trident and the Trident Funds shall (i) assign, transfer, convey and deliver such Class B Shares to the Company free and clear of all Liens and (ii) deliver to the Company certificates representing such Class B Shares duly endorsed or accompanied by stock powers duly executed. Such Class B Shares shall be cancelled by the Company and

may not be reissued. In exchange for such Class B Shares, the Company shall pay at the Recapitalization Time in cash the aggregate amount of $20,000,000 to Trident and the Trident Funds by wire transfer of immediately available funds to an account designated by Trident. The Company shall pay

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such amount pro rata in proportion to the number of Class B Shares held by each of Trident and the Trident Funds.

(b) *Payment to the Company.* Enstar shall pay in cash the aggregate amount of $5,076,000 to the Company by wire transfer of immediately available funds to the account designated by the Company.

(c) *Payment to Key Executives.* The Company shall pay in cash the aggregate amount of $5,076,000 to DS, NAP, POS, David Grisley (DG), David Hackett (DH) and David Rocke (DR) by wire transfer of immediately available funds to the accounts designated by such person in the following amounts: $2,969,868 to DS; $989,956 to NAP; $989,956 to POS; $11,550 to DG; $20,624 to DH; and $94,046 to DR.

(d) *Amendment of Constitutive Documents.* The Company shall cause (i) the Amendments to the Memorandum of Association to be filed with the Bermuda Registrar of Companies pursuant to The Companies Act 1981 of Bermuda and (ii) the Amended and Restated Bye-Laws to become effective and to supersede the Company Bye-Laws.

(e) *Exchange of Class B Shares.* Trident and the Trident Funds shall (i) assign, transfer, convey and deliver all remaining outstanding Class B Shares held by them (after giving effect to the repurchase of Class B Shares from Trident and the Trident Funds pursuant to Section 1(a) of this Agreement) to the Company free and clear of all Liens and (ii) deliver to the Company certificates representing such Class B Shares duly endorsed or accompanied by stock powers duly executed. Such Class B Shares will then be cancelled by the Company and may not be reissued. In exchange for such Class B Shares, the Company shall issue and deliver to Trident and the Trident Funds at the Recapitalization Time certificates representing 2,082,236 ordinary shares, par value $1.00 per share, of the Company (the Ordinary Shares). The Company shall issue such Ordinary Shares pro rata in proportion to the number of Class B Shares held by each of Trident and the Trident Funds immediately prior to such exchange.

(f) *Exchange of Class A Shares.* Immediately following the exchanges of shares referred to in Sections 1(e), (g) and (h) hereof, but immediately prior to the Effective Time, Enstar shall (i) assign, transfer, convey and deliver all outstanding Class A Shares (as defined in the Company Bye-Laws) held by it to the Company free and clear of all Liens and (ii) deliver to the Company certificates representing such Class A Shares duly endorsed or accompanied by stock powers duly executed. Such Class A Shares will then be cancelled by the Company and may not be reissued. In exchange for such Class A Shares, the Company shall issue and deliver to Enstar certificates representing 2,972,892 non-voting convertible ordinary shares, par value $1.00 per share, of the Company (the Non-Voting Convertible Ordinary Shares).

(g) *Exchange of Class C Shares.* The Company Principal Shareholders, DG, DH and DR shall (i) assign, transfer, convey and deliver all outstanding Class C Shares (as defined in the Company Bye-Laws and including all Class C-1 Shares, Class C-2 Shares, Class C-3 Shares and Class C-4 Shares) held by them to the Company free and clear of all Liens and (ii) deliver to the Company certificates representing such Class C Shares duly endorsed or accompanied by stock powers duly executed. Such Class C Shares will then be cancelled by the Company and may not be reissued. In exchange for such Class C Shares, the Company shall issue and deliver to the Company Principal Shareholders, DG, DH and DR certificates representing 3,636,612 Ordinary Shares. The Company shall issue such Ordinary Shares pro rata in proportion to the number of Class C Shares held by each such shareholder immediately prior to such exchange.

(h) *Exchange of Class D Shares.* The Employee Shareholders shall (i) assign, transfer, convey and deliver all outstanding Class D Shares (including all Class D-1 Shares , Class D-2 Shares, Class D-3 Shares, Class D-4 Shares and Class D-5 Shares of the Company, as defined in the Company Bye-Laws) held by them to the Company free and clear of all Liens and (ii) deliver to the Company certificates representing such Class D Shares duly endorsed or accompanied by stock powers duly executed. The Company shall use its best efforts to cause any holders of Class D Shares that are not Parties to comply with the preceding sentence. In each case, such Class D Shares will then be

cancelled

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by the Company and may not be reissued. In exchange for such Class D Shares, the Company shall issue and deliver to the Employee Shareholders and the other holders of Class D Shares certificates representing a total of 420,577 Ordinary Shares. The Company shall issue such Ordinary Shares pro rata in proportion to the number of Class D Shares held by each such Employee Shareholder and other holders of Class D Shares immediately prior to such exchange. Subject to alternative arrangements that may be established pursuant to Section 8(i) hereof, to the extent that the Class D Shares to be surrendered and cancelled pursuant to this Section 1(h) are Immature Class D Shares , as defined in the Company Bye-Laws, an entity designated by the Company and Enstar shall either hold and/or have the right to purchase the Ordinary Shares issued upon the exchange thereof for $0.001 per share from the holder thereof if the holder s employment with the Company or any of its subsidiaries is terminated prior to the time such Immature Class D Shares would have become Mature Class D Shares (as defined in the Company Bye-Laws) had they still been held by such holder. The entity designated by the Company and Enstar pursuant to the immediately preceding sentence must exercise this right within 60 days of such termination.

(i) *No Fractional Shares.* No certificates or scrip representing fractional Ordinary Shares or Non-Voting Convertible Ordinary Shares shall be issued in respect of Class A Shares, Class B Shares, Class C Shares or Class D Shares. Notwithstanding any other provision of this Agreement, each holder of Class A Shares, Class B Shares, Class C Shares or Class D Shares exchanged pursuant hereto who would otherwise have been entitled to receive a fraction of an Ordinary Share or Non-Voting Convertible Ordinary Share shall receive, in lieu thereof, cash in an amount equal to the product of (i) such fractional part of an Ordinary Share or a Non-Voting Convertible Ordinary Share, as applicable, multiplied by (ii) the average closing price for an Ordinary Share as reported on Nasdaq for the five trading days immediately following the Recapitalization Time.

(j) *Effect of Recapitalization.* From and after the Recapitalization Time, (i) all Class A Shares, Class B Shares, Class C Shares and Class D Shares shall be cancelled and shall no longer be deemed to be outstanding and shall no longer have the status of such respective classes of capital stock of the Company, (ii) all rights of the holders of such shares shall cease, except for the right to receive Ordinary Shares or Non-Voting Convertible Ordinary Shares, if any, pursuant to this Agreement, and (iii) prior to surrender for exchange, certificates representing such shares shall be deemed to represent the number of Ordinary Shares or Non-Voting Convertible Ordinary Shares, if any, into which they are exchangeable pursuant to this Agreement.

