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GORDIAN RUNOFF LIMITED
NEW ZEALAND BRANCH

FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2009

P# 28
21 JUN 2010

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

Annual Report

The Board of Directors present their Annual Report including the financial statements of the Branch for the year ended 31 December 2009 and the auditor's report thereon.

For and on behalf of the Board:

Nick Packer, Director

15/6/2010

Jayn Skinner, Director

15/6/2010

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Year ended 31 Dec 2009 $	Year ended 31 Dec 2008 $
Claims (expense)/benefit		(127,033)	63,484
Reinsurance and other recoveries expense	5(b)	(29,985)	(24,212)
Net claims (expense)/benefit	7	(157,018)	39,272
Underwriting (loss)/income		(157,018)	39,272
		-	-
Investment income	5(a)	68,755	185,020
Adjusted underwriting result		(88,263)	224,292
Management expenses	5(b)	(14,170)	(41,099)
Operating (loss)/profit before tax		(102,433)	183,193
Income tax benefit/(expense)	6	30,730	(54,958)
Profit for year		(71,703)	128,235
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to members of Gordian RunOff Limited		(71,703)	128,235

The accompanying notes form an integral part of these financial statements.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Notes	As at 31 Dec 2009 $	As at 31 Dec 2008 $
Current Assets			
Cash		1,996,440	1,924,072
Reinsurance & other recoveries receivable	10	6,621	9,894
Other	9	3,981,428	3,930,856
Total Current Assets		5,984,489	5,864,822
Non Current Assets			
Reinsurance & other recoveries receivable	10	-	26,206
Financial assets at fair value through profit or loss	8	544,849	541,206
Total Non Current Assets		544,849	567,412
Total Assets		6,529,338	6,432,234
Current Liabilities			
Outstanding claims	10	60,235	43,494
Trade creditors	11	567,428	598,158
Other	11	76,032	50,572
Total Current Liabilities		703,695	692,224
Non Current Liabilities			
Outstanding claims	10	260,975	154,211
Total Non Current Liabilities		260,975	154,211
Total Liabilities		964,670	795,863
Net Assets		5,564,668	5,636,371
Head Office Account			
Accumulated surplus	19	5,564,668	5,636,371

The accompanying notes form an integral part of these financial statements.

GORDIAN RUNOFF LIMITED

NEW ZEALAND BRANCH

STATEMENT OF CHANGES IN EQUITY

FOR YEAR ENDED 31 DECEMBER 2009

	Head Office Account $
At 1 January 2008	5,508,136
Profit for the year	128,235
At 31 December 2008	5,636,371
Loss for the year	(71,703)
At 31 December 2009	5,564,668

The accompanying notes form an integral part of these financial statements.

1. Statement of accounting policies

Basis of reporting:

Gordian Runoff Limited (the "Company") is an overseas Company registered under the Companies Act 1993. Gordian Runoff Limited New Zealand Branch (the "Branch") is a branch of the Company. The branch is registered under the Companies Act 1993 and is a reporting entity under the Financial Reporting Act 1993.

The financial statements of the Branch for the year ended 31 December 2009 were authorised for issue on the.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

The financial statements are presented in New Zealand dollars.

(i) Operating revenue

Operating revenue comprises general insurance premiums, reinsurance and other recoveries and investment income.

(ii) Acquisition Costs

The direct and indirect costs of generating premium revenue are called acquisition costs.

Acquisition costs comprise Commissions and Fire Services Levy paid to regulatory authorities. These costs are expensed as incurred.

(iii) Outstanding claims

The liability for outstanding claims at balance date comprises claims which have been reported but not yet paid, claims incurred but not yet reported ("IBNR claims"), and the anticipated direct and indirect costs of settling these claims. The liability is measured as the present value of the expected future ultimate costs of settling claims.

Where there is sufficient volume of claims of a particular type claims liability are assessed using statistical estimation referring to past experience. Other types of claims are assessed on a case by case basis.

(iv) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims and outstanding claims are recognised as revenue. Reinsurance and other recoveries are assessed based on a review of individual paid claims and outstanding claims.

The future benefit attributable to reinsurance and other recoveries is recognised as an asset in the statement of financial position. A provision is raised for any doubtful debts based on a review of all outstanding amounts at the end of the year. Bad debts are written off during the year in which they are identified.

(v) Investments

Valuation of investments:

Investments are reported at fair market value. The market value of investments is determined by market quotations. Unrealised gains and losses on investments are reported in the statement of comprehensive income. Investment revenue is brought to account on an accrual basis.

Investments comprise financial assets held to back insurance liabilities.

1. Statement of accounting policies (continued)

Financial assets held to back insurance liabilities

Financial assets held to back the insurance liabilities of the Branch principally comprise a New Zealand dollar denominated government bond and are managed and performance evaluated on a fair value basis for both external and internal reporting purposes.

All financial assets held to back insurance liabilities are designated as fair value through profit or loss upon initial recognition, in accordance with the provisions of NZIFRS 4 Appendix D. The measurement of general insurance liabilities under NZ IFRS 4 Appendix D incorporates current information; measuring the financial assets backing these general insurance liabilities at fair value eliminates or significantly reduces a potential measurement inconsistency which would arise if the assets were classified as available for sale or measured at amortised cost.

Financial assets designated as fair value through profit or loss are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date.

Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which a commitment is made to purchase or sell the asset.

Net gains or losses on financial assets designated at fair value through profit or loss exclude interest and dividend income.

(vi) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed.
In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through profit or loss in the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

In respect of available-for-sale debt instruments, the loss is reversed through profit or loss.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(vii) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

(viii) Income tax

The entity is not liable to income tax in New Zealand as the entity was a non-resident throughout 2008-2009 and did not carry on business through a fixed establishment in New Zealand. Tax benefit/expense relates to the branch's proportion of the payable by the Company in Australia.

(ix) Goods and Services Tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST.

(x) Comparative figures

The comparative figures represent the results for the year ended 31 December 2008, and have been adjusted, where necessary, to conform to the basis of presentation and the classification used in the current year.

(xi) Differential Reporting

The branch qualifies for differential reporting because it is not publicly accountable and there is no separation between its owners and the governing body.

The Branch has taken advantage of all differential reporting concessions available to it.

(xii) Going concern

The directors of the Company believe that the Branch has access to sufficient resources to meet its future liabilities and commitments. For this reason the directors continue to adopt the going concern assumption in the preparation of the Branch financial statements.

The New Zealand branch is part of Gordian Runoff Limited, which is incorporated in Australia. The assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying balance sheet and its debts may result in claims against assets not appearing thereon.

(xiii) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards ("IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions.

(xiv) Standards and interpretations effective in the current period

In the current year, the Branch has adopted NZ IAS 1 Presentation of Financial Statements (revised 2007) which is applicable for annual reporting periods beginning on or after 1 January 2009. Initial application of this standard did not affect any of the amounts recognised in the financial statements, but changed the presentation of the statement of comprehensive income and statement of changes in equity. There was no change in accounting policy relating to recognition or measurement due to the initial adoption of this standard.

2. Critical accounting judgements and estimates

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgments are applied are described below.

(a) The ultimate liability arising from claims made under insurance contracts

Provision is made at year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Branch.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be reported to the insurer until many years after the events giving rise to the claims has happened. The liability class of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. For the short tail class, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Branch uses a variety of estimation techniques, generally based upon analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- the impact of large losses;
- movements in industry benchmarks.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Branch adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year-end are detailed in note 3.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Branch may not receive amounts due to it and these amounts can be reliably measured.

3. Actuarial methods and assumptions

The Branch ceased writing new business and renewals in late 1999 and has run an orderly runoff since. This process for determining the value of the outstanding claims liability is described below.

Claims estimates are derived from analysis of the results of several different actuarial models. These models take case estimates as well as payments into account and assume that reported incurred amounts or reported payment amounts will develop steadily from period to period. Other models adopt an ultimate loss ratio for each year that reflects both the long term expected level, as well as incorporating recent experience. The analysis is performed by underwriting year for the inwards reinsurance class and by accident year for the direct insurance class.

Claims are first estimated on an undiscounted basis and are then discounted to allow for the time value of money. The valuation methods adopted include an implicit allowance for future inflation but do not identify the explicit rate. This allows for both general economic inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as developments of legal precedent.

The liability class of business may be subject to the emergence of new types of latent claims, but no specific allowance is included for this as at the balance sheet date. Such uncertainties are considered when setting the risk margin appropriate for this class.

A description of the processes used to determine the key assumptions is provided below:

The **average weighted term to settlement** is calculated separately by class of business, based on historical settlement patterns.

The **reinsurance percentage** for the direct insurance business is calculated based on past reinsurance recovery rates and the structure of the reinsurance arrangements in place.

The **discount rates** are derived from market yields on Government securities as at the balance date, in the currency of the expected claim payments.

Expense rate Claim handling expenses are calculated based on the projected costs of administering the remaining claims until expiry.

The **ultimate to incurred claims ratio** is derived by accident or underwriting year based on historical development of claims from period to period. The effect of changes in the assumptions have been shown in the reconciliations of general insurance assets and liabilities below.

Process for determining risk margin

The risk margin was determined initially for each portfolio, allowing for the uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account past volatility in general insurance claims, potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, and the general insurance environment. The estimate of uncertainty is generally greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of each portfolio. The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision that is intended to have a 75% probability of adequacy.

Risk Margins applied	2009	2008
	%	%
	0.8	1.6

3. Actuarial methods and assumptions (continued)

Sensitivity analysis – general insurance contracts

There are a number of variables which impact the amounts recognised in the financial statements arising from insurance contracts.

The profit or loss and equity of the branch are sensitive to movements in a number of key variables as described below.

Variable	Description of variable
Average weighted term to settlement	Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would lead to claims being paid sooner than anticipated.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money.
Expense rate	An estimate for the internal costs of administering claims is included in the outstanding claims liability.
Ultimate to incurred claims ratio	The estimated ultimate claims cost is generally greater than the claims reported as incurred to date, due to claims that are incurred but not reported (IBNR) or due to future developments on existing claims.
Reinsurance percentage	The direct class assumes money will be recoverable from reinsurers on future claims paid.

