Enstar Group LTD
Form 10-Q
August 07, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Quarterly Period Ended June 30, 2009**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Transition Period From _____ to _____**

001-33289
Commission File Number

ENSTAR GROUP LIMITED
(Exact name of registrant as specified in its charter)

Bermuda	**N/A**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

P.O. Box HM 2267
Windsor Place, 3rd Floor
18 Queen Street
Hamilton HM JX
Bermuda
(Address of principal executive office, including zip code)

(441) 292-3645
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of August 5, 2009, the registrant had outstanding 13,564,779 ordinary shares, par value $1.00 per share.

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Item 1. *FINANCIAL STATEMENTS*

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2009 and December 31, 2008

	June 30, 2009	December 31, 2008
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, available-for-sale, at fair value (amortized cost: 2009 $420,630; 2008 $406,712)	$ 421,205	$ 406,712
Fixed maturities, available-for-sale, at fair value (amortized cost: 2009 $80,059; 2008 $103,452)	78,402	104,797
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2009 $806,517; 2008 $598,686)	793,036	586,716
Fixed maturities, trading, at fair value (amortized cost: 2009 $99,243; 2008 $110,453)	101,607	115,846
Equities, trading, at fair value (cost: 2009 $26,880; 2008 $5,087)	24,699	3,747
Other investments, at fair value (cost: 2009 $160,275; 2008 $147,652)	71,039	60,237
Total investments	1,489,988	1,278,055
Cash and cash equivalents	1,548,166	1,866,546
Restricted cash and cash equivalents	463,658	343,327
Accrued interest receivable	18,416	21,277
Accounts receivable, net	19,649	15,992
Income taxes recoverable	983	
Reinsurance balances receivable	699,633	672,696
Investment in partly owned company	21,119	20,850
Goodwill	21,222	21,222
Other assets	114,768	118,186
TOTAL ASSETS	$ 4,397,602	$ 4,358,151
LIABILITIES		
Losses and loss adjustment expenses	$ 2,781,577	$ 2,798,287
Reinsurance balances payable	205,603	179,917
Accounts payable and accrued liabilities	38,705	39,340
Income taxes payable	24,091	19,034
Loans payable	354,757	391,534
Other liabilities	78,993	58,808
TOTAL LIABILITIES	3,483,726	3,486,920

SHAREHOLDERS EQUITY		
Share capital		
Authorized issued and fully paid, par value $1 each (authorized 2009: 156,000,000; 2008: 156,000,000)		
Ordinary shares (issued and outstanding 2009: 13,578,281; 2008: 13,334,353)	13,578	13,334
Non-voting convertible ordinary shares (issued 2009: 2,972,892; 2008: 2,972,892)	2,973	2,973
Treasury shares at cost (non-voting convertible ordinary shares 2009: 2,972,892; 2008: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	718,247	709,485
Accumulated other comprehensive loss	(18,420)	(30,871)
Retained earnings	362,129	341,847
Total Enstar Group Limited Shareholders Equity	656,948	615,209
Noncontrolling interest	256,928	256,022
TOTAL SHAREHOLDERS EQUITY	913,876	871,231
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 4,397,602	$ 4,358,151

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three and Six-Month Periods Ended June 30, 2009 and 2008

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Consulting fees	$ 4,179	$ 3,578	$ 7,515	$ 9,633
Net investment income	18,493	21,219	35,802	21,809
Net realized gains (losses)(1)	5,080	1,014	(930)	(70)
	27,752	25,811	42,387	31,372
EXPENSES				
Net reduction in loss and loss adjustment expense liabilities	(17,393)	(25,483)	(44,072)	(24,798)
Salaries and benefits	11,914	13,947	24,331	25,304
General and administrative expenses	10,910	13,972	23,292	25,883
Interest expense	4,675	7,643	9,640	10,958
Net foreign exchange gain	(1,611)	(4,935)	(13)	(6,270)
	8,495	5,144	13,178	31,077
EARNINGS BEFORE INCOME TAXES AND SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY	19,257	20,667	29,209	295
INCOME TAXES	23	(3,193)	641	(2,954)
SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY			269	
EARNINGS (LOSS) BEFORE EXTRAORDINARY GAIN	19,280	17,474	30,119	(2,659)
Extraordinary gain Negative goodwill				50,280
NET EARNINGS	19,280	17,474	30,119	47,621
Less: Net earnings attributable to noncontrolling interests (including share of extraordinary gain of $nil, $nil, $nil and $15,084, respectively)	(10,529)	(6,301)	(9,837)	(24,761)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 8,751	$ 11,173	$ 20,282	$ 22,860
EARNINGS PER SHARE BASIC:				