(k) *Termination of Certain Agreements.* Effective as of the Effective Time, the Share Purchase and Capital Commitment Agreement dated as of October 1, 2001, among the Company, Enstar, Trident, the Trident Funds, the Company Principals, the Company Principal Shareholders and the other members of the Company party thereto (as amended, supplemented or otherwise modified, the Share Purchase and Capital Commitment Agreement), and the Agreement Among Members dated as of November 29, 2001, among the Company, Enstar, Trident, the Trident Funds, the Company Principals, the Company Principal Shareholders and the other members of the Company party thereto (as amended, supplemented or otherwise modified, the Agreement Among Members) shall automatically terminate and become null and void and of no further force or effect, and there shall be no further rights or obligations arising out of such agreements on the part of any party thereto. Each party thereto hereby irrevocably and unconditionally releases, settles, cancels, acquits, discharges, and acknowledges to be fully satisfied, any and all claims, contractual or otherwise, demands, costs, rights, causes of action, charges, debts, Liens, promises, obligations, complaints, losses, damages and any liability of whatever kind or nature, whether known or unknown, arising under the terms of such agreements effective upon such termination.

Section 2. *Board of Directors.* Effective upon the Effective Time, the Company and the Shareholders shall cause the Board of Directors of the Company to consist of the following members: T. Whit Armstrong, Paul J. Collins, Gregory L. Curl, T. Wayne Davis, J. Christopher Flowers, Nimrod T. Frazer, John J. Oros, Paul O Shea, Nicholas Packer and Dominic F. Silvester; provided, that if, prior to Closing, any such individual is not willing or able to serve as a director, such individual shall be replaced by an individual nominated by the majority of the remaining directors. Such

individuals shall be members of the Board of Directors of the Company until their successors have been duly elected or appointed and qualified or until their earlier death,

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resignation or removal in accordance with the Company s Memorandum of Association and the Amended and Restated Bye-Laws. As a condition to a director named in the first sentence of this Section 2 (or an agreed upon replacement) serving on the Board of Directors of the Company, such person will have entered into prior to the Recapitalization Time an indemnity agreement with the Company substantially in the form attached hereto as Exhibit C.

Section 3. *BHAL Share Purchase.* At the Recapitalization Time, BI International shall, or shall cause its nominee holder Pembroke Company Limited to, (i) assign, transfer, convey and deliver the BHAL Shares to the Company or another Person designated by the Company free and clear of all Liens and (ii) deliver to the Company or such other Person certificates representing the BHAL Shares duly endorsed or accompanied by stock powers duly executed. In consideration for such BHAL Shares, the Company or such other Person shall pay at the Recapitalization Time an aggregate amount in cash equal to $6,200,167 to BI International by wire transfer of immediately available funds to the account designated by BI International.

Section 4. *Representation and Warranties of the Company.* The Company represents and warrants to the other Parties, as of the date hereof and as of the Closing, as follows:

(a) *Shares.* All issued and outstanding shares of the capital stock of the Company are, and when the Ordinary Shares and the Non-Voting Convertible Ordinary Shares are issued in connection with the Recapitalization, such shares will be, duly authorized, validly issued, fully paid and non-assessable and free and clear of any Liens or preemptive rights. The Company has reserved a sufficient number of Ordinary Shares for issuance upon conversion of all of the Non-Voting Convertible Ordinary Shares. There are no Class E Shares outstanding. The holders of the Class D Shares as of the date of this Agreement who are Parties hold, in aggregate, 94.9% of the Class D Shares outstanding as of the date of this Agreement. The Parties who have agreed to vote pursuant to Sections 8(g) and 8(i)(ii) hold sufficient voting power to effect the transactions contemplated by this Agreement, including without limitation the transactions required by Section 8(i)(ii).

(b) *Authority.* The Company has all requisite corporate power and authority to enter into this Agreement and, subject to the consents and approvals identified in Section 4(d), to perform all of its obligations hereunder. This Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

(c) *No Conflicts.* Neither the execution, delivery or performance of this Agreement nor the compliance with the terms hereof by the Company will conflict with the constitutive documents of the Company or result in any breach of, or constitute a default under, any Law applicable to the Company or any of its properties or assets or any contract, agreement or instrument to which the Company is a party or by which it or any of its properties or assets is bound. Except for this Agreement, the Merger Agreement, the AICP, the Company Bye-Laws, the Agreement Among Members and as set forth on Schedule 4(c) attached hereto, there are no agreements or arrangements of any kind, contingent or otherwise, obligating the Company to sell, transfer, assign, grant a participation interest in or option for, hypothecate or otherwise dispose of or encumber any shares of its capital stock, and no Person has any contractual or other right or obligation to purchase or otherwise acquire any shares of the Company s capital stock from the Company.

(d) *No Consent or Approval Required.* Except for the filing of the Amendments to the Memorandum of Association pursuant to Section 1(d) hereof, the approval of the Bermuda Monetary Authority of the BHAL Share Purchase and the issuance of Ordinary Shares and Non-Voting Convertible Ordinary Shares pursuant to this Agreement, the adoption and approval of this Agreement and the transactions contemplated hereby by the members of the Company, and the receipt of the permits, consents, approvals or authorizations of, or declarations to, or filings with, the Persons identified on Exhibit D attached hereto, no permit, consent, approval or authorization of, or declaration to, or filing with, any Person is required for the valid authorization, execution, delivery or performance by the Company of this

Agreement.

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Section 5. *Representations and Warranties of the Shareholders.* Each Shareholder, severally and not jointly, represents and warrants to the other Parties, as of the date hereof and as of the Closing, as follows:

(a) *Authority.* The Shareholder (other than any Shareholder that is an individual) has all requisite corporate (or similar) power and authority to enter into this Agreement and to perform all of its obligations hereunder. This Agreement has been duly authorized, executed and delivered by the Shareholder and constitutes a legal, valid and binding obligation of the Shareholder, enforceable against the Shareholder in accordance with its terms.

(b) *No Conflicts.* Neither the execution, delivery or performance of this Agreement nor the compliance with the terms hereof by the Shareholder will conflict with the organizational or constitutive documents of the Shareholder (if the Shareholder is not an individual) or result in any breach of, or constitute a default under, any Law applicable to the Shareholder or any of its properties or assets or any contract, agreement or instrument to which the Shareholder is a party or by which it or any of its properties or assets is bound.

(c) *No Consent or Approval Required.* No permit, consent, approval or authorization of, or declaration to, or filing with, any Person is required for the valid authorization, execution, delivery or performance by the Shareholder of this Agreement.