The following table provides an analysis of the sensitivity of the profit after income tax and total equity to changes in these assumptions both gross and net of reinsurance.

3. Actuarial methods and assumptions (continued)

2009

Variable	Change in variable	Assumption at 12/09 Gross	Net	Profit/(Loss) (after tax) Gross of Reinsurance $	Net of Reinsurance $
Average weighted term to settlement	+0.5 year	2.6 years	2.6 years	(5,099)	(6,138)
	-0.5 year			6,973	5,976
Reinsurance percentage	+1%	n/a	0.0%	-	-
(as % of gross IBNR)	-1%			-	-
Discount Rate[1]	+1%	5.8%	5.8%	5,528	10,609
	-1%			(15,006)	(11,345)
Expense Rate	+1%	2.4%	n/a	(2,196)	(2,196)
	-1%			2,196	2,196
Ultimate to incurred claims ratio[2]	+1%	132.0%	103.0%	(48,975)	(54,055)
	-1%			9,021	11,459

2008

Variable	Change in variable	Assumption at 12/08 Gross	Net	Profit/(Loss) (after tax) Gross of Reinsurance $	Net of Reinsurance $
Average weighted term to settlement	+0.5 year	3.3 years	3.4 years	(2,136)	(1,719)
	-0.5 year			3,118	2,344
Reinsurance percentage	+1%	n/a	0.0%	-	4
(as % of gross IBNR)	-1%			-	(83)
Discount Rate[1]	+1%	3.0%	4.0%	5,369	4,428
	-1%			(6,279)	(4,769)
Expense Rate	+1%	17.0%	n/a	(1,187)	(1,187)
	-1%			1,187	1,187
Ultimate to incurred claims ratio[2]	+1%	87.0%	102.0%	(46,915)	(23,758)
	-1%			3,072	2,483

1 - This sensitivity reflects the liability movements only. As assets are invested to match the term of liabilities there is little overall profit impact from a change to interest rates.

2 - This ratio has only been adjusted for years that are not considered to be fully developed.

4. Risk management policies and procedures and financial instruments

Operations of the Branch are governed by the risk management policies and practices of the Company. The Company has a risk management strategy for identifying, managing, monitoring and reporting on risks that could have a material impact on their operations.

Key elements of the risk management strategy include a governance structure and risk management framework, which incorporates specific risk strategies and responsibilities for material risk categories.

Governance

The Company's Board of Directors must ultimately be satisfied that appropriate, adequate and effective risk management systems are in place, and that these systems are operating effectively in practice, having regard to the risks they aim to control. The Board reviews key risk management information to satisfy itself in this regard and reviews and approves the risk management and reinsurance management strategies annually.

Day to day management, including implementation of strategies, policies and processes that support the risk management framework approved by the Board, is undertaken by executive management. Additional assurance is received from the appointment of an Appointed Actuary, a Peer (reviewing) Actuary and an Appointed Auditor.

The Company is also subject to the governance and risk management practices of its ultimate parent company.

Risk management framework

Key elements of the risk framework include development and maintenance of a risk management culture within the Company, assignment of risk management roles and responsibilities, creation of dynamic risk management processes to identify, monitor and manage material risks, and a regular risk management framework review process.

Financial risks include:

Interest rate risk

Interest rate risk arises to the extent that there is a mismatch between the fixed-interest portfolios used to back the outstanding claims liability and those outstanding claims.

The accounting policy notes describe the policies used to measure and report the assets and liabilities of the branch. Where the applicable market value is determined by discounting future cash flows, movements in interest rates will result in a reported unrealised gain or loss in the profit and loss account.

The branch seeks to reduce its interest rate risk through the use of investment portfolios as a hedge against its insurance liabilities. To the extent that these assets and liabilities can be matched, unrealised gains or losses on revaluation of liabilities resulting from interest rate movements will be offset by unrealised losses or gains on revaluation of investment assets. The portfolio is held in New Zealand dollars.

Interest rate sensitivity analysis

The following table demonstrates the impact of a 100 basis point change in New Zealand interest rates, with all other variables held constant, on the branch's shareholder profit after tax. It is assumed that the change occurs as at the reporting date (31 December) and there are concurrent movements in interest rates and parallel shifts in yield curves.

Change in Variable	31 Dec 09 Impact on Profit after tax $	31 Dec 08 Impact on Profit after tax $
+100 basis points	(9,630)	(15,552)
- 100 basis points	9,898	14,985

4. Risk management policies and procedures and financial instruments (continued)

Reinsurance risk management is the process of transferring insurance risk to another insurer for a price. It is a continual process whereby executive management select, monitor, review, control and document reinsurance arrangements, in accordance with a reinsurance management strategy approved by the Board. Reinsurers must carry an appropriate financial strength rating.

Concentration risk is the risk of exposure due to concentration of activity in certain geographical locations, industries or counterparties.

The Branch has insurance risk throughout New Zealand and therefore has limited geographic concentration risk on insurance contracts; exposures are monitored but not limited by region. Limits are contained in underwriting policies and are embedded in systems and processes.

Credit risk arising from insurance contracts principally relates to the risk of default by reinsurers.

Credit risk arising from assets is the risk that a loss will be incurred because customers or counterparties fail to discharge their contractual obligations.

The Branch's principal exposure to credit risk is from cash and cash equivalents, financial assets at fair value through profit and loss and net related party receivables:

- Cash and cash equivalent balances are held with registered banks in New Zealand.
- Financial assets at fair value through profit or loss comprise a bond with the New Zealand Public Trust Office.
- The net related party receivable consists of receivables from the Company and other related party entities offset by payables to the Company.

The total credit exposure from the above accounts is $5,879,257 (2008: $5,747,404); this compares to the reported total Company net assets of AUD$607,176,000 at 31 December 2009 (AUD$574,906,000 at 31 December 2008).

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The only financial assets or liability subject to interest rate risk are the cash at bank and the government bond classified as financial assets at fair value through profit or loss. The bond matures in 2011.

Fair Value
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised, in respect of each class of financial asset, financial liability and other investments are under and in Note 1.

4. Risk management policies and procedures and financial instruments (continued)

Categories of financial instruments

	Note	2009 $	2008 $
Financial assets			
Fair value through the profit and loss:			
Financial assets at fair value through profit and loss	8	544,849	541,206
Cash & cash equivalents		1,996,440	1,924,072
Related party receivable	9	3,981,428	3,930,856
Financial Liabilities			
Trade creditors	11	643,460	648,730

The recorded bid price equates to net fair value for listed debt securities. For the following financial instruments, the cost carrying amount is considered to equate to their fair value:

- cash deposits
- receivables
- trade creditors.

5. Operating surplus

	Year ended 31 Dec 2009 $	Year ended 31 Dec 2008 $
(a) Operating revenue		
Operating surplus has been arrived at after including:		
Reinsurance and other recoveries expense	(29,985)	(24,212)
Investment income	68,755	185,020
Total operating revenue	38,770	160,808
Investment income		
Interest income	64,659	152,711
Revaluation of investments	4,096	32,309
Net investment income	68,755	185,020

5. Operating surplus (continued)

(b) Operating surplus before income tax

	Year ended 31 Dec 2009 $	Year ended 31 Dec 2008 $
Gross claims benefit/ (expense)	(127,033)	63,484
Less: Reinsurance and other recoveries revenue/(expense)	(29,985)	(24,212)
Net claims expense (Note 7)	(157,018)	39,272
Underwriting result	(157,018)	39,272
Add: Investment income	68,755	185,020
Less: Management expenses	14,170	41,099
Operating surplus before income tax	(102,433)	183,193

6. Income tax

The entity is not liable to income tax in New Zealand as the entity was a non-resident throughout 2009 and 2008 and did not carry on business through a fixed establishment in New Zealand. Tax expense relates to the branch's proportion of the tax payable by the Company in Australia.

	Year ended 31 Dec 2009 $	Year ended 31 Dec 2008 $
Operating (loss)/surplus	(102,433)	183,193
Prima facie income tax on operating surplus at 30%	30,730	(54,958)
Other adjustments	-	-
Income tax benefit/(expense)	30,730	(54,958)

7. Net claims (benefit)

	Year ended 31 Dec 2009 $	Year ended 31 Dec 2008 $
Current		
Gross claims expense/ (benefit) – discounted	127,033	(63,484)
Reinsurance and other recoveries expense – discounted	29,985	24,212
Net claims expense/ (benefit) – discounted	157,018	(39,272)
Net claims expense/ (benefit)	157,018	(39,272)

Net claims incurred

Current year claims relate to risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous years.

	Year ended 31 Dec 2009	31 Dec 2009 Prior Year	31 Dec 2009 Total	Year ended 31 Dec 2008	31 Dec 2008 Prior Year	31 Dec 2008 Total
	$	$	$	$	$	$
Gross claims incurred and related expenses – undiscounted	-	148,160	148,160	-	(113,239)	(113,239)
Reinsurance and other recoveries – undiscounted	-	53,069	53,069	-	39,312	39,312
Net claims incurred – undiscounted	-	201,229	201,229	-	(73,927)	(73,927)
Discount and Discount movement - gross claims incurred	-	(21,127)	(21,127)	-	49,755	49,755
Discount and Discount movement - reinsurance and other recoveries	-	(23,084)	(23,084)	-	(15,100)	(15,100)
Net discount movement	-	(44,211)	(44,211)	-	34,655	34,655
Net claims incurred	-	157,018	157,018	-	(39,272)	(39,272)

8. Financial assets at fair value through profit or loss

	As at 31 Dec 2009 $	As at 31 Dec 2008 $
Non Current		
Government fixed interest security	544,849	541,206
	544,849	541,206

9. Other assets

	As at 31 Dec 2009 $	As at 31 Dec 2008 $
Current		
Related party receivable (See note 14)	3,981,428	3,930,856
	3,981,428	3,930,856

10. Outstanding claims

		As at 31 Dec 2009 $	As at 31 Dec 2008 $
(a)	Central estimate	365,496	220,800
	Prudential margin	2,496	2,560
	Discount to present value	(46,782)	(25,655)
	Liability for outstanding claims	321,210	197,705
	Comprising:		
	Current	60,235	43,494
	Non-current	260,975	154,211
		321,210	197,705
	Reinsurance and other recoveries	6,621	36,100
	Comprising:		
	Reinsurance and other recoveries- on outstanding claims		
	Current	-	8,312
	Non-current	-	26,206
		-	34,518
	Reinsurance and other recoveries- on paid claims		
	Current	6,621	1,582
		6,621	1,582
	Net outstanding claims	314,589	161,605

Net outstanding claims are made up of long tail reserves.