Earnings (loss) before extraordinary gain attributable to Enstar Group Limited ordinary shareholders	$ 0.65	$ 0.93	$ 1.51	$ (1.03)
Extraordinary gain attributable to Enstar Group Limited ordinary shareholders				2.95
Net earnings attributable to Enstar Group Limited ordinary shareholders	$ 0.65	$ 0.93	$ 1.51	$ 1.92
EARNINGS PER SHARE DILUTED:				
Earnings (loss) before extraordinary gain attributable to Enstar Group Limited ordinary shareholders	$ 0.63	$ 0.91	$ 1.48	$ (1.03)
Extraordinary gain attributable to Enstar Group Limited ordinary shareholders				2.95
Net earnings attributable to Enstar Group Limited ordinary shareholders	$ 0.63	$ 0.91	$ 1.48	$ 1.92
Weighted average ordinary shares outstanding basic	13,532,608	11,959,125	13,448,525	11,943,330
Weighted average ordinary shares outstanding diluted	13,787,553	12,238,356	13,700,853	11,943,330
AMOUNTS ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS:				
Earnings (loss) before extraordinary gain	$ 8,751	$ 11,173	$ 20,282	$ (12,336)
Extraordinary gain				35,196
Net earnings	$ 8,751	$ 11,173	$ 20,282	$ 22,860

(1) There were no other-than-temporary impairment losses recognized in accumulated other comprehensive income in the periods presented.

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six-Month Periods Ended June 30, 2009 and 2008

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	$ 19,280	$ 17,474	$ 30,119	$ 47,621
Other comprehensive income:				
Unrealized holding losses on investments arising during the period	(7,024)	(8,291)	(14,873)	(7,723)
Reclassification adjustment for net realized (gains) losses included in net earnings	(5,080)	(1,014)	930	70
Currency translation adjustment	41,207	9,637	37,225	7,735
Total other comprehensive income:	29,103	332	23,282	82
Comprehensive income	48,383	17,806	53,401	47,703
Less comprehensive income attributable to noncontrolling interests	(18,674)	(6,301)	(20,668)	(24,761)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 29,709	$ 11,505	$ 32,733	$ 22,942

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
For the Six-Month Periods Ended June 30, 2009 and 2008

	Six Months Ended June 30, 2009	2008
	(expressed in thousands of U.S. dollars)	
Share Capital Ordinary Shares		
Balance, beginning of period	$ 13,334	$ 11,920
Shares issued	167	2
Share awards granted/vested	77	39
Balance, end of period	$ 13,578	$ 11,961
Share Capital Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	$ 2,973	$ 2,973
Treasury Shares		
Balance, beginning and end of period	$ (421,559)	$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	$ 709,485	$ 590,934
Share awards granted/vested	3,567	2,746
Shares issued	5,195	
Amortization of share awards		303
Balance, end of period	$ 718,247	$ 593,983
Accumulated Other Comprehensive Income		
Balance, beginning of period	$ (30,871)	$ 6,035
Other comprehensive income	12,451	82
Balance, end of period	$ (18,420)	$ 6,117
Retained Earnings		
Balance, beginning of period	$ 341,847	$ 260,296
Net earnings	20,282	22,860
Balance, end of period	$ 362,129	$ 283,156
Noncontrolling Interest		
Balance, beginning of period	$ 256,022	$ 63,437
(Return) contribution of capital	(18,783)	86,207

Dividends paid		(979)		
Net earnings		9,837		24,761
Other comprehensive income		10,831		
Balance, end of period	$	256,928	$	174,405

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six-Month Periods Ended June 30, 2009 and 2008