(d) *Ownership of Shares.* The Shareholder is the record and beneficial owner of the capital stock of the Company set forth opposite such Shareholder s name on Exhibit E attached hereto, if any (the Company Shares), and has good and marketable title to such Company Shares, free and clear of any Liens. The Shareholder does not own, of record or beneficially, any shares of capital stock of the Company other than the Company Shares set forth opposite such Shareholder s name on Exhibit E, if any. The Shareholder has sole power of disposition and sole power to demand dissenter s or appraisal rights with respect to all of its Company Shares and with no restrictions on such powers and rights. Except for this Agreement, the Company Bye-Laws, the Agreement Among Members and subscription agreements, which, if entered into after the date of this Agreement, shall be reasonably acceptable to Enstar, pursuant to which any holder of Class D Shares acquired such shares, there are no agreements or arrangements of any kind, contingent or otherwise, obligating the Shareholder to sell, transfer, assign, grant a participation interest in or option for, hypothecate or otherwise dispose of or encumber any Company Shares, and no Person has any contractual or other right or obligation to purchase or otherwise acquire any Company Shares from such Shareholder.

(e) *Investment Purpose.* The Shareholder is acquiring any Ordinary Shares and/or Non-Voting Convertible Ordinary Shares under this Agreement solely for its own account for investment and not with a view to, or for sale in connection with, any distribution thereof in any transaction or series of transactions that would be in violation of the securities laws of the United States or any state thereof or of any foreign securities laws. The Shareholder will not, directly or indirectly, offer, transfer, sell, pledge, hypothecate or otherwise dispose of any Ordinary Shares or Non-Voting Convertible Ordinary Shares acquired pursuant to this Agreement (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of such Ordinary Shares or Non-Voting Convertible Ordinary Shares) or any interest therein or any rights relating thereto, except in compliance with the Securities Act of 1933, as amended and the rules and regulations of the Securities and Exchange Commission thereunder (the Act) and all applicable state securities or blue sky laws and all applicable foreign securities laws.

(f) *Accredited Investor.* The Shareholder is an accredited investor as such term is defined in Rule 501(a) under the Act.

Section 6. *Additional Representations and Warranties of Trident Regarding BHAL Shares.* Trident represents and warrants to the Company, as of the date hereof and as of the Closing, that: (i) Pembroke Company Limited is the record and BI International is the beneficial owner of, and BI International and Pembroke Company Limited have good and marketable title to, the BHAL Shares, free and clear of any Liens; (ii) BI International does not own, of

record or beneficially, any shares of capital stock of BHAL other than the BHAL Shares; (iii) Trident and its Affiliates through their ownership of BI International have sole power

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of disposition with respect to all of the BHAL Shares and with no restrictions on such rights, except with respect to BI International, where Pembroke Company Limited is the record owner of the BHAL Shares; and (iv) except for this Agreement and the Bye-Laws of BHAL, there are no agreements or arrangements of any kind, contingent or otherwise, obligating BI International to sell, transfer, assign, grant a participation interest in or option for, hypothecate or otherwise dispose of or encumber any of the BHAL Shares, and no Person has any contractual or other right or obligation to purchase or otherwise acquire any of the BHAL Shares.

Section 7. *Restrictive Legend.* Each Shareholder acknowledges that the certificate or certificates representing the Ordinary Shares or the Non-Voting Convertible Ordinary Shares issued pursuant to the Recapitalization, as the case may be, shall bear an appropriate legend, which will include, without limitation, the following language:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE OFFERED OR SOLD EXCEPT IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER, AS SPECIFIED IN THE RECAPITALIZATION AGREEMENT OF THE ISSUER DATED AS OF MAY 23, 2006 (THE RECAPITALIZATION AGREEMENT), COPIES OF WHICH ARE ON FILE AT THE OFFICE OF THE ISSUER AND WILL BE FURNISHED WITHOUT CHARGE TO THE HOLDER OF SUCH SHARES UPON WRITTEN REQUEST, AND MAY NOT BE OFFERED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS SUCH OFFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION, TRANSFER OR OTHER DISPOSITION IS IN COMPLIANCE WITH THE RECAPITALIZATION AGREEMENT.

Upon the one year anniversary of the Effective Time, the legends set forth above shall be removed and the Company shall issue a certificate without such legends to the holder of any security upon which it is stamped, provided, however, that the Company shall not be required to remove the first legend stated above if the holder of such security is at such time an affiliate of the Company (as defined in Rule 144 under the Act) until the sale of such security has been registered under the Act or such security is sold pursuant to Rule 144 or Rule 145 under the Act or another available exemption under the Act. Each Shareholder agrees to sell all securities, including those represented by a certificate from which the legend has been removed, pursuant to an effective registration statement or in compliance with an exemption from the registration requirements of the Act. In the event the first legend stated above is removed from any security and thereafter the effectiveness of a registration statement covering such security is suspended or the Company determines that a supplement or amendment thereto is required by applicable securities laws, then upon reasonable advance notice to the applicable Shareholder(s), the Company may require that the above legend be placed on any such security that cannot then be sold pursuant to an effective registration statement or under Rule 144 or Rule 145 under the Act or another available exemption under the Act and the applicable Shareholder(s) shall cooperate in the prompt replacement of such legend.

Section 8. *Covenants of the Parties.*

(a) *Reasonable Best Efforts.* Subject to the terms and conditions of this Agreement, each Party shall use its reasonable best efforts, without limitation, to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under this Agreement, the Merger Agreement and applicable Laws to consummate the transactions contemplated herein and in the Merger Agreement, including making or obtaining (i) the approval of the Bermuda Monetary Authority of the BHAL Share Purchase and the issuance of Ordinary Shares and Non-Voting Convertible Ordinary Shares pursuant to this Agreement, (ii) the consents and approvals of the members of the Company to this Agreement, the transactions contemplated hereby and the other matters set forth in Section 8(g), (iii) the permits, consents, approvals or authorizations of, or declarations to, or filings with, the Persons identified on

Exhibit D and (iv) all other permits, consents, approvals or authorizations of, or declarations to, or filings with, any Person that are required for the valid authorization, execution, delivery or performance by the Parties of this Agreement and by the parties to the Merger Agreement of the Merger Agreement.

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(b) *Further Assurances.* Without further consideration, each Party shall execute and deliver or cause to be executed and delivered such additional documents and instruments and take all such further action as may be reasonably necessary or desirable to effect the matters contemplated herein or in the Merger Agreement.

(c) *Consent and Waiver.* Each Party hereby consents to the consummation of the transactions contemplated by this Agreement and waives any requirements, restrictions or obligations under the Share Purchase and Capital Commitment Agreement or the Agreement Among Members arising out of the transactions contemplated hereby. Each Party hereby waives any dissenter s, appraisal or similar rights such party may have in respect of the transactions contemplated by this Agreement or the Merger Agreement.