(b) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated by class of business as follows:

Short tail outstanding claims	2.96 years	2.94 years
Long tail outstanding claims	4.31 years	4.27 years

(c) The following average inflation rates and discount rates were used to measure the liability for outstanding claims:

Claims expected to be paid:		
Not later than 1 year		
- Discount rate	4.37% to 4.46%	2.60% to 4.22%
Later than 1 year		
- Discount rate	4.49% to 6.16%	2.56% to 4.15%

10. Outstanding claims (continued)

(d) The outstanding claims provisions are allocated between Australia and New Zealand based on case estimates. This reflects the fact that the portfolio is well into run-off and case estimates provide a sufficient basis for allocation.

(e) The Appointed Actuary is satisfied that the data adopted in the valuation of liabilities for the company as a whole was appropriate.

Reconciliation of movement in discounted outstanding claims liability

2009

	Gross	Reinsurance	Net
Amount outstanding brought forward	197,705	34,518	163,187
Claim payments/ recoveries during the period	(88,139)	(35,252)	(52,887)
Effect of changes in assumptions	211,644	734	210,910
Effect of changes in exchange rates	-	-	-
Amount outstanding carried forward	**321,210**	-	**321,210**

2008

	Gross	Reinsurance	Net
Amount outstanding brought forward	282,384	102,017	180,367
Claim payments/ recoveries during the period	(12,828)	(59,968)	47,140
Effect of changes in assumptions	(71,851)	(7,531)	(64,320)
Effect of changes in exchange rates	-	-	-
Amount outstanding carried forward	**197,705**	**34,518**	**163,187**

As described in note 1, the outstanding claims liability is the best estimate of the present value of the expected future payments, after the inclusion of a risk margin. At each balance date, the amount of the liability is reassessed and it is likely that changes will arise in the estimates of liabilities. The table under show the estimates of total ultimate claims at successive year ends.

10. Outstanding claims (continued)

Estimate of cumulative claims	Net	Gross
31 December 2003	28,047,909	37,040,290
31 December 2004	14,984,877	21,334,135
31 December 2005	13,439,091	19,648,424
31 December 2006	14,058,517	20,599,780
31 December 2007	14,408,550	21,097,905
31 December 2008	8,677,314	22,816,976
31 December 2009	9,144,581	23,631,529
Estimate of Cumulative Claims at 31 December 2009	9,144,581	23,631,529
Cumulative Payments	8,787,930	23,274,877
Undiscounted central estimate	**356,652**	**356,652**
Effect of Discounting	45,405	45,405
Discounted Central Estimate	**311,246**	**311,246**
Risk Margin		2,496
Claims Administration Expense Provision		7,467
Gross Outstanding Claims as per the Balance Sheet		**321,210**

11. Trade creditors

	As at 31 Dec 2009 $	As at 31 Dec 2008 $
Related party creditor due to tax residency status change	567,428	598,158
Other payables – related party creditors (See note 14)	76,032	50,572
	643,460	648,730

12. Auditors' remuneration

Auditor's remuneration for the year ended 31 December 2008 and 31 December 2009 was paid on the branch's behalf by the Company. For 2008 and 2009, the Appointed Auditor is Deloitte Touche Tohmatsu.

13. Segment information

The Branch operates solely in the general insurance industry in New Zealand.

14. Related party information

Enstar Group Limited and Enstar Australia Limited, both related entities within the wholly owned group, provide operational and administrative (including employee related) services to the Branch and the Company. The services are reflected in the accounts of the Company, and are provided in the normal course of business and on normal commercial terms and conditions. These services have not been reflected in the accounts of the Branch.

A receivable of $3,981,428 (2008: $3,981,428) from the Company has arisen from transactions relating to settlement of reinsurance claims and recoveries. $76,032 (2008: $50,572) is a payable relating to Church Bay Limited another related party within the group. In addition, there is $567,428 (2008: $598,158) payable to the Company due to tax residency status change.

15. Capital expenditure commitments

There are no capital expenditure commitments at balance date (2008: $nil).

16. Contingent liabilities

There are no contingent liabilities at balance date (2008: $nil).

17. Reinsurance programme

The general insurance activities carried out by Gordian Runoff Limited New Zealand Branch is covered by a global reinsurance protection programme. This programme covers the general insurance policies written by AMP General Insurance Limited and GIO General Insurance Limited and their controlled entities in Australia, New Zealand and the United Kingdom.

18. Rating of branch

Gordian Runoff Limited New Zealand Branch is rated BBB by Standard & Poors.

19. Head office account – accumulated surplus

As the insurer is in run-off and there is considered to be little risk of significant claims volatility in future periods, the Branch has not retained a specific amount for the purpose of financial soundness. The Company is in a positive net asset position.

	As at 31 Dec 2009 $	As at 31 Dec 2008 $
Opening balance- accumulated surplus	5,636,371	5,508,136
Operating (loss)/profit after tax	(71,703)	128,235
Closing balance- accumulated surplus	5,564,668	5,636,371

20. Capital Management

The Branch is not subject to any minimum capital requirements, and accordingly does not have its own capital management plan.

Capital is managed by the Company at a corporate level in accordance with requirements of its prudential regulator, shareholders and ratings agencies, without any specific regard to New Zealand capital levels.

The Branch aims to be self-sufficient in terms of cash flow. Surplus cash flows are transferred to the Company in Australia, and conversely cash flow deficits, if any, are supported by the Company. The Branch is required to have a security deposit with a face value of $500,000 with the New Zealand Public Trust office.

21. Events occurring after the reporting date.

Regulatory requirements for insurers in New Zealand are currently being reviewed. To date no final standards have been released. Management is actively reviewing the proposed changes as they arise to assess their impact on the business.

With the exception of the matter discussed above no matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect:

i. the entity's operations in future financial years; or

ii. the results of those operations in future financial years; or

iii. the entity's state of affairs in future financial years

Deloitte.

Independent Auditor's Report to the members of Gordian Runoff Limited - New Zealand Branch

We have audited the accompanying financial report of Gordian Runoff Limited - New Zealand Branch, which comprises the balance sheet as at 31 December 2009, and the statement of comprehensive income and statement of changes in head office account for the year ended on that date, a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 22.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with New Zealand law and generally accepted accounting practice. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our firm carries out other assurance engagements for Gordian Runoff Limited. The firm has no other relationship with or interests in Gordian Runoff Limited.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Opinion

We have obtained all the information and explanations we have required.

In our opinion:

1) the financial report of Gordian Runoff Limited - New Zealand Branch:

    a) gives a true and fair view of the New Zealand Branch's financial position as at 31 December 2009 and of its performance for the year ended on that date;

    b) complies with generally accepted accounting practice in New Zealand; and

2) proper accounting records have been kept by the New Zealand Branch, as far as appears from our examination of those records.

Fundamental Uncertainty

The New Zealand branch is part of Gordian Runoff Limited, which is incorporated in Australia. The assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying balance sheet and its debts may result in claims against assets not appearing thereon.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants
Sydney, 15 June 2010

GORDIAN RUNOFF LIMITED
ABN 11 052 179 647

DIRECTORS' REPORT
AND FINANCIAL REPORT
31 DECEMBER 2009

Contents:

Gordian RunOff Limited
Directors' Report

The Directors present their report on Gordian RunOff Limited for the year ended 31 December 2009.

The Entity is limited by shares and is incorporated and domiciled in Australia. The registered office is Level 5, Deutsche Bank Place, 126 Phillip Street, Sydney, NSW and the principal place of business is Level 9, 220 George Street, Sydney, NSW.

DIRECTORS

The names of the directors of the Company in office during the financial year and until the date of this report are:

Bruce Bollom
Paul O'Shea
Nick Packer
Gary Potts
Jann Skinner

Details relating to directors can be found in Notes 16 and 19.

PRINCIPAL ACTIVITIES

Gordian RunOff Limited is a wholly owned entity of the Enstar Group at 31 December 2009. The principal activities of Gordian RunOff Limited during the financial year 2009 were running off reinsurance and direct insurance portfolios. There have been no significant changes in the nature of those activities during the year.

REVIEW OF OPERATIONS AND RESULTS

Net profit for the year was $32,270,000 (2008: $124,235,000) after an income tax expense of $12,522,000 (2008: $53,143,000).

The operations have been outsourced to Enstar Australia Limited. Enstar's principal place of business is Level 9, 220 George Street, Sydney, NSW.

During 2009 the Australian Prudential Regulation Authority approved capital reductions of $80,700,000 and $106,800,000. Share capital has not yet been reduced but the value of the capital reduction approvals has been loaned to related parties.

DIVIDENDS

No dividends have been paid or proposed during the twelve month period ended 31 December 2009 (2008: nil).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the financial year.

EVENTS OCCURRING AFTER THE REPORTING DATE

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect:

i) the Company's operations in future financial years; or
ii) the results of those operations in future financial years; or
iii) the Company's state of affairs in future financial years.

LIKELY DEVELOPMENTS

Information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL

The Company's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or State or Territory.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Since the acquisition of the Company by Enstar Australia Holdings Pty Ltd, the Company has entered into a deed with each current director to which it agrees to indemnify, to the extent permitted by law, the director against any liability arising out of:

- The conduct of the business of the Company; and
- The discharge of the director's duties as a director of the Company

The current directors and officers of the Company are insured under the Enstar Group policy against certain liabilities as permitted by the Corporations Act.

ROUNDING

The Company is an entity of the kind referred to in ASIC Class Order 98/0100 (as amended) and, in accordance with that order, amounts in this Directors' Report and the accompanying financial report have been rounded to the nearest thousand, unless specifically stated otherwise.