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 30,119	$ 47,621
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Negative goodwill		(50,280)
Share of undistributed net (earnings) of partly owned company	(269)	
Share-based compensation expense		303
Net realized and unrealized investment loss	930	70
Share of net loss from other investments	1,458	21,871
Other items	4,381	4,767
Depreciation and amortization	491	405
Amortization of bond premiums or discounts	4,781	2,898
Net movement of trading securities	14,159	211,045
Changes in assets and liabilities:		
Reinsurance balances receivable	(18,642)	(53,093)
Other assets	5,570	15,922
Losses and loss adjustment expenses	(64,558)	167,936
Reinsurance balances payable	24,131	(58,270)
Accounts payable and accrued liabilities	5,139	(9,163)
Other liabilities	21,441	32,241
Net cash flows provided by operating activities	29,131	334,273
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	8,504	7,066
Purchase of available-for-sale securities	(237,887)	(188,755)
Sales and maturities of available-for-sale securities	247,988	155,339
Purchase of held-to-maturity securities	(233,001)	
Maturity of held-to-maturity securities	47,549	117,039
Movement in restricted cash and cash equivalents	(120,331)	(216,984)
Funding of other investments	(23,327)	(48,753)
Purchase of investment in partly owned company		(21,431)
Other investing activities	(1,714)	(290)
Net cash flows (used in) investing activities	(312,219)	(196,769)
FINANCING ACTIVITIES:		

Contribution to surplus of subsidiary by noncontrolling interest				86,209
Receipt of loans				306,755
Repayment of loans		(57,571)		(59,000)
Distribution of capital to noncontrolling interest		(19,759)		
Proceeds from exercise of stock options		2,796		
Net cash flows (used in) provided by financing activities		(74,534)		333,964
TRANSLATION ADJUSTMENT		39,242		18,245
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(318,380)		489,713
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,866,546		995,237
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	1,548,166	$	1,484,950
Supplemental Cash Flow Information				
Income taxes paid	$	8,279	$	3,714
Interest paid	$	6,892	$	6,432

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and December 31, 2008
(Expressed in thousands of U.S. Dollars, except per share amounts)
(unaudited)

1. BASIS OF PREPARATION AND CONSOLIDATION

Our condensed consolidated financial statements have not been audited. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. Results of operations for subsidiaries acquired are included from the dates of their acquisition by the Company. Intercompany transactions are eliminated on consolidation. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant inter-company accounts and transactions have been eliminated. In these notes, the terms we, us, our, or the Company refer to Enstar Group Limited and its direct and indirect subsidiaries. The following information is unaudited and should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

To facilitate period-to-period comparisons, certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on the Company s consolidated net income.

Adoption of New Accounting Standards

The term FAS used in these notes refers to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board (FASB).

The Company adopted FAS No. 141(R), Business Combinations (FAS 141(R)), effective January 1, 2009. FAS 141(R) replaces FAS No. 141, Business Combinations (FAS 141), but retains the fundamental requirements in FAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. FAS 141(R) also requires the Company to recognize acquisition-related costs separately from the acquisition, recognize assets acquired and liabilities assumed arising from contractual contingencies at their acquisition-date fair values and recognize goodwill as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The adoption of FAS 141(R) did not have a material impact on the consolidated financial statements.

The Company adopted FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (FAS 160), effective January 1, 2009. FAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. FAS 160 requires consolidated net income to be reported at the amounts that include the amounts attributable to both the parent and the noncontrolling interest. This statement also establishes a method of accounting for changes in a parent s ownership interest in a subsidiary that results in deconsolidation. The presentation and disclosure of FAS 160 have been applied retrospectively for all periods presented. The adoption of FAS 160 resulted in reclassification of noncontrolling interest in the amounts of $256.9 million and $256.0 million to shareholders equity as at June 30, 2009 and December 31, 2008, respectively.

The Company adopted FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161), effective January 1, 2009. FAS 161 expands the disclosure

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BASIS OF PREPARATION AND CONSOLIDATION (cont d)

requirements of FAS 133 and requires the reporting entity to provide enhanced disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and credit-risk related contingent features in derivative agreements. The adoption of FAS 161 did not have a material impact on the consolidated financial statements.

The Company adopted the following three FASB Staff Positions (FSPs) effective April 1, 2009:

FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly (FSP FAS 157-4). This FSP supercedes FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. FSP FAS 157-4 provides additional guidance on: (1) estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to the normal market activity for the asset or liability, and (2) identifying transactions that are not orderly. FSP FAS 157-4 has been applied prospectively; retrospective application is not permitted.

FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). This FSP provides new guidance on the recognition and presentation of other-than-temporary impairments (OTTI) for available-for-sale and held-to-maturity fixed maturities (equities are excluded). A security is considered impaired if the fair value of the security is less than its amortized cost basis at the measurement date. Before the adoption of FAS 115-2, the Company was required to recognize other-than-temporary impairments in earnings if the Company could not assert that it had the ability and intent to hold its securities for a period of time sufficient to allow for any anticipated recovery in fair value in accordance with Staff Accounting Bulletin Topic 5M, Other than Temporary Impairment of Certain Investments in Debt and Equity Securities, and other authoritative literature. If the impairment was determined to be other-than-temporary, then an impairment was recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value at the balance sheet date. In accordance with FAS 115-2, the Company now recognizes other-than-temporary impairments in earnings for its impaired fixed maturity securities (1) for which the Company has the intent to sell the security or (2) if it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery; and (3) for those securities which have a credit loss. In assessing whether a credit loss exists, the Company has used qualitative and quantitative measures, including comparing the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. If management concludes a security is other-than-temporarily impaired, the FSP requires that the difference between the fair value and the amortized cost of the security be presented as an OTTI charge in the Consolidated Statements of Earnings, with an offset for any noncredit-related loss component of the OTTI charge to be recognized in other comprehensive income. Accordingly, only the credit loss component of the OTTI amount has an impact on the Company s earnings. The FSP also requires extensive new interim and annual disclosure for both fixed maturities and equities to provide further disaggregated information, as well as information about how the credit loss component of the OTTI charge was determined, and requires a roll forward of such amount for each reporting period. Upon adoption of FAS 115-2 on April 1, 2009, the Company did not recognize a cumulative effect adjustment because all previous impairments were considered credit losses.

FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). This FSP extends the disclosure requirements under FAS 107, Disclosures about Fair Value of Financial Instruments, to interim financial statements and amends APB Opinion 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BASIS OF PREPARATION AND CONSOLIDATION (cont d)

The adoption of these three FSPs did not have a material impact on the Company s consolidated financial statements.

On April 1, 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1). This FSP amends the guidance in FAS 141(R) by requiring that assets acquired or liabilities assumed in a business combination that arise from contingencies be recognized at fair value only if fair value can be reasonably estimated; otherwise the asset or liability should generally be recognized in accordance with FAS 5, Accounting for Contingencies, and FASB Interpretation 14, Reasonable Estimation of the Amount of Loss. This FSP removes the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. FSP FAS 141(R)-1 is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after December 15, 2008. The Company does not anticipate this adoption will have a material impact on its consolidated financial statements.

In May 2009, the FASB issued FAS 165, Subsequent Events (FAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. FAS 165 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted FAS 165 during the second quarter of 2009, and its application had no impact on its condensed consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was August 7, 2009.

Recently Issued Accounting Standards Not Yet Adopted

In June 2009, the FASB issued FAS No. 167, Amendments to FASB Interpretation No. 46(R). This statement addresses (1) the effects on certain provisions of FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in SFAS No. 166, Accounting for Transfers of Financial Assets, and (2) constituent concerns about the application of certain key provisions of FASB Interpretation No. 46(R), including those in which the accounting and disclosures under such interpretation do not always provide timely and useful information about an enterprise s involvement in a variable interest entity. This statement is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements.

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (FAS 168). FAS 168 establishes the FASB Accounting Standards Codification as the single source of authoritative accounting principles in the preparation of financial statements in conformity with U.S. GAAP. FAS 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws as authoritative U.S. GAAP for SEC registrants. FAS 168 is effective for financial statements issued for periods ending after September 15, 2009. As the new standard is not intended to change or alter existing U.S. GAAP, it is not expected to have any impact on the Company s consolidated financial statements.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial statements, or do not apply to its operations.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS

Constellation Reinsurance

On January 31, 2009, the Company, through its indirect subsidiary, Sun Gulf Holdings Inc., completed the acquisition of all of the outstanding capital stock of Constellation Reinsurance Company Limited (Constellation) for a total purchase price of approximately $2.5 million. Constellation is a New York domiciled reinsurer that is in run-off. The acquisition was funded from available cash on hand.

The purchase price and fair value of the assets acquired in the Constellation acquisition were as follows:

Total purchase price	$ 2,500
Net assets acquired at fair value	$ 2,500

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

Cash, restricted cash and investments	$ 11,254
Reinsurance balances receivable	3,374
Losses and loss adjustment expenses	(12,128)
Net assets acquired at fair value	$ 2,500

From January 31, 2009, the date of acquisition, to June 30, 2009, the Company has recorded in its condensed consolidated statement of earnings revenues and net (losses) related to Constellation of $0.1 million and $(0.2) million, respectively.