(d) *Release of Directors.* Effective at the Effective Time, each Party waives and releases each person who is a director or officer of the Company on the date of this Agreement or becomes a director or officer of the Company at any time between the date of this Agreement and the Recapitalization Time from all actions, claims and liabilities of any nature, in law or equity, known or unknown, and whether or not heretofore asserted, which such Party, as applicable, has or hereafter may have against any of such director or officer for any actions or omissions in respect of this Agreement, the Merger Agreement or the transactions contemplated hereby or thereby; provided, that the foregoing shall not be construed as a waiver or release of any action, claim or liability based on fraud, bad faith or intentional misconduct.

(e) *Nasdaq Listing.* The Company shall use its reasonable best efforts to cause all Ordinary Shares to be issued in the Recapitalization to be approved for listing on the Nasdaq, subject to official notice of issuance, prior to the Recapitalization Time.

(f) *Section 16 Matters.* The Company shall, prior to the Recapitalization Time, take all such reasonable steps as may be required and are consistent with applicable law and regulations to cause any disposition of Class B Shares or acquisitions of Ordinary Shares in the transactions contemplated by this Agreement by each Person who is, or at the time of any such transaction may reasonably be deemed to be, subject to the requirements of Section 16 of the Exchange Act with respect to the Company, to be exempt from Section 16(b) of the Exchange Act under Rule 16b-3 promulgated under the Exchange Act.

(g) *Company Meeting of Shareholders; Vote.* The Company shall duly take all necessary, proper and advisable action to call, give notice of, convene and hold a meeting of its shareholders on a date as soon as reasonably practicable (the Company Shareholders Meeting) for the purpose of obtaining the vote of the shareholders of the Company for the adoption and approval of this Agreement and the transactions contemplated hereby, including without limitation any transactions required by Section 8(i)(ii). The Company Shareholders Meeting will be held within 30 days of the date hereof or at such later time as the Company and Enstar may agree in writing. From the date hereof until the termination of this Agreement, except to the extent waived in writing by Enstar, at any meeting of the shareholders of the Company, however called, or at any adjournment thereof, or in connection with any written consent of the shareholders of the Company or in any other circumstances upon which a vote, consent or other approval of all or some of the shareholders of the Company is sought, each Party shall vote (or cause to be voted) all of its Class A Shares, Class B Shares, Class C Shares and Class D Shares, if any, as the case may be, in favor of (i) adoption of this Agreement and the Merger Agreement, (ii) approval of the Recapitalization and the Merger and (iii) approval of the other transactions contemplated by this Agreement and the Merger Agreement, including without limitation any transactions required by Section 8(i)(ii). From the date hereof until the termination of this Agreement, each Party further agrees not to commit or agree to take any action inconsistent with the foregoing.

(h) *IRREVOCABLE PROXY.* SOLELY FOR THE PURPOSE OF VOTING IN ACCORDANCE WITH SECTION 8(G) OF THIS AGREEMENT, EACH SHAREHOLDER HEREBY IRREVOCABLY GRANTS TO AND APPOINTS NIMROD T. FRAZER AND JOHN J. OROS, IN THEIR RESPECTIVE CAPACITIES AS OFFICERS

OF ENSTAR, AND ANY INDIVIDUAL WHO SHALL HEREAFTER SUCCEED TO ANY SUCH OFFICE OF ENSTAR, AND EACH OF THEM INDIVIDUALLY, THE SHAREHOLDER S PROXY AND ATTORNEY-IN-FACT (WITH FULL POWER OF SUBSTITUTION), FOR AND IN THE NAME, PLACE AND STEAD OF THE SHAREHOLDER, TO REPRESENT AND VOTE (BY VOTING AT ANY MEETING OF THE SHAREHOLDERS OF THE COMPANY OR BY WRITTEN CONSENT IN LIEU THEREOF) WITH RESPECT TO ALL OF THE SHARES OWNED OR HELD BY SUCH SHAREHOLDER

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REGARDING THE MATTERS REFERRED TO IN SECTION 8(G) (IF, BUT ONLY IF, SUCH SHAREHOLDER FAILS TO VOTE AS SET FORTH IN SECTION 8(G)) UNTIL THE TERMINATION OF THIS AGREEMENT IN ACCORDANCE WITH ITS TERMS, TO THE SAME EXTENT AND WITH THE SAME EFFECT AS THE SHAREHOLDER MIGHT OR COULD DO UNDER APPLICABLE LAW, RULES AND REGULATIONS. THE PROXY GRANTED PURSUANT TO THIS SECTION 8(H) IS COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE. EACH SHAREHOLDER WILL TAKE SUCH FURTHER ACTION AND EXECUTE SUCH OTHER INSTRUMENTS AS MAY BE NECESSARY TO EFFECTUATE THE INTENT OF THIS PROXY. EACH SHAREHOLDER HEREBY REVOKES ANY AND ALL PREVIOUS PROXIES OR POWERS OF ATTORNEY GRANTED WITH RESPECT TO ANY OF THE SUBJECT SHARES OWNED OR HELD BY SUCH SHAREHOLDER REGARDING THE MATTERS REFERRED TO IN SECTION 8(H). NOTWITHSTANDING THE FOREGOING, THIS SECTION 8(H) SHALL NOT APPLY TO THE EXTENT IT IS INCONSISTENT WITH APPLICABLE BERMUDA LAW; PROVIDED, THAT, TO THE EXTENT ANY PROVISION OF THIS SECTION 8(H) DOES NOT APPLY AS A RESULT OF THIS SENTENCE, THE SHAREHOLDERS SHALL USE THEIR BEST EFFORTS TO ENTER INTO AN ALTERNATIVE ARRANGEMENT THAT ACCOMPLISHES THE ESSENTIAL INTENT AND PURPOSE OF THIS SECTION 8(H) AND IS CONSISTENT WITH APPLICABLE BERMUDA LAW.

(i) Class D Holders.

(i) The Company shall use reasonable efforts to cause each holder of Class D Shares that is not a Party to become a Party with all the same rights and obligations as if such holder had been a Party on the date hereof. If any holder of Class D Shares has not become a Party prior to the Company Shareholders Meeting, the Company and the other Parties shall, at the Company Shareholders Meeting, take such actions as may be necessary to cause all of the outstanding Class A Shares, Class B Shares, Class C Shares and Class D Shares to be exchanged (upon satisfaction of the conditions set forth in this Agreement) for the consideration contemplated to be exchanged for such shares in Section 1. Such actions may include amending the Bye-Laws to allow the Company to redeem Class D Shares for the same consideration as holders of Class D Shares would have received under this Agreement and carrying out such redemption (a Bye-Law Amendment and Redemption) or taking such actions, including a merger, share conversion or other action, as may result in all Class D Shares being cancelled, provided that any action taken shall comply with applicable law and, except in the case of a Bye-Law Amendment and Redemption, shall be reasonably acceptable to Enstar and Trident. Within seven days after the date of this Agreement, the Company shall issue to Karl Wall a sufficient number of Class D Shares so that the holders of Class D Shares who are Parties shall hold in excess of 95% of the Class D Shares outstanding. Prior to issuing any other Class D Shares to any person or entity that is not a Party, the Company shall require such person to become a Party with all the same rights and obligations as if such holder had been a Party on the date hereof.