Gordian RunOff Limited
Directors' Report (continued)

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF GORDIAN RUNOFF LIMITED

We have obtained an independence declaration from our auditor, Deloitte Touche Tohmatsu, a copy of which is attached to this report and forms part of the Directors' Report for the year ended 31 December 2009.

Signed in accordance with a resolution of the Directors.

Director

Signed at Sydney this ....22.......day of April 2010

Director

Signed at Sydney this ...22.........day of April 2010

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Gordian RunOff Limited
220 George Street
SYDNEY NSW 2000

22 April 2010

Dear Directors

Gordian RunOff Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Gordian RunOff Limited.

As lead audit partner for the audit of the financial statements of Gordian RunOff Limited for the financial year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S Alexander
Partner
Chartered Accountants

Gordian RunOff Limited
Statement of Comprehensive Income
For the year ended 31 December 2009

	Note	2009 $'000	2008 $'000
Inwards reinsurance premium (expense)/revenue		(1,398)	457
Outwards reinsurance premium revenue/(expense)		21	(1,617)
Net premium (expense)/revenue	5	**(1,377)**	**(1,160)**
Direct claims (benefit)/expense		(46,426)	(29,215)
Inwards reinsurance claims (benefit)/expense		(54,656)	18,742
Reinsurance & other recoveries revenue		7,197	9,343
Net claims incurred	6	**(108,279)**	**(19,816)**
Other underwriting income		-	**247**
Acquisition benefit	7	(381)	(135)
Other underwriting expenses	7	535	417
Underwriting expense/(benefit)		**154**	**282**
Underwriting result		**106,748**	**18,621**
Net investment (expense)/revenue	8	(58,947)	162,205
Other income		36	-
General administration expenses	7	3,045	2,465
Finance costs	7	-	984
Net profit before tax		**44,792**	**177,377**
Income tax expense attributable to operating profit	9	12,522	53,142
Profit for the year		**32,270**	**124,235**
Other comprehensive income for the year		-	-
Total comprehensive income for the year attributable to members of Gordian RunOff Limited		**32,270**	**124,235**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Gordian RunOff Limited
Balance Sheet
As at 31 December 2009

	Note	2009 $'000	2008 $'000
Current assets			
Cash and cash equivalents	20	171,460	234,377
Receivables	10	7,035	13,850
Reinsurance and other recoveries receivable	11	12,857	14,111
Other financial assets	12	360,924	311,334
Total current assets		**552,276**	**573,672**
Non-current assets			
Receivables	10	1,117	1,534
Reinsurance and other recoveries receivable	11	7,449	13,073
Other financial assets	12	275,409	388,398
Deferred tax assets	9	17,516	-
Total non-current assets		**301,491**	**403,005**
Total assets		**853,767**	**976,677**
Current liabilities			
Outstanding claims liability	13	43,731	55,713
Payables	14	3,046	10,215
Current tax liabilities		29,040	5,390
Total current liabilities		**75,817**	**71,318**
Non-current liabilities			
Outstanding claims liability	13	170,480	325,374
Payables	14	294	246
Deferred tax liability	9	-	4,833
Total non-current liabilities		**170,774**	**330,453**
Total liabilities		**246,591**	**401,771**
Net assets		**607,176**	**574,906**
Shareholders' equity			
Issued capital	15	1,463,100	1,463,100
Accumulated losses		(855,924)	(888,194)
Total shareholders' equity		**607,176**	**574,906**

The above Balance Sheet should be read in conjunction with the accompanying notes.

Gordian RunOff Limited
Statement of Changes in Equity
For the year ended 31 December 2009

	Note	Issued Capital $'000	Accumulated Losses $'000	Total $'000
Balance as at 1 January 2009		1,463,100	(888,194)	574,906
Net profit		-	32,270	32,270
Balance as at 31 December 2009		**1,463,100**	**(855,924)**	**607,176**
Balance as at 1 January 2008		1,610,100	(1,012,429)	597,671
Net profit		-	124,235	124,235
Change in equity - capital reduction	15	(147,000)	-	(147,000)
Balance as at 31 December 2008		**1,463,100**	**(888,194)**	**574,906**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Gordian RunOff Limited
Cash Flow Statement
For the year ended 31 December 2009

	Note		2009 $'000	2008 $'000
Cash flows from operating activities				
Premiums received/(paid)			4,729	(1,168)
Reinsurance and other recoveries			18,210	15,721
Dividends received			-	4,774
Interest received			27,920	44,134
Other sundry receipts			24	356
(Payments)/refunds of outward reinsurance			(2,983)	1,816
Claims paid			(58,542)	(43,719)
Other underwriting (costs)/benefits			(286)	(10)
Payments to suppliers			(36,861)	(23,364)
Income taxes (paid)/received			(11,221)	(36,468)
Cash flows from/(used in) operating activities	**20**	**(ii)**	**(59,010)**	**(37,928)**
Cash flows from investing activities				
Proceeds from sale of investments			276,181	165,270
Payments for investments			(38,905)	(182,681)
Loans received from subsidiary			-	442,119
Loans provided to related parties			(187,500)	(86,200)
Cash flows from/(used in) investing activities			**49,776**	**338,508**
Cash flows from/(used in) financing activities				
Payment for capital reduction			-	(147,000)
Cash flows from/(used in) financing activities			**-**	**(147,000)**
Net decrease in cash held			(9,234)	153,580
Balance at the beginning of the year			234,377	13,857
Effects of exchange rate changes			(52,163)	66,940
Balance at the end of the year	**20**	**(i)**	**172,980**	**234,377**

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Gordian RunOff Limited
Notes to the financial statements for the year ended 31 December 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Report is a general purpose Financial Report prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other authoritative pronouncements of the Australian Accounting Standards Board have also been complied with. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that this Financial Report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards.

Where necessary, comparative information has been reclassified to be consistent with current period disclosures.

The Financial Report has been prepared in accordance with the historical cost convention except for investments, which have been measured at fair value.

Accounting judgements and estimates
In the course of its operations the Company applies judgements and makes estimates that affect the amounts recognised in the financial report. Estimates are based on a combination of historical experience and expectations of future events that are believed to be reasonable at the time.

Australian Accounting Standards issued but not yet effective
Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 31 December 2009.

When applied in future periods, all recently issued or amended standards are not expected to have a material impact on the Company's results or financial position; however they may impact Financial Report disclosures.

Changes in accounting policy
Since 1 January 2009, the company has adopted a number of Australian Accounting Standards and Interpretations which were mandatory for annual periods beginning on or after 1 January 2009 including

- AASB101 "Presentation of Financial Statements"
- AASB7 "Financial Instruments: Disclosures"

Adoption of these Standards and Interpretations has not had any effect on the financial position or performance of the company, however adoption has resulted in additional disclosures contained within these financial statements.

Operating revenue

Operating revenue comprises reinsurance and general insurance earned premiums, recoveries, interest income and investment income. Investment income is brought to account on an accrual basis. Other underwriting income comprises sundry receipts.

Premium revenue and unearned premiums

(i) Premium revenue

Premium revenue comprises premiums from direct business and from reinsurance business.

Premium revenue includes amounts charged to the policyholders or other insurers, including fire service levies but excluding stamp duties, GST and other amounts collected on behalf of third parties.

Premium revenue, including that on unclosed business, is recognised in the statement of comprehensive income when it has been earned. Premium revenue is recognised in the statement of comprehensive income from the attachment date over the period of the contract for direct business and over the period

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of indemnity for reinsurance business. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

The proportion of premium received or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the balance sheet as an unearned premium liability.

Premiums on unclosed business are calculated as the difference between an estimate of the ultimate and booked premiums. Actuarial techniques are used to estimate the ultimate premium and are based on historical premium booking patterns.

(ii) Unearned premiums

Unearned premiums represent premium revenue attributable to future accounting periods. For direct insurances and certain inwards reinsurance classes of business, unearned premium is determined by apportioning the premiums written in the year over the period of insurance cover, reflecting the pattern in which risk emerges under these policies.

In respect of inwards reinsurance space business, premiums are unearned until the satellite launch date, and thereafter are recognised as earned according to the risks associated with the launch, post launch and in-orbit periods.

(iii) Outward reinsurance premium expense and deferred reinsurance premium

Premiums ceded to reinsurers are recognised as an expense over the period of cover using the methods applicable to premium revenue as set out above.

Outstanding claims

The liability for outstanding claims is measured as the best estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the best estimate.

The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The liability for direct insurance includes an allowance for inflation and superimposed inflation and is measured as the present value of the expected future ultimate cost of settling claims. The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the best estimate. This risk margin increases the probability that the net liability is adequately provided for to a 75% confidence level.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance and other recoveries

Reinsurance and other recoveries consist of receivables on paid claims and outstanding claims, and are recognised as revenue when claims are paid or the outstanding claim is raised. Reinsurance receivables are discounted to present value consistent with the discounting of outstanding claims set out above. A provision for impairment is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The impairment charge is recognised in the statement of comprehensive income. Bad debts are written off as incurred.

Investment income

Dividend and interest income is recognised in the statement of comprehensive income on an accrual basis when the entity obtains control of the right to receive the revenue.

Realised gains and losses represent the change in value between the previously reported value and the amount received on sale of the asset. Unrealised gains and losses represent changes in the fair value of financial assets recognised in the period.

Assets backing general insurance liabilities

As part of its investment strategy, the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Company has determined that all assets with the exception of related party loans are held to back general insurance liabilities on the basis that all assets are available for the settlement of claims if required.

The following policies apply to assets held to back general insurance liabilities.

Financial assets

Financial assets are designated at fair value through profit or loss. Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant unrealised gains or losses recognised in the statement of comprehensive income. Details of fair value for the different types of financial assets are listed below:

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand that is available on demand and deposits held at call and on term with financial institutions. Cash and cash equivalents are carried at fair value, being the principal amount. For the purposes of the cash flow statement, cash also includes other highly liquid investments not subject to significant risk of change in value.

Cash trusts
The fair value of units in a listed cash trust reflects the quoted bid price at balance date. There is no reduction for realisation costs in the value of units in a cash trust. Unlisted unit trusts are recorded at fund managers valuations.