Pro Formas, for the Three Months Ended June 30, 2008

The following pro forma condensed combined income statement for the three and six-months ended June 30, 2008 combines the historical consolidated statements of earnings of the Company with those of AMP Limited s Australian-based closed reinsurance and insurance operations (Gordian) and Unionamerica Holdings Limited (UAH), which were acquired in the first and fourth quarters of 2008, respectively, giving effect to the business combinations and related transactions as if they had occurred on January 1, 2008.

Enstar

Three Months Ended June 30, 2008	Enstar Group Limited	Gordian	UAH	Pro forma Adjustments	Group Limited Pro forma
Total income	$ 21,360	$ 4,451	$ 5,984	$	$ 31,795
Total expenses	(25,995)	17,658	7,102	(8,616)(a)	(9,851)
(Loss) earnings attributable to Enstar Group Limited	(4,635)	22,109	13,086	(8,616)	21,944
Less: Noncontrolling interest	332	(6,633)	(3,926)	2,585(b)	(7,642)
(Loss) earnings attributable to Enstar Group Limited	$ (4,303)	$ 15,476	$ 9,160	$ (6,031)	$ 14,302
Net earnings per ordinary share attributable to Enstar Group Limited basic					$ 1.20
Net earnings per ordinary share attributable to Enstar Group Limited diluted					$ 1.17

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (cont d)

Notes to the Pro Forma Condensed Combined Income Statements for the Three Months Ended June 30, 2008:

Expenses:	
(a)(i) Adjustment to interest expense to reflect the financing costs of the acquisitions for the period	$ (2,882)
(ii) Adjustment to recognize amortization of fair value adjustments recorded at dates of acquisition	(6,540)
(iii) Adjustment to income taxes for pro forma adjustments	806
	(8,616)
(b) Reflects noncontrolling interest s share of net pro forma income statement adjustments	2,585

Pro Formas, for the Six Months Ended June 30, 2008

Six Months Ended June 30, 2008	Enstar Group Limited	Gordian	UAH	Pro forma Adjustments	Enstar Group Limited Pro forma
Total income	$ 19,612	$ 18,532	$ 12,936	$ (5,194)(a)	$ 45,886
Total expenses	(48,882)	33,518	(37,279)	(25,725)(b)	(78,368)
(Loss) earnings before extraordinary gain	(29,270)	52,050	(24,343)	(30,919)	(32,482)
Extraordinary gain	50,280				50,280
Earnings (loss) before noncontrolling interest	21,010	52,050	(24,343)	(30,919)	17,798
Noncontrolling interest (including share of extraordinary gain of $15,084)	(16,778)	(15,615)	7,303	9,276(c)	(15,814)
Net earnings (loss) attributable to Enstar Group Limited	$ 4,232	$ 36,435	$ (17,040)	$ (21,643)	$ 1,984
Earnings per ordinary share attributable to Enstar Group Limited before extraordinary gain basic and diluted					$ (2.78)
Extraordinary gain attributable to Enstar Group Limited basic and diluted					2.95
					$ 0.17

Net earnings per ordinary share attributable to Enstar Group Limited basic and diluted

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (cont d)

Notes to the Pro Forma Condensed Combined Income Statements for the Six Months Ended June 30, 2008:

Income:		
(a) Adjustment to conform the accounting policy for investments to that of the Company	$	(5,194)
Expenses:		
(b)(i) Adjustment to interest expense to reflect the financing costs of the acquisitions for the period		(10,716)
(ii) Adjustment to recognize amortization of fair value adjustments recorded at dates of acquisition		(18,534)
(iii) Adjustment to income taxes for pro forma adjustments		3,525
		(25,725)
(c) Reflects noncontrolling interest s share of net pro forma income statement adjustments		9,276

Copenhagen Re

On May 29, 2009, the Company, through its indirect subsidiary, Nordic Run-Off Limited, entered into a definitive agreement for the purchase of Copenhagen Reinsurance Company Ltd. (Copenhagen Re) from Alm. Brand Forsikring A/S for a total purchase price of approximately $28.0 million. Copenhagen Re is a Norwegian domiciled reinsurer that is in run-off. The purchase price of approximately $28.0 million is expected to be financed from available cash on hand. Completion of the transaction is conditioned on, among other things, regulatory approval and satisfaction of various customary closing conditions. The transaction is expected to close in the third quarter of 2009.