(ii) Prior to Closing, the Company shall either establish (i) an entity with the sole purpose of exercising any of the rights set forth in the last two sentences of Section 1(h) with respect to Ordinary Shares issued in exchange for Immature Class D Shares (if the shares are held in custody by the Company) or to hold the Immature Class D Shares (if the shares will not be held in custody by the Company), or (ii) at the option of Enstar, alternative arrangements in order to accomplish a similar administrative ease for exercising such rights and to provide assurance that such Ordinary Shares are outstanding under relevant law. The Company shall use its reasonable best efforts to cause holders of the Immature Class D Shares to cooperate with such arrangements. The Company shall use its reasonable best efforts to obtain letter agreements from all holders of its Class D Shares who are not Parties establishing restrictions on transfer of the Ordinary Shares they receive in the Recapitalization for a period of one year that are substantially the same as those set forth in Section 13 of this Agreement.

(j) *Letter Agreement.* Enstar shall not amend or agree to amend, modify or waive the requirements of the letter agreement (the Letter Agreement) executed and delivered by the directors of Enstar on May 23, 2006 restricting their

ability to transfer, among other things, Ordinary Shares for one year following the Effective Time without the prior written consent of the Company, Trident and two of the three Company Principals.

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Section 9. *Benefit Plans of the Company.* Effective upon, but subject to, consummation of the Merger, the Company shall (i) terminate its annual incentive compensation plan currently in effect for calendar year 2006 and reverse any and all accruals made in respect thereof without payment of any amounts relating thereto and (ii) establish an annual incentive compensation plan (the AICP) the terms of which will be subject in each case to the approval of the Compensation Committee of the Company s Board of Directors. It is anticipated by the Parties that, with respect to services to be performed in each of calendar years 2006 through 2010, the AICP shall permit eligible employees to share in a bonus pool, which, the Parties anticipate will represent, in the aggregate, 15% of the Company s consolidated net after-tax profits and from which the Parties anticipate distributions shall be made in cash, Ordinary Shares, other securities of the Company, or the right to acquire Ordinary Shares or other securities of the Company, in such amounts per employee and in such form as shall be determined by the Compensation Committee of the Company s Board of Directors. The Company shall submit an employee benefits plan or plans relating to any such equity compensation to the shareholders of the Company for approval prior to the Effective Time. The Board of Directors of the Company shall determine whether and, if so, on what terms and conditions, the AICP shall continue in effect with respect to calendar years after 2010.

Section 10. *Conditions to Each Party s Obligations.* The obligation of each Party to consummate the transactions contemplated hereby is subject to the satisfaction of the following conditions:

(a) *No Injunctions or Restraints, Illegality.* No laws shall have been adopted or promulgated, and no temporary restraining order, preliminary or permanent injunction or other order, judgment, decision, opinion or decree issued by a court or other Governmental Entity of competent jurisdiction in the United States, the European Union or Bermuda shall be in effect, having the effect of making the transactions contemplated hereby illegal or otherwise prohibiting consummation of the transactions contemplated hereby.

(b) *Consents and Approvals.* Except for the filing of the Amendments to the Memorandum of Association pursuant to Section 1(d) hereof, all permits, consents, approvals or authorizations of, or declarations to, or filings with, any Person that are required for the valid authorization, execution, delivery or performance by the Parties of this Agreement shall have been made or obtained, except for those the failure of which to be made or obtained, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries, taken together after giving effect to the Merger.

(c) *Conditions to Effect the Merger.* Each of the conditions to closing under Article VI of the Merger Agreement shall have been satisfied or waived by the parties entitled to waive such condition, other than the condition relating to the Company Recapitalization and any condition that by its nature is to be fulfilled at the Closing under the Merger Agreement, and each of the parties to the Merger Agreement shall be prepared to consummate the Merger.

(d) *Tax Opinion.* Debevoise & Plimpton LLP shall have delivered to Enstar, Trident and the Trident Funds, prior to the Recapitalization Time on the Closing Date, a written opinion addressed to each such Person and dated as of such date, substantially in the form attached hereto as Exhibit F, to the effect that the Recapitalization will qualify as a reorganization under Section 368(a)(1)(E) of the Code.

(e) *Shareholder Consent.* The Company shall have received at the Company Shareholder Meeting, or any adjournment thereof, the requisite consent of its members to this Agreement and the transactions contemplated hereby.

Section 11. *Additional Conditions to the Obligation of the Shareholders to Effect the Recapitalization.* In addition to those conditions set forth in Section 10 hereof, the obligation of each Shareholder to consummate the transactions contemplated hereby is subject to each of the representations and warranties of the Company set forth in Section 4 hereof being true and correct as of the date hereof and as of the Closing in all material respects and the Company having performed or complied in all material respects (and in the case of Sections 8(e) and 8(f), in all respects) with

all agreements and covenants required to be performed by it under this Agreement at or prior to the consummation of the transactions contemplated hereby.

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Section 12. *Additional Conditions to the Obligation of the Company.* In addition to the conditions set forth in Section 10 hereof, the obligation of the Company to consummate the transactions contemplated hereby is subject to each of the representations and warranties of the Shareholders set forth in Sections 5 and 6 hereof being true and correct as of the date hereof and as of the Closing in all material respects and the Shareholders having performed or complied in all material respects with all agreements and covenants required to be performed by the Shareholders under this Agreement at or prior to the consummation of the transactions contemplated hereby.

Section 13. *Transfer Restrictions.* Except as provided in regards to the Initial Request in Section 1(a) of the Registration Rights Agreement (as defined below), each Shareholder agrees not to sell, transfer, assign, grant a participation interest in or option for, pledge, hypothecate or otherwise dispose of or encumber (each, a Transfer), or enter into any agreement, contract or option with respect to the Transfer of, or commit or agree to take any of the foregoing actions with respect to, any of its Class A Shares, Class B Shares, Class C Shares or Class D Shares prior to Closing or any of its Ordinary Shares or Non-Voting Convertible Ordinary Shares for a period of one year following the Effective Time; provided that the foregoing restriction shall not apply to a Transfer (i) to the Company, (ii) following the Effective Time, other than in the case of an Employee Shareholder, to another Party other than an Employee Shareholder or to any party to the Letter Agreement, (iii) to a trust under which distributions may be made only to such Shareholder or his or her immediate family members, (iv) to a charitable remainder trust, the income from which will be paid to such Shareholder during his or her life, (v) to a corporation, partnership, limited liability company or other entity, all of the equity interests in which are held, directly or indirectly, by such Shareholder and his or her immediate family members, or (vi) in connection with a tender offer, merger, amalgamation, recapitalization, reorganization or similar transaction involving the Company, provided in the case of the foregoing clauses (iii) (v) that such Shareholder has sole, ultimate control of the entity referred to and such entity agrees to be bound by this Agreement. Any attempt by the Shareholder, directly or indirectly, to offer, transfer, sell, pledge, hypothecate or otherwise dispose of any of the Ordinary Shares or the Non-Voting Convertible Ordinary Shares, or any interest therein, or any rights relating thereto, without complying with the provisions of this Agreement, shall be void and of no effect.