Debt securities
Debt securities are initially recognised at fair value, representing the purchase cost of the asset exclusive of any transaction costs. Debt securities are subsequently measured at fair value, with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the statement of comprehensive income for the period in which they arise. The fair value of a traded interest bearing security reflects the bid price at balance date. Interest bearing securities that are not frequently traded are valued by discounting the estimated recoverable amounts, using prevailing interest rates. Debt securities are accounted for on a trade date basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity securities
Equity securities are initially recognised at fair value, representing the purchase cost of the asset exclusive of any transaction costs. Equity securities are subsequently measured at fair value, with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the statement of comprehensive income. The fair value of a quoted equity security reflects the quoted bid price at balance date. Equity securities not traded in an organised financial market are valued at estimated fair value based on future cash flows discounted at appropriate interest rates.

Investments in controlled entities
Investments in controlled entities are valued at net assets which is an appropriate proxy for fair value. Any write down in value to recoverable amount is reported in the statement of comprehensive income.

Taxes

Income tax
Income tax expense is the tax payable on taxable income for the current period based on the income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to: (i) temporary differences between the tax bases of assets and liabilities and their balance sheet carrying amounts, and (ii) unused tax losses.

Deferred tax
Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

The tax impact on income and expense items recognised directly in equity is also recognised directly in equity.

Foreign currency transactions and translation

Functional and presentation currency
Items included in the financial statements in each of the Gordian group entities are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The presentation currency of this financial report, and the functional currency of the parent entity, is Australian dollars.

Transactions and balances
Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

foreign currencies are translated at the rate of exchange ruling at balance sheet date, with exchange gains and losses recognised in the statement of comprehensive income. The corresponding foreign currency translations of foreign currency denominated outstanding claims liabilities and receivables are reported as a component of claims expense and premium revenue, respectively. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Receivables

Receivables are financial assets and are measured at fair value. Given the short-term nature of most receivables, the recoverable amount approximates fair value. A provision for impairment is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The impairment charge is recognised in the statement of comprehensive income. Bad debts are written off as incurred.

Payables

Trade creditors and accruals are recognised as liabilities for amounts to be paid in the future for goods and services received, whether or not billed to the entity.

Amounts Due To or From Related Parties

Amounts are carried at cost plus accrued interest being nominal amounts due and payable. Interest is taken up as income on an accrual basis. A provision for impairment is recognised when there is objective evidence that the related party will not be able to pay its debts.

Rounding

The Company is an entity of the kind referred to in ASIC Class Order 98/0100 (as amended) and, in accordance with that order, amounts in this Directors' Report and the accompanying financial report have been rounded to the nearest thousand, unless specifically stated otherwise.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgments are applied are described below.

(a) The ultimate liability arising from claims made under insurance contracts

Provision is made at year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be reported to the insurer until many years after the events giving rise to the claims has happened. The liability class of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

difficulty in estimating IBNR reserves. For the short tail class, claims are typically reported soon after the claim event, and hence tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- the impact of large losses;
- movements in industry benchmarks.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year-end are detailed in note 3.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

3. ACTUARIAL METHODS AND ASSUMPTIONS

The entity ceased writing new business and renewals in late 1999 for both its direct insurance and inwards reinsurance business and has run an orderly runoff since. The process for determining the value of outstanding claims liabilities is generally consistent between these two portfolios. This process is described below.

Claims estimates are derived from analysis of the results of several different actuarial models. These models take case estimates as well as payments into account and assume that reported incurred amounts or reported payment amounts will develop steadily from period to period. Other models adopt an ultimate loss ratio for each year that reflects both the long term expected level, as well as incorporating recent experience. The analysis is performed by underwriting year for the inwards reinsurance class and by accident year for the direct insurance class.

Claims are first estimated on an undiscounted basis and are then discounted to allow for the time value of money. The valuation methods adopted include an implicit allowance for future inflation but do not identify the explicit rate. This allows for both general economic inflation as well as any superimposed

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as developments of legal precedent.

The liability class of business may be subject to the emergence of new types of latent claims, but no specific allowance is included for this as at the balance sheet date. Such uncertainties are considered when setting the risk margin appropriate for this class.

A description of the processes used to determine the key assumptions is provided below:

The **average weighted term to settlement** is calculated separately by class of business, based on historical settlement patterns.

The **reinsurance percentage** for the direct insurance business is calculated based on past reinsurance recovery rates and the structure of the reinsurance arrangements in place.

The **discount rates** are derived from market yields on Government securities as at the balance date, in the currency of the expected claim payments.

Expense rate Claim handling expenses are calculated based on the projected costs of administering the remaining claims until expiry.

The **ultimate to incurred claims ratio** is derived by accident or underwriting year based on historical development of claims from period to period.

The effect of changes in the assumptions have been shown in the reconciliations of general insurance assets and liabilities in note 13.

Process for determining risk margin

The risk margin was determined initially for each portfolio, allowing for the uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio taking into account past volatility in general insurance claims, potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, and the general insurance environment. The estimate of uncertainty is generally greater for long tailed classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of each portfolio. The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision that is intended to have a 75% probability of adequacy.

Risk Margins applied	2009 %	2008 %
Direct insurance	17.2	17.6
Inwards reinsurance	20.1	19.4

Sensitivity analysis – general insurance contracts

There are a number of variables which impact the amounts recognised in the financial statements arising from insurance contracts.

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

The profit or loss and equity of the Company are sensitive to movements in a number of key variables as described below.

Variable	Description of variable
Direct and reinsurance	
Average weighted term to settlement	Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would lead to claims being paid sooner than anticipated.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money.
Expense rate	An estimate for the internal costs of administering claims is included in the outstanding claims liability.
Ultimate to incurred claims ratio	The estimated ultimate claims cost is generally greater than the claims reported as incurred to date, due to claims that are incurred but not reported (IBNR) or due to future developments on existing claims.
Direct only	
Reinsurance percentage	The direct class assumes money will be recoverable from reinsurers on future claims paid.

The following table provides an analysis of the sensitivity of the profit after income tax and total equity to changes in these assumptions both gross and net of reinsurance.

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

2009

Direct Insurance		Assumption at 12/09		Profit/(Loss) (after tax)	
Variable	Change in variable	Gross	Net	Gross of Reinsurance $'000	Net of Reinsurance $'000
Average weighted term to settlement	+0.5 year	4.9 years	5.0 years	984	964
	-0.5 year			(1,362)	(991)
Reinsurance percentage	+1%	n/a	7.8%	-	60
(as % of gross IBNR)	-1%			-	(52)
Discount Rate[1]	+1%	5.6%	5.6%	1,672	1,520
	-1%			(2,033)	(1,631)
Expense Rate	+1%	20.0%	n/a	(425)	(425)
	-1%			425	425
Ultimate to incurred claims ratio[2]	+1%	102.0%	103.0%	(4,905)	(4,124)
	-1%			2,408	2,090

Inwards Reinsurance		Assumption at 12/09		Profit/(Loss) (after tax)	
Variable	Change in variable	Gross	Net	Gross of Reinsurance $'000	Net of Reinsurance $'000
Average weighted term to settlement	+0.5 year	7.7 years	7.7 years	1,279	1,088
	-0.5 year			(1,765)	(1,932)
Reinsurance percentage	+1%	n/a	n/a	-	-
(as % of gross IBNR)	-1%			-	-
Discount Rate[1]	+1%	3.2%	3.2%	6,579	6,349
	-1%			(7,639)	(7,762)
Expense Rate	+1%	17.0%	n/a	(813)	(804)
	-1%			813	804
Ultimate to incurred claims ratio[2]	+1%	101.0%	101.0%	(12,533)	(12,533)
	-1%			4,096	4,096

3. ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

2008

Direct Insurance		Assumption at 12/08		Profit/(Loss) (after tax)	
Variable	Change in variable	Gross	Net	Gross of Reinsurance $'000	Net of Reinsurance $'000
Average weighted term to settlement	+0.5 year	4.4 years	4.5 years	1,187	1,059
	-0.5 year			(1,775)	(1,491)
Reinsurance percentage (as % of gross IBNR)	+1%	n/a	6.3%	-	149
	-1%			-	(168)
Discount Rate[1]	+1%	3.7%	3.7%	3,238	2,830
	-1%			(3,533)	(3,047)
Expense Rate	+1%	16.9%	n/a	(761)	(761)
	-1%			761	761
Ultimate to incurred claims ratio[2]	+1%	103.0%	104.0%	(5,703)	(4,818)
	-1%			3,616	3,312

Inwards Reinsurance		Assumption at 12/08		Profit/(Loss) (after tax)	
Variable	Change in variable	Gross	Net	Gross of Reinsurance $'000	Net of Reinsurance $'000
Average weighted term to settlement	+0.5 year	7.7 years	7.7 years	1,468	1,346
	-0.5 year			(2,079)	(2,187)
Reinsurance percentage (as % of gross IBNR)	+1%	n/a	n/a	-	-
	-1%			-	-
Discount Rate[1]	+1%	2.1%	2.1%	11,850	11,686
	-1%			(13,525)	(13,587)
Expense Rate	+1%	15.0%	n/a	(1,448)	(1,440)
	-1%			1,448	1,440
Ultimate to incurred claims ratio[2]	+1%	102.0%	102.0%	(15,478)	(15,478)
	-1%			7,711	7,711

1 - This sensitivity reflects the liability movements only. As assets are invested to match the term of liabilities there is little overall profit impact from a change to interest rates.

2 - This ratio has only been adjusted for years that are not considered to be fully developed.

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS

The Company's policies and procedures in respect of managing risks are set out in this note below.

The Board has ultimate responsibility for risk management and governance, including ensuring an appropriate risk framework is in place and is operating effectively. There are, however, other bodies and individuals associated with the Company that manage and monitor financial risk.

The Board

The Board is responsible for the approval of policy regarding shareholder capital investment strategy, policyholder asset and liability strategy and setting the financial risk appetite.

The Audit Committee

The Audit Committee is responsible for ensuring the existence of effective financial risk management policies and procedures.

The Appointed Actuary

The Appointed Actuary is responsible for reporting on solvency and capital adequacy. The Insurance Liability Valuation report (ILVR) must be provided to the Board and the Australian Prudential Regulatory Authority (APRA) at least annually, the ILVR must be peer reviewed annually by an external independent actuary. The Insurance Act also imposes obligations on the Appointed Actuary to bring to the attention of the Company or in certain circumstances APRA, any matter that the Appointed Actuary thinks requires action to be taken to avoid prejudice in the interests of the policy holders.

As part of the overall governance framework and in accordance with Prudential Standards GPS 220 Risk Management and GPS 230 Reinsurance Management issued APRA, the Board and senior management have developed, implemented and maintained a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Company's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Company.

Key aspects of the processes established in the RMS to mitigate risks include:

- A formal regular process of risk identification and evaluation, supplemented by a documented control assessment process, is completed by management and communicated to the Board in line with the Board approved Risk Management Strategy.
- Actuarial models, using information from management information systems, to monitor claims patterns and other relevant statistics. Past experience and statistical methods are used as part of the process.
- The maintenance and use of various specialist information systems, which provide up to date and reliable data on claims liabilities.
- Documented procedures that are followed by claims staff that are experienced in the various classes of business previously written.
- Reinsurance has been used, particularly in the early period of the run-off to limit the Company's exposure to large single claims. The REMS provides that exposures continue to be monitored and where feasible reinsurance be purchased as means of limiting risk.
- The mix of investment assets is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored in an attempt to match the maturity dates of assets with the expected pattern of claim payments.

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

Risk and Mitigation

The Company's activities expose it to a variety of risks. The major risks associated with insurance contracts include:

a) Development of claims
There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The tables in note 13 show the estimates of total ultimate claims at successive year-ends.

b) Terms and conditions of direct and inwards reinsurance business
There is limited scope to improve the existing terms and conditions. The Company has been in orderly run off since 1999, and no new contracts have been entered into since that time.

c) Concentration of insurance risk
The exposure to concentrations of insurance risk can be mitigated with the purchase of reinsurance where management believes that the price /risk transfer is suitable.

Financial risks include:

Market risk

a) Interest rate risk
Interest rate risk arises to the extent that there is a mismatch between the fixed-interest portfolios used to back the outstanding claims liability and those outstanding claims. The interest rate risk is managed by matching the duration profiles of the investments assets and the outstanding claims liability.

The accounting policy notes describe the policies used to measure and report the assets and liabilities of the Company. Where the applicable market value is determined by discounting future cash flows, movements in interest rates will result in a reported unrealised gain or loss in the profit or loss account.

NabInvest Capital Partners Pty Ltd manages the investment portfolios on behalf of the Company. The Company seeks to reduce its interest rate risk through the use of investment portfolios as a hedge against its insurance liabilities. To the extent that these assets and liabilities can be matched, unrealised gains or losses on revaluation of liabilities resulting from interest rate movements will be offset by unrealised losses or gains on revaluation of investment assets.

Interest rate sensitivity analysis
The following table demonstrates the impact of a 100 basis point change in Australian interest rates, with all other variables held constant, on the Company's shareholder profit after tax. It is assumed that the change occurs as at the reporting date (31 December) and there are concurrent movements in interest rates and parallel shifts in yield curves.

Change in Variable	**31 Dec 09** Impact on Profit after tax $'000	**31 Dec 08** Impact on Profit after tax $'000
+100 basis points	4,202	3,434
- 100 basis points	(4,202)	(3,434)

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

b) Foreign Currency risk analysis

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in exchange rates.

The Company's financial assets are primarily dominated in the same currencies as its insurance contract liabilities, being United States Dollar (USD), Great Britain Pounds (GBP) and the European Union Currency (EURO). Where insurance contract liabilities are payable in a foreign currency other than the three mentioned above, the assets backing these liabilities are held in one of the three currencies (or Australian dollars) which best resembles an appropriate proxy.

The Company also holds term deposits in USD. Other exposures to foreign currency are immaterial.

The following table demonstrates the impact of a 10% increase or decrease in the relevant proxy currencies if the underlying liability currency moved 10%. It is assumed that the relevant change occurs at reporting date.

Change in Variable	**31 Dec 09** Impact on Profit after tax $'000	**31 Dec 08** Impact on Profit after tax $'000
+10%	(436)	(1,184)
- 10%	436	1,184

The impact to the USD term deposit should it increase or decrease by 10% is outlined in the table below. It is assumed that the relevant change occurs at reporting date.

Change in Variable	**31 Dec 09** Impact on Profit after tax $'000	**31 Dec 08** Impact on Profit after tax $'000
+10%	(9,978)	(16,955)
- 10%	12,196	20,722

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its debt obligations or other cash outflows as they fall due because of lack of liquid assets. The Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. As required by APRA Prudential Standard GPS 220, the Company has developed and implemented a RMS which is described earlier in this note to control this risk.

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

The table below summaries the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted obligations.

31 Dec 09

	$'000 Up to 1 year	$'000 2 to 3 years	$'000 4 to 5 years	$'000 Over 5 years	$'000 Total
Financial liabilities:					
Outstanding claims	36,709	57,372	41,090	97,282	232,453
Payables	3,046	294	-	-	3,340
Income tax payable	29,040	-	-	-	29,040
Total	68,795	57,666	41,090	97,282	264,833

31 Dec 08

	$'000 Up to 1 year	$'000 2 to 3 years	$'000 4 to 5 years	$'000 Over 5 years	$'000 Total
Financial liabilities:					
Outstanding claims	58,159	108,255	73,497	158,440	398,352
Payables	10,461	-	-	-	10,461
Income tax payable	5,390	-	-	-	5,390
Deferred tax liability	706	1,313	892	1,922	4,833
Total	74,716	109,568	74,389	160,362	419,036

Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of traded financial instruments as a result of changes in credit risk on that instrument.

Credit risk in trade receivables is managed by analysing the credit ratings of the underlying debts.

Other than loans to related parties, there are no significant concentrations of credit risk.

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counter parties:

	31 Dec 09		31 Dec 08	
	Reinsurance & Other Recoveries $000	Other Financial Instruments $000	Reinsurance & Other Recoveries $000	Other Financial Instruments $000
AAA	(236)	389,139	(186)	315,260
AA	4,598	55,675	2,714	461,528
A	2,832	68,686	6,426	57,692
BBB	(18)	6,451	15	12,324
Below BBB	-	-	-	-
Not rated	13,130	287,842	18,215	87,304
Total	20,306	807,793	27,184	934,108

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

The following table provides an aged analysis of financial assets neither past due or impaired, past due and not impaired and impaired assets. Impairment is calculated in accordance with note 1.

31 Dec 09	Neither past due nor impaired	Past due but not impaired		Impaired	TOTAL
		Under 90 days	More than 91 days		
	$000	$000	$000	$000	$000
Receivables	5,542	-	-	2,610	8,152
Reinsurance and other recoveries	3,794	(1,002)	7,469	10,045	20,306

31 Dec 08	Neither past due nor impaired	Past due but not impaired		Impaired	TOTAL
		Under 90 days	More than 91 days		
	$000	$000	$000	$000	$000
Receivables	4,293	554	9,502	1,035	15,384
Reinsurance and other recoveries	14,018	201	1,745	11,220	27,184

Fair Value

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised, in respect of each class of financial asset, financial liability and other investments are in Note 1.

Categories of financial instruments

	Note	2009 $'000	2008 $'000
Reinsurance and other recoveries	11	20,306	27,184
Financial assets			
Fair value through the profit and loss:			
Cash & cash equivalents	20	171,460	234,377
Receivables	10	8,152	15,384
Other financial assets	12	636,333	699,731
Financial Liabilities			
Payables	14	3,340	10,461
Income tax payable		29,040	5,390

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

The recorded bid price equates to net fair value for listed debt and equity securities. For the following financial instruments, the cost carrying amount is considered to equate to their fair value:

- cash deposits
- loans to related parties
- receivables
- payables.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets at fair value through profit or loss (FVTPL)

	2009			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Government and semi-government bonds	-	211,719	-	211,719
Corporate bonds	-	130,632	-	130,632
Units held in cash management trust	-	1,520	-	1,520
Floating rate notes	-	7,273	-	7,273
Private equity	-	-	2,528	2,527
Shares in other corporations	-	-	608	608
Shares in associated entities	-	-	68	68
Total investments at FVTPL	**-**	**351,144**	**3,204**	**354,347**
Expected to be realised				
- within 12 months	-	78,938	-	78,938
- in more than 12 months	-	272,206	3,204	275,409
Total investments at FVTPL	**-**	**351,144**	**3,204**	**354,347**

There were no transfers between the different levels of fair value hierarchy during the period.

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

Reconciliation of movements - assets measured at fair value based on Level 3

The following table provides a reconciliation between the opening and closing balances of Level 3 financial assets which are recorded at FVTPL.

	2009 $'000
Opening balance	1,000
Total gains or losses in P&L	56
Purchases/Contributions	15,952
Sales/Redemptions	(13,804)
Transfers out of level 3	-
Closing balance	3,204

Capital Management

The Company is subject to externally imposed capital management requirements. The Company must comply with Capital requirements as specified under APRA General Insurance Prudential Standards.

The primary capital management objective is to ensure the Company will be able to continue as a going concern while minimising excess capital; through capital initiatives, where appropriate.

The Company's capital position is monitored by the Company's Board. There have been no changes in the capital management objectives, policies and processes from the previous period.

The Company has at all times during the current and prior financial year complied with the externally imposed capital requirements imposed by Prudential Standard GPS110 and the requirements set out in its insurance license.

4. RISK MANAGEMENT POLICIES AND PROCEDURES & FINANCIAL INSTRUMENTS (Continued)

The Minimum Capital Requirement (MCR) as a ratio of the Company's capital base is shown in the table below.

	2009 $'000	2008 $'000
Tier 1 Capital		
Paid-up ordinary shares	1,463,100	1,463,100
General reserves	-	-
Retained earnings	(888,194)	(1,012,429)
Current year earnings	32,270	124,235
Excess technical provisions (net of tax)	-	-
Less : deductions	276,120	-
Net Tier 1 Capital	331,056	574,906
Net Tier 2 Capital	-	-
Total Capital Base	331,056	574,906
Minimum Capital Requirement	68,101	84,412
Capital Adequacy Multiple	4.86	6.81

The deductions include a $273,700K loan from Gordian RunOff Limited to a related party that has been treated as a capital deduction for APRA purposes.