Section 14. *Registration Rights.* Concurrently with the Closing, the Company and certain shareholders of the Company listed therein shall enter into a registration rights agreement in the form of Exhibit G attached hereto (the Registration Rights Agreement), pursuant to which, on the terms and conditions thereto, certain shareholders of the Company as provided for therein will be granted registration rights with respect to the Ordinary Shares received by or issuable to them as provided for therein.

Section 15. *Miscellaneous.*

(a) *Termination.* This Agreement shall terminate upon the earlier of the termination of the Merger Agreement in accordance with its terms and the termination of the Support Agreement pursuant to Section 5.1(b), (c) or (d) thereof. Upon termination of this Agreement in accordance with this Section 15(a), this Agreement shall become null and void and of no further force or effect with no liability on the part of any Party; provided, that such termination shall not relieve any Party from any liability arising from a willful breach of this Agreement.

(b) *Fees and Expenses.* Whether or not, in each case, the Merger or any of the transactions contemplated herein are consummated, all fees and expenses incurred in connection with this Agreement, the Merger Agreement and the transactions contemplated hereby and thereby shall be paid by the Party incurring such fees and expenses; provided, that the Company shall reimburse all reasonable out-of-pocket fees and expenses incurred in connection with this Agreement, the Merger Agreement and the transactions contemplated hereby and thereby by the holders of the Class B Shares, the Class C Shares and the Class D Shares; provided, further, that the reimbursement for the holders of the Class B Shares shall be subject to a cap of $150,000.

(c) *Non-Survival.* None of the representations or warranties in this Agreement, including any rights arising out of any breach of such representations or warranties shall survive the Effective Time.

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(d) *Enforcement.* The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of New York, this being in addition to any other remedy to which they are entitled at law or in equity.

(e) *Governing Law.* This Agreement shall be governed and construed in accordance with the laws of the State of New York, without giving effect to its principles and rules of conflict of laws to the extent such principles or rules would require the application of the law of another jurisdiction.

(f) *Jurisdiction.* Each of the Parties consents to submit itself to the personal jurisdiction of the United States District Court for the Southern District of New York or any court of the State of New York located in such district in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement.

(g) *WAIVER OF JURY TRIAL.* EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM ARISING OUT OF THIS AGREEMENT.

(h) *Amendment, Waivers, etc.* Neither this Agreement nor any term hereof may be amended other than by an instrument in writing signed by each of the Company, Enstar, Trident, the Company Principals and the Company Principal Shareholders; provided, that this Agreement may not be amended in a manner that materially and adversely affects the rights or obligations of the Employee Shareholders without the approval by holders of a majority of the Company Shares held by the Employee Shareholders. No provision of this Agreement may be waived, discharged or terminated other than by an instrument in writing signed by the Party against whom the enforcement of such waiver, discharge or termination is sought; provided, that the majority in interest of the Company Principal Shareholders may waive, discharge or terminate any condition set forth herein to the obligations of the Company Principal Shareholders and the Employee Shareholders.

(i) *Assignment; No Third Party Beneficiaries.* This Agreement shall not be assignable or otherwise transferable by a Party without the prior consent of the Company, Enstar and the Company Principals, and any attempt to so assign or otherwise transfer this Agreement without such consent shall be void and of no effect. This Agreement shall be binding upon the respective heirs, successors, legal representatives and permitted assigns of the Parties. Nothing in this Agreement shall be construed as giving any Person, other than the Parties and their heirs, successors, legal representatives and permitted assigns, any right, remedy or claim under or in respect of this Agreement or any provision hereof.

(j) *Notices.* All notices, consents, requests, instructions, approvals and other communications provided for in this Agreement shall be in writing and shall be deemed validly given upon personal delivery or one day after being sent by overnight courier service or by telecopy (so long as for notices or other communications sent by telecopy, the transmitting telecopy machine records electronic confirmation of the due transmission of the notice), at the following address or telecopy number, or at such other address or telecopy number as a Party may designate to the other Parties:

(i) if to the Company to:

Castlewood Holdings Limited
P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street

Hamilton HM JX
Fax: (441) 292-6603
Attention: Paul O Shea

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with a copy to:

Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103
Fax: (215) 988-2757
Attention: Daniel W. Krane, Esq.

(ii) if to Enstar to:

The Enstar Group, Inc.
The Thompson House
401 Madison Avenue
Montgomery, Alabama 36104
Fax: (646) 349-4897
Attention: John J. Oros

with a copy to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, NY 10022
Fax: (212) 909-6836
Attention: Robert F. Quaintance, Jr., Esq.

(iii) if to Trident or the Trident Funds to:

Trident II, L.P.
c/o Stone Point Capital LLC
20 Horseneck Lane
Greenwich, CT 06830
Fax: (203) 862-2924
Attention: David J. Wermuth, Esq.
Principal and General Counsel

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY
Attention: Robert J. Sullivan, Esq.
Todd E. Freed, Esq.

10036
Fax:
(917) 777-2000
Attention:

(iv) if to DS, POS, NAP, the Company Principal Shareholders or the Employee Shareholders to:

Paul O Shea
Allegro Insurance & Risk Management Ltd.
Burnaby Building
16 Burnaby Street
Hamilton, HM08
Bermuda
Fax: (441) 292-6603
Attention: Paul O Shea

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with a copy to:

Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103
Fax: (215) 988-2757
Attention: Daniel W. Krane, Esq.

(k) *Interpretation.* When a reference is made in this Agreement to Sections or Exhibits, such reference shall be to a Section of or Exhibit to this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation.

(l) *Severability.* If any term or provision of this Agreement is held to be invalid, illegal, incapable of being enforced by any rule of law, or public policy, or unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the Parties to the maximum extent possible. In any event, the invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of this Agreement, including that provision, in any other jurisdiction.

(m) *Entire Agreement.* This Agreement, including the Exhibits and schedules attached hereto, the Merger Agreement and the Confidentiality Agreement constitute the full and entire understanding and agreement of the Parties with respect to the subject matter hereof and supersede all other prior understandings or agreements among the Parties relating to the subject matter hereof.

(n) *Section Headings.* The article and section headings of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

(o) *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[Remainder of page intentionally left blank.]

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

CASTLEWOOD HOLDINGS LIMITED

By: /s/ R. J. HARRIS

Name: R. J. Harris

Title: Chief Financial Officer

THE ENSTAR GROUP, INC.

By: /s/ NIMROD T. FRAZER

Name: Nimrod T. Frazer

Title: Chairman and CEO

TRIDENT II, L.P.

By: Trident Capital II, L.P.