The entity complies with Prudential Standard GPS110 and the requirements set out in its insurance license.

5. NET PREMIUM REVENUE

	2009 $'000	2008 $'000
Gross written premium (expense)/benefit - inwards	(1,398)	457
Movement in unearned premium - inwards	-	-
Premium (expense)/revenue	(1,398)	457
Outwards reinsurance premium (expense)/revenue	21	(1,617)
Net premium revenue /(expense)	**(1,377)**	**(1,160)**

6. NET CLAIMS INCURRED

2009

	Current year $'000	Prior years $'000	Total $'000
Gross claims expense/(benefit)			
Direct	-	(48,113)	(48,113)
Inwards reinsurance	-	(58,791)	(58,791)
Gross claims incurred - undiscounted	-	(106,904)	(106,904)
Discount movement	-	5,822	5,822
Total gross claims expense	-	(101,082)	(101,082)
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries - undiscounted	-	(7,083)	(7,083)
Discount movement	-	(114)	(114)
Total reinsurance and other recoveries revenue	-	(7,197)	(7,197)
Net claims incurred	**-**	**(108,279)**	**(108,279)**

2008

	Current year $'000	Prior years $'000	Total $'000
Gross claims expense/(benefit)			
Direct	-	(59,266)	(59,266)
Inwards reinsurance	-	148	148
Gross claims incurred - undiscounted	-	(59,118)	(59,118)
Discount movement	-	48,645	48,645
Total gross claims expense	-	(10,473)	(10,473)
Reinsurance and other recoveries revenue			
Reinsurance and other recoveries - undiscounted	-	(4,107)	(4,107)
Discount movement	-	(5,236)	(5,236)
Total reinsurance and other recoveries revenue	-	(9,343)	(9,343)
Net claims incurred	**-**	**(19,816)**	**(19,816)**

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.
As the Company stopped writing new business in late 1999, all claims development relates to prior years.

Gordian RunOff Limited
Notes to the financial statements for the year ended 31 December 2009

7. OPERATING EXPENSES

Expenses by Nature	2009 $'000	2008 $'000
Commission expenses	154	(103)
Write-off of bad debt	29	-
Impairment expense - premium receivables	1,004	(343)
Impairment write back of reinsurance receivables	(4,135)	(1,142)
Net gain on foreign currency	-	(2,867)
Investment management fees	683	940
Other management fees	13,025	19,973
External consultant costs	1,306	754
Interest on loan - subsidiary	-	984
Other expenses	634	1,207
Total expenses	**12,700**	**19,403**
Represented by:		
General administration expenses included in net claims incurred	9,501	15,672
Acquisition benefit	(381)	(135)
Other underwriting expenses	535	417
General administration expenses	3,045	2,465
Finance costs	-	984
Total expenses	**12,700**	**19,403**

8. NET INVESTMENT REVENUE

	2009 $'000	2008 $'000
Investment income		
Interest	25,690	40,645
Interest from/(to) related parties:		
- other related parties	10,447	6,919
Dividends and other distributions received	-	4,774
Net (loss)/gain on foreign currency	(86,475)	88,290
Changes in fair value of investments:		
Realised (loss)/gain	(2,614)	493
Unrealised (loss)/gain	(5,995)	21,084
Total net investment (expense)/revenue	**(58,947)**	**162,205**

Gordian RunOff Limited
Notes to the financial statements for the year ended 31 December 2009

9. INCOME TAX

a) Analysis of income tax expense	2009 $'000	2008 $'000
Current tax	36,986	15,615
Change in deferred tax	(22,349)	37,511
(Over)/under provided in previous years	(2,115)	16
Income tax expense	**12,522**	**53,142**

b) Relationship between income tax expense and accounting profit

The table below provides a reconciliation of differences between prima facie tax calculated as 30% of the profit before income tax for the period and the actual income tax expense recognised in the statement of comprehensive income for the period

	2009 $'000	2008 $'000
Operating profit before income tax	**44,792**	**177,377**
Prima facie income tax at the rate of 30% (2008: 30%)	13,438	53,213
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductible/assessable in calculating taxable income:		
Other	(5)	(63)
Under provided in prior years	(911)	(8)
Income tax expense per statement of comprehensive income	**12,522**	**53,142**

c) Analysis of deferred tax asset/(liability)	2009 $'000	2008 $'000
Amounts recognised in income:		
- Provision for doubtful debts	7,125	8,063
- Accruals	259	198
- Indirect claims costs adjustments	8,989	14,237
- Unrealised gains/losses	2,359	(28,569)
- Other	(1,216)	33
- Current year's tax losses	-	1,205
Total deferred tax asset/(liability)	**17,516**	**(4,833)**

9. INCOME TAX (continued)

d) Analysis of deferred tax asset/ (liability) (continued)	2009 $'000	2008 $'000
Deferred tax asset	17,516	-
Deferred tax liability	-	(4,833)
Net deferred tax asset/(liability)	**17,516**	**(4,833)**

(e) Franking Credits	2009 $'000	2008 $'000
The amount of franking credits available for the subsequent financial year are:	17,013	5,791
	17,013	**5,791**

Prior to acquisition by Enstar Australia Holdings Ltd, Gordian Runoff Ltd formed part of the AMP Limited Tax Consolidation Group. Under tax consolidation the franking account balances for group companies were transferred to the head entity, AMP Limited.

10. RECEIVABLES

	2009 $'000	2008 $'000
Current		
Premiums receivable - inwards reinsurance	5,704	11,414
less: provision for impairment of premium receivable	(2,861)	(1,858)
	2,843	9,556
Other receivables	38	85
Other receivables from related parties		
-other related parties	14	-
Interest receivable	88	2,317
Interest receivable from related parties		
-other related parties	4,052	1,892
Total current receivables	**4,192**	**13,850**
Non-current		
Premiums receivable - inwards reinsurance	1,117	1,534
Total non-current receivables	**1,117**	**1,534**

11. REINSURANCE AND OTHER RECOVERIES

	2009 $'000	2008 $'000
Expected future reinsurance recoveries undiscounted		
- on claims paid	22,856	28,106
- on outstanding claims	21,693	27,570
	44,549	55,676
Discount to present value	(3,354)	(3,468)
less: provision for impairment of reinsurance assets	(20,889)	(25,024)
Reinsurance and other recoveries receivable	20,306	27,184
Current		
Reinsurance and other recoveries receivable	31,427	34,171
less: provision for impairment of reinsurance assets	(18,570)	(20,060)
	12,857	**14,111**
Non-current		
Reinsurance and other recoveries receivable	9,768	18,037
less: provision for impairment of reinsurance assets	(2,319)	(4,964)
	7,449	**13,073**

Refer to note 13 for a reconciliation of the movement in reinsurance and other recoveries on incurred claims over the year.

12. OTHER FINANCIAL ASSETS

	Company 2009 $'000	2008 $'000
Current		
Investments - at fair value		
Government and semi-government bonds*	60,482	12,489
Corporate bonds	16,936	39,120
Units held in cash management trusts		
- Other related parties	-	29,852
- Other	1,520	-
Term deposits	-	143,673
Investments - at cost		
Loan to related party in the wholly owned group	281,986	86,200
Total current financial assets	**360,924**	**311,334**
Non-current		
Investments - at fair value		
Government and semi-government bonds*	151,237	256,776
Corporate bonds	113,695	121,528
Floating rate notes	7,273	9,072
Shares in other corporations	608	916
Private equity -related party	2,528	38
Shares in associated entities	68	68
Total non-current financial assets	**275,409**	**388,398**

*The Company has given security over government and semi-government bonds against letters of credit of $7,786,000 (31 December 2008: $35,900,000). These assets provide security to the extent of 105% to 110% of the outstanding letters of credit. The security agreements do not restrict the investments from being traded.

13. OUTSTANDING CLAIMS

	2009	2008
	$'000	$'000
Central estimate	230,303	377,678
Risk margin	32,522	57,749
	262,825	435,427
Discount to present value	(48,614)	(54,340)
Gross outstanding claims liability	**214,211**	**381,087**

Current	43,731	55,713
Non-current	170,480	325,374
Total outstanding claims	**214,211**	**381,087**

Investment assets in the form of debt securities are held to back the liability for outstanding claims and are realised on a regular basis to meet claims. The amount of claims likely to be settled within 12 months of the reporting date is classified as current.

The Company has been closed to new business since 1999 and there have been no new direct or inwards reinsurance contracts issued in the five years prior to and including the date of this report.

As described in note 1, the outstanding claims liability is the best estimate of the present value of the expected future payments, after the inclusion of a risk margin. At each balance date, the amount of the liability is reassessed and it is likely that changes will arise in the estimates of liabilities. The tables in the following pages show the estimates of total ultimate claims at successive year ends.