Its sole general partner

By: DW Trident GP, LLC, a general partner

By: /s/ DAVID WERMUTH

Name: David Wermuth

Title: Principal

MARSH & McLENNAN CAPITAL PROFESSIONALS FUNDS, L.P.

By: Stone Point Capital LLC, as manager

By: /s/ DAVID WERMUTH

Name: David Wermuth

Title: Principal

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MARSH & McLENNAN EMPLOYEES
SECURITIES COMPANY, L.P.

By: Marsh & McLennan GP I, Inc.,

Its sole general partner

By: Stone Point Capital LLC, its attorney-in-fact

By: /s/ DAVID WERMUTH

Name: David Wermuth

Title: Principal

DOMINIC F. SILVESTER

/s/ DOMINIC F. SILVESTER

PAUL J. O SHEA

/s/ PAUL J. O SHEA

NICHOLAS A. PACKER

/s/ NICHOLAS A. PACKER

The COMMON SEAL of R&H TRUST CO. (NZ) LIMITED, as trustee of THE LEFT TRUST was hereunto affixed in the presence of

By: /s/ BRYCE M. R. SMITH

Name: Bryce M. R. Smith

Title: Director

By: /s/ PRUE J. ANDERSON

Name: Prue J. Anderson

Title: Director

[Affixed Seal]

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The COMMON SEAL of R&H TRUST CO. (BVI) LTD., as trustee of THE RIGHT TRUST was hereunto affixed in the presence of

By: /s/ EDITH STEEL

Name: Edith Steel

Title: Director

By: /s/ KENNETH MORGAN

Name: Kenneth Morgan

Title: Director

[Affixed Seal]

The COMMON SEAL of R&H TRUST CO. (BVI) LTD., as trustee of THE ELBOW TRUST was hereunto affixed in the presence of

By: /s/ EDITH STEEL

Name: Edith Steel

Title: Director

By: /s/ KENNETH MORGAN

Name: Kenneth Morgan

Title: Director

[Affixed Seal]

The COMMON SEAL of R&H TRUST CO. (BVI) LTD., as trustee of THE HOVE TRUST was hereunto affixed in the presence of

By: /s/ EDITH STEEL

Name: Edith Steel

Title: Director

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By: /s/ KENNETH MORGAN

Name: Kenneth Morgan

Title: Director

[Affixed Seal]

STEVE ALDOUS

/s/ STEVE ALDOUS

ANDY BROADBENT

/s/ ANDY BROADBENT

STEVE GIVEN

/s/ STEVE GIVEN

DAVID GRISLEY

/s/ DAVID GRISLEY

DAVID HACKETT

/s/ DAVID HACKETT

RICHARD HARRIS

/s/ RICHARD HARRIS

TIM HOUSTON

/s/ TIM HOUSTON

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ADRIAN KIMBERLEY

/s/ ADRIAN KIMBERLEY

STEVE NORRINGTON

/s/ STEVE NORRINGTON

DAVID ROCKE

/s/ DAVID ROCKE

DUNCAN SCOTT

/s/ DUNCAN SCOTT

ALAN TURNER

/s/ ALAN TURNER

DUNCAN McLAUGHLIN

/s/ DUNCAN McLAUGHLIN

KARL WALL

/s/ KARL WALL

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. *INDEMNIFICATION OF DIRECTORS AND OFFICERS*

New Enstar is a Bermuda exempted company. Section 98 of the Bermuda Companies Act provides generally that a Bermuda company may indemnify its directors, officers and auditors against any liability which by virtue of any rule of law would otherwise be imposed on them in respect of any negligence, default, breach of duty or breach of trust, except in cases where such liability arises from fraud or dishonesty of which such director, officer or auditor may be guilty in relation to the company. Section 98 further provides that a Bermuda company may indemnify its directors, officers and auditors against any liability incurred by them in defending any proceedings, whether civil or criminal, in which judgment is awarded in their favor or in which they are acquitted or granted relief by the Supreme Court of Bermuda pursuant to section 281 of the Companies Act.

The second amended and restated bye-laws of New Enstar will provide that New Enstar will indemnify its officers and directors in respect of their actions and omissions, except in respect of their fraud or dishonesty. New Enstar s second amended and restated bye-laws will provide that its shareholders waive all claims or rights of action that they might have, individually or in right of the company, against any of the company s directors or officers for any act or failure to act in the performance of such director s or officer s duties, except in respect of any fraud or dishonesty of such director or officer. Section 98A of the Companies Act permits New Enstar to purchase and maintain insurance for the benefit of any officer or director in respect of any loss or liability attaching to him in respect of any negligence, default, breach of duty or breach of trust, whether or not New Enstar may otherwise indemnify such officer or director. New Enstar has purchased and maintains a directors and officers liability policy for such a purpose.

In addition to these provisions of New Enstar s second amended and restated bye-laws, New Enstar expects to enter into indemnification agreements with each of its directors, a form of which is filed as Exhibit 10.2 hereto. The indemnification agreements will provide New Enstar s directors with indemnification to the maximum extent permitted by Bermuda law.

ITEM 21. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a) *Exhibits.*

The following exhibits are included as exhibits to this Registration Statement. Those exhibits below incorporated by reference herein are indicated as such by the information supplied after this exhibit. If no such information appears after an exhibit, such exhibit is filed herewith unless otherwise indicated.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of May 23, 2006, among Castlewood Holdings Limited, CWMS Subsidiary Corp. and The Enstar Group, Inc. Attached as Annex A to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
2.2	

Recapitalization Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, The Enstar Group, Inc., Trident II, L.P., Marsh & McLennan Capital Professionals Fund, L.P., Marsh & McLennan Employees Securities Company, Dominic F. Silvester, Paul J. O Shea, Nicholas A. Packer; R&H Trust Co. (NZ) Limited and R&H Trust Co. (BVI) Ltd. and certain other parties named therein. Attached as Annex C to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.

2.3 Support Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, J. Christopher Flowers, Nimrod T. Frazer, and John J. Oros. Attached as Annex B to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.

3.1** Memorandum of Association of Castlewood Holdings Limited.

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Exhibit Number	Description
3.2**	Form of Second Amended and Restated Bye-Laws of Enstar Group Limited.
4.1	Form of Certificate for the Ordinary Share, par value $1.00 per share.*
5.1**	Form of Opinion of Conyers Dill & Pearman.
8.1	Form of Opinion of Debevoise & Plimpton LLP.
8.2	Form of Opinion of Drinker Biddle & Reath LLP.
8.3**	Form of Opinion of Conyers Dill & Pearman (included in Exhibit 5.1).
10.1**	Form of Registration Rights Agreement.
10.2**	Form of Director Indemnity Agreement.
10.3**	Tax Indemnification Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, The Enstar Group, Inc. and J. Christopher Flowers.
10.4**	Letter Agreement, dated as of May 23, 2006, among The Enstar Group, Inc. and its Directors.
10.5**	Letter Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, T. Whit Armstrong and T. Wayne Davis.
10.6**	Employment Agreement, dated May 23, 2006, between Castlewood Holdings Limited and Paul O Shea.
10.7**	Amended and Restated Employment Agreement, dated May 23, 2006, between Castlewood Holdings Limited and Dominic F. Silvester.
10.8**	

	Amended and Restated Employment Agreement, dated May 23, 2006, between Castlewood Holdings Limited and Nicholas Packer.
10.9**	Form of Employment Agreement, between Castlewood Holdings Limited, Castlewood (US) Inc. and John J. Oros.
10.10**	License Agreement, dated October 27, 2005, between Castlewood (US) Inc. and J.C. Flowers & Co. LLC.
10.11**	Castlewood Holdings Limited 2006 Equity Incentive Plan.
10.12**	Castlewood Holdings Limited 2006-2010 Annual Incentive Compensation Plan.
15.1	Deloitte & Touche Letter Regarding Unaudited Interim Financial Information (Castlewood Holdings Limited).
15.2	Deloitte & Touche LLP Letter Regarding Unaudited Interim Financial Information (The Enstar Group, Inc.).
21.1**	List of Subsidiaries.
23.1	Consent of Deloitte & Touche (for Castlewood Holdings Limited).
23.2	Consent of Deloitte & Touche LLP (for The Enstar Group, Inc.).
23.3	Consent of Conyers Dill & Pearman (included in Exhibit 5.1 and Exhibit 8.3).
23.4	Consent of Debevoise & Plimpton LLP (included in Exhibit 8.1).
23.5	Consent of Drinker Biddle & Reath LLP (included in Exhibit 8.2).
23.6	Consent of Deloitte & Touche (for B.H. Acquisition Ltd.).
23.7	Consent of Ernst & Young LLP (for Green Tree Investment Holdings II, LLC and Green Tree Investment Holdings III, LLC).

24.1** Powers of Attorney (included in signature page).
99.1** Form of Proxy Card.

* To be filed by amendment.

** Previously filed.

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(b) *Financial Statement Schedules.*

Financial Statement Schedules have been omitted because they are inapplicable or the information required to be set forth therein is contained, or incorporated by reference, in the consolidated financial statements of Castlewood or Enstar.

ITEM 22. ***UNDERTAKINGS***

The undersigned registrant hereby undertakes:

(1) That, prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(2) That every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective and that, for purposes of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(4) To respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(5) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Hamilton, Bermuda, on November 6, 2006.

CASTLEWOOD HOLDINGS LIMITED

By: /s/ Richard J. Harris

Name: Richard J. Harris

Title: Chief Financial Officer

Pursuant to the requirements of this Securities Act, this Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ Dominic F. Silvester Dominic F. Silvester	Chief Executive Officer and Director	November 6, 2006
/s/ Richard J. Harris Richard J. Harris	Chief Financial Officer and Principal Accounting Officer	November 6, 2006
* James Carey	Director	November 6, 2006
* Cheryl D. Davis	Director	November 6, 2006
* J. Christopher Flowers	Director	November 6, 2006
* Nimrod T. Frazer	Director	November 6, 2006
* Meryl Hartzband	Director	November 6, 2006

*	Director	November 6, 2006
Paul J. O Shea		
*	Director	November 6, 2006
John J. Oros		

*By: /s/ Richard J. Harris

Richard J. Harris
Attorney-in-Fact

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EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of May 23, 2006, among Castlewood Holdings Limited, CWMS Subsidiary Corporation and The Enstar Group, Inc. Attached as Annex A to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
2.2	Recapitalization Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, The Enstar Group, Inc., Trident II, L.P., Marsh & McLennan Capital Professionals Fund, L.P., Marsh & McLennan Employees Securities Company, Dominic F. Silvester, Paul J. O Shea, Nicholas A. Packer; R&H Trust Co. (NZ) Limited and R&H Trust Co. (BVI) Ltd. and certain parties named therein. Attached as Annex C to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
2.3	Support Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, J. Christopher Flowers, Nimrod T. Frazer, and John J. Oros. Attached as Annex B to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
3.1**	Memorandum of Association of Castlewood Holdings Limited.
3.2**	Form of Second Amended and Restated Bye-Laws of Enstar Group Limited.
4.1	Form of Certificate for the Ordinary Share, par value $1.00 per share.*
5.1**	Form of Opinion of Conyers Dill & Pearman.
8.1	Form of Opinion of Debevoise & Plimpton LLP.
8.2	Form of Opinion of Drinker Biddle & Reath LLP.
8.3**	Form of Opinion of Conyers Dill & Pearman (included in Exhibit 5.1).
10.1**	Form of Registration Rights Agreement.

10.2**	Form of Director Indemnity Agreement.
10.3**	Tax Indemnification Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, The Enstar Group, Inc. and J. Christopher Flowers.
10.4**	Letter Agreement, dated as of May 23, 2006, among The Enstar Group, Inc. and its Board of Directors.
10.5**	Letter Agreement, dated as of May 23, 2006, among Castlewood Holdings Limited, T. Whit Armstrong and T. Wayne Davis.
10.6**	Employment Agreement, dated May 23, 2006, among Castlewood Holdings Limited and Paul O Shea.
10.7**	Amended and Restated Employment Agreement, dated May 23, 2006, between Castlewood Holdings Limited and Dominic F. Silvester.
10.8**	Amended and Restated Employment Agreement, dated May 23, 2006, between Castlewood Holdings Limited and Nicholas Packer.
10.9**	Form of Employment Agreement, between Castlewood Holdings Limited, Castlewood (US) Inc. and John J. Oros.
10.10**	License Agreement, dated October 27, 2005, between Castlewood (US) Inc. and J.C. Flowers & Co. LLC.
10.11**	Castlewood Holdings Limited 2006 Equity Incentive Plan.
10.12**	Castlewood Holdings Limited 2006-2010 Annual Incentive Compensation Plan.
15.1	Deloitte & Touche Letter Regarding Unaudited Interim Financial Information (Castlewood Holdings Limited).
15.2	Deloitte & Touche LLP Letter Regarding Unaudited Interim Financial Information (The Enstar Group, Inc.).
21.1**	List of Subsidiaries.

23.1 Consent of Deloitte & Touche (for Castlewood Holdings Limited).

23.2 Consent of Deloitte & Touche LLP (for The Enstar Group, Inc.).

23.3 Consent of Conyers Dill & Pearman (included in Exhibit 5.1 and Exhibit 8.3).

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Exhibit Number	Description
23.4	Consent of Debevoise & Plimpton LLP (included in Exhibit 8.1).
23.5	Consent of Drinker Biddle & Reath LLP (included in Exhibit 8.2).
23.6	Consent of Deloitte & Touche (for B.H. Acquisition Ltd.).
23.7	Consent of Ernst & Young LLP (for Green Tree Investment Holdings II, LLC and Green Tree Investment Holdings III, LLC).
24.1**	Powers of Attorney (included in signature page).
99.1**	Form of Proxy Card.

* To be filed by amendment.

** Previously filed.