13. OUTSTANDING CLAIMS (continued)

Reconciliation of movement in discounted outstanding claims liability

2009

	Gross	Reinsurance	Net
	$'000	$'000	$'000
Amount outstanding brought forward	381,087	27,184	353,903
Claim payments/ recoveries during the period	(58,542)	(18,210)	(40,332)
Effect of changes in discounting	(3,274)	76	(3,350)
Effect of changes in assumptions	(105,060)	11,256	(116,316)
Amount outstanding carried forward	**214,211**	**20,306**	**193,905**

2008

	Gross	Reinsurance	Net
	$'000	$'000	$'000
Amount outstanding brought forward	446,956	29,501	417,455
Claim payments/ recoveries during the period	(43,719)	(15,721)	(27,998)
Effect of changes in discounting	(52,350)	(18,003)	(34,347)
Effect of changes in assumptions	30,200	31,408	(1,208)
Amount outstanding carried forward	**381,087**	**27,185**	**353,902**

Claims Development Table

	Inwards Reinsurance		Direct Insurance		Total	
	Net	Gross	Net	Gross	Net	Gross
Estimate of Cumulative claims	$'000	$'000	$'000	$'000	$'000	$'000
31 December 2002	4,744,910	5,103,845	1,415,333	1,920,262	6,160,243	7,024,107
31 December 2003	4,744,910	5,103,845	1,462,533	1,952,003	6,207,443	7,055,848
31 December 2004	4,739,122	5,092,316	1,432,295	1,882,078	6,171,417	6,974,394
31 December 2005	4,714,741	5,055,124	1,491,990	1,933,978	6,206,731	6,989,102
31 December 2006	4,697,607	5,036,965	1,463,731	1,901,401	6,161,338	6,938,366
31 December 2007	4,695,305	5,033,850	1,393,892	1,822,020	6,089,197	6,855,870
31 December 2008	4,664,613	5,004,714	1,346,752	1,788,730	6,011,365	6,793,444
31 December 2009	4,655,885	5,002,745	1,291,424	1,749,514	5,947,309	6,752,259
Estimate of Cumulative Claims at 31 December 2009	4,655,885	5,002,745	1,291,424	1,749,514	5,947,309	6,752,259
Cumulative Payments	4,529,536	4,875,254	1,245,600	1,683,379	5,775,136	6,558,632
Undiscounted central estimate	**126,349**	**127,491**	**45,824**	**66,135**	**172,173**	**193,627**
Effect of Discounting	26,492	26,583	12,055	15,318	38,547	41,901
Discounted Central Estimate	**99,857**	**100,908**	**33,769**	**50,817**	**133,626**	**151,726**
Risk Margin						32,522
Claims Handling Provision						29,963
Gross Outstanding Claims as per the Balance Sheet						**214,211**

14. PAYABLES

	2009 $'000	2008 $'000
Current		
Trade & other creditors	865	4,799
Other borrowings from related parties		
- other related parties	1,999	5,416
Reinsurance balance payable	182	-
Total current payables	**3,046**	**10,215**
Non-current		
Trade & other creditors	114	246
Reinsurance balance payable	180	-
Total non-current payables	**294**	**246**

15. ISSUED CAPITAL

	2009 $'000	2008 $'000
Paid up capital		
1,840,000,005 fully paid ordinary shares at $0.80 per share		
(2008: 1,840,000,005 at $0.80 per share)	1,463,100	1,463,100
Total paid up capital	**1,463,100**	**1,463,100**
Movement in ordinary share capital		
Balance at beginning of the year	1,463,100	1,610,100
Movement for the year - Capital reduction 21 February 08	-	(147,000)
Balance at the end of the period	**1,463,100**	**1,463,100**

Rights attaching to Ordinary Shares

Ordinary shares attract the following rights:

(a) to receive notice of and to attend and vote at all general meetings of the Company;
(b) to receive dividends; and
(c) in a winding up, to participate equally in the distribution of the assets of the Company (both capital and surplus), subject only to any amounts unpaid on the Share.

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The following table provides aggregate details of the compensation of key management personnel of Gordian RunOff Limited.

Year	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
	$	$	$	$	$	$
2009	4,748,533	220,586	303,012	-	841,253	6,113,386
2008	3,283,621	212,116	-	567,493	681,505	4,744,735

17. AUDITOR'S REMUNERATION

	2009	2008
	$	$
Audit or review of financial statements and regulatory returns	361,198	227,816

The appointed auditor is Deloitte Touche Tohmatsu.

18. CONTINGENT LIABILITIES AND COMMITMENTS

Legal disputes

The nature of the insurance and reinsurance business is that from time to time it gives rise to disputes. Several claims have been denied or recoveries disputed, giving rise to legal actions over coverage issues. Any resulting litigation/arbitration will be vigorously defended or pursued. In assessing claim liabilities or reinsurance recoveries, management has reserved based on its best estimate of the likely outcomes. The nature of these disputes are such that the quantum and timing of the outcomes are uncertain.

Uncalled commitments

The US$33,000K (A$36,760K) commitment (2008: US$33,000K) has been made to a related party private equity fund. US$1,647K has been contributed to date. (2008: US$29K).

19. RELATED PARTIES

Controlling Entity

The immediate parent entity at 31 December 2009 is AG Australia Holdings Limited. Enstar Group Limited at 31 December 2009 is the ultimate parent entity.

Directors

The directors of the Company during the financial year, and the dates of appointments and resignations during the year are:

Name
Bruce Bollom
Paul O'Shea
Nick Packer
Gary Potts
Jann Skinner

Other transactions

Transactions have been entered into between the company and director related entities. During 2009, certain policies and claims within the Gordian portfolios were novated to Fitzwilliam Insurance Limited, an Enstar Group Limited company based in Bermuda. The total amount novated was $30,933k. Previously certain liabilities transferred into Gordian via Division 3A of the Corporations Act were also reinsured to Fitzwilliam Insurance Limited under a 100% Quota Share arrangement.

The directors and their director related entities receive normal dividends on their ordinary share holdings in Enstar Group Limited.

Other transactions with key management personnel of the Company

Pre the acquisition by Enstar Australia Holdings Pty Ltd, transactions were entered into between directors or their director related entities within the AMP Limited Group. These transactions are within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those available to other employees, customers or members (unless otherwise described below) and may include:

- normal personal banking with AMP Bank Limited including the provision of credit cards;
- the purchase of AMP superannuation and related products;
- financial investment services;
- other advisory services.

19. RELATED PARTIES (continued)

These transactions do not have the potential to adversely affect the decisions about the allocation of scarce resources made by users of the entity's financial statements, or discharge to accountability of the directors. The transactions are considered to be trivial or domestic in nature.

Transactions within the wholly owned group

Transactions between Gordian RunOff Limited and its controlled entities, and other related parties for the financial year consisted of:

- Payment of management fees for services provided;
- Provision of intercompany loan;
- Interest on intercompany loan;
- Provision of share capital;
- Placement of reinsurance protection;
- Novation of liabilities.

The aggregate amounts brought to account in respect of the following types of transactions and each class of related party involved were:

	2009 $	2008 $
Amounts attributable to transactions with related parties		
Operating profit before income tax includes aggregate amounts attributable to transactions in respect of:		
Interest Revenue - other prior related parties	-	5,026,999
Interest Revenue - other current related parties	10,446,741	1,891,677
Interest Expense - other current related parties	-	984,012
Other expenses - other current related parties	481,115	556,204
Success Fee - other current related parties	-	4,971,000
Management Expenses - other prior related parties	-	3,119,793
Management Expenses - other current related parties	12,544,000	11,136,250

	2009 $	2008 $
Amounts receivable from and payable to related parties		
Aggregate amounts receivable at balance date from:		
Interest receivable - other related parties	4,052,144	1,891,677
Intercompany receivables - other related parties	13,723	198,197
Loans - other related parties	281,986,273	86,200,000
Aggregate amounts payable at balance date to:		
Payables - other related parties	1,998,904	5,613,973
Investments in related parties		
Private equity fund	2,527,728	38,070

Interest on the loan is payable at a fixed rate of the official Reserve Bank of Australia plus 2% every 180 days. The loan will be partly received in August 2010 and October 2011 and in full on or before April 2012.

In prior reporting periods, AMP Capital Investors Limited, a former related entity, managed the majority of the investments of the consolidated entity under a management contract, which followed the normal terms and conditions for such contracts. Fees were paid or were due and payable for the management of investment portfolios under normal terms and conditions.

19. RELATED PARTIES (continued)

Since the acquisition of the Company by Enstar Australia Holdings Pty Limited, Enstar Australia Limited provided operational and administrative (including employee related) services to the Company with the exception of certain financing arrangements, finance leasing and agent related services. The services provided were in the normal course of the business and were on normal commercial terms and conditions.

Pre the acquisition, AMP Services Limited and Enstar Australia Limited (formerly Cobalt Solutions Australia Limited), fellow wholly owned controlled entities, provided operational and administrative (including employee related) services to the entity in the normal course of the business and are on normal commercial terms and conditions.

During the year the Company advanced further loans to AG Australia Holdings Limited and Cumberland Holdings Limited. These loans were made under normal market terms and conditions.

20. CASH FLOW RECONCILIATIONS

	2009 $'000	2008 $'000
(i) Reconciliation of cash		
Cash balance comprises:		
Cash on hand	9,549	68,449
Short term money market deposits	161,911	165,928
	171,460	**234,377**
Cash management trust	1,520	-
	1,520	-
	172,980	**234,377**

(ii) Reconciliation of net cash flows used in operating activities to operating profit after income tax	**2009 $'000**	**2008 $'000**
Operating profit after income tax	32,270	124,235
Changes in net market value of investments	(5,995)	(20,061)
Net loss/(gain) on sale of investments	(2,614)	(4,183)
Net (gain)/loss on foreign currency transactions	84,203	(88,290)
Changes in assets and liabilities		
- Increase in accrued interest	(8,217)	(1,715)
- Decrease/(increase) in receivables	7,163	(1,827)
- Decrease in reinsurance and other recoveries receivable	6,878	2,317
- Decrease in other assets	-	166
- Decrease in outstanding claims	(166,876)	(65,870)
- Increase in accounts payable & borrowings	(7,123)	626
- Increase/(decrease) in income taxes payable	23,650	(20,837)
- Increase/(decrease) in deferred taxes payable, net of deferred tax asset	(22,349)	37,511
Net cash flows used in operating activities	**(59,010)**	**(37,928)**

21. FINANCIAL SUPPORT (continued)

The Company has the benefit of the support of the immediate parent AG Australia Holdings Limited, by virtue of a guarantee dated 16 June 1992 whereby the parent has guaranteed payments under policies of insurance issued by the Company. This applies to claims made and arising prior to the date of revocation of this guarantee being 30 June 2002.

Gordian RunOff Limited
Directors' Declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Director

Sydney, 22 April 2010

Director

Sydney, 22 April 2010

Deloitte.

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Independent Auditor's Report to the members of Gordian RunOff Limited

We have audited the accompanying financial report of Gordian RunOff Limited, which comprises the balance sheet as at 31 December 2009, and the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 6 to 42.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of Gordian RunOff Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the company's financial position as at 31 December 2009 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S Alexander
Partner
Chartered Accountants
22 April 2010