3. SIGNIFICANT NEW BUSINESS

The Company owns 50.1% of Shelbourne Group Limited (Shelbourne), which in turn owns 100% of Shelbourne Syndicate Services Limited, the Managing Agency for Lloyd s Syndicate 2008, a syndicate approved by Lloyd s of London on December 16, 2007 to undertake Reinsurance to Close (RITC) transactions with Lloyd s syndicates in run-off. In February 2009, Lloyd s Syndicate 2008 entered into a RITC agreement with a Lloyd s syndicate with total gross insurance reserves of approximately $67.0 million.

JCF FPK I L.P. (JCF FPK), a joint investment program between J.C. Flowers II L.P. (the Flowers Fund) and Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC (FPK), owns 25% of Shelbourne. The Flowers Fund is a private investment fund advised by J.C Flowers & Co. LLC. J. Christopher Flowers, a member of the Company s board of directors and one of its largest shareholders, is the founder and Managing Member of J.C. Flowers & Co. LLC. John J. Oros, the Company s Executive Chairman and a member of its board of directors, is a Managing Director of J.C. Flowers & Co. LLC. An affiliate of the Flowers Fund controls approximately 41% of FPK. In addition, in July 2008, FPK acted as lead managing underwriter in the Company s public share offering.

4. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents were $463.7 million and $343.3 million as of June 30, 2009 and December 31, 2008, respectively. The restricted cash and cash equivalents are used as collateral against letters of credit and as guarantee under trust agreements. Letters of credit are issued to ceding insurers as security for the obligations of insurance subsidiaries under reinsurance agreements with those ceding insurers.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS

Available-for-sale

The amortized cost and estimated fair value of investments in fixed maturity securities classified as available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
As at June 30, 2009				
U.S government and agency	$ 135,069	$ 538	$ (5)	$ 135,602
Non-U.S. government	20,556	25	(24)	20,557
Corporate	343,132	1,098	(2,374)	341,856
Residential mortgage-backed	1,371	15		1,386
CMO	561		(355)	206
	$ 500,689	$ 1,676	$ (2,758)	$ 499,607

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
As at December 31, 2008				
U.S government and agency	$ 239,856	$ 2,197	$	$ 242,053
Non-U.S. government	25,447	32		25,479
Corporate	229,135	737	(1,217)	228,655
Residential mortgage-backed	1,634			1,634
Asset backed	13,509	218	(255)	13,472
CMO	583		(367)	216
	$ 510,164	$ 3,184	$ (1,839)	$ 511,509

The following table summarizes fixed maturity securities classified as available-for-sale in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As at June 30, 2009						
U.S government and agency	$	$	$ 43,450	$ (5)	$ 43,450	$ (5)
Non-U.S. government			19,493	(24)	19,493	(24)
Corporate	22,550	(2,278)	39,758	(96)	62,308	(2,374)
CMO	206	(355)			206	(355)
	$ 22,756	$ (2,633)	$ 102,701	$ (125)	$ 125,457	$ (2,758)

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As at December 31, 2008						
Corporate	$	$	$ 18,130	$ (1,217)	$ 18,130	$ (1,217)
Asset backed			3,313	(255)	3,313	(255)
CMO	216	(367)			216	(367)
	$ 216	$ (367)	$ 21,443	$ (1,472)	$ 21,659	$ (1,839)

As at June 30, 2009 and December 31, 2008, the number of fixed maturity securities classified as available-for-sale in an unrealized loss position was 59 and 30, respectively, with a fair value of $125.5 million and $21.7 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for 12 months or longer was 28 and 1, respectively. As of June 30, 2009, one of these securities was considered to be other-than-temporarily impaired.

The contractual maturities of our fixed maturities, classified as available-for-sale, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value	% of Total Fair Value
As at June 30, 2009			
Due in one year or less	$ 442,450	$ 443,141	88.7%
Due after one year through five years	24,076	23,708	4.8%
Due after five years through ten years	13,354	12,500	2.5%
Due after 10 years	18,877	18,666	3.7%
	498,757	498,015	99.7%
Residential mortgage-backed	1,371	1,386	0.3%
CMO	561	206	0.0%
	$ 500,689	$ 499,607	100.0%

	Amortized Cost	Fair Value	% of Total Fair Value
As at December 31, 2008			
Due in one year or less	$ 393,357	$ 393,673	77.1%
Due after one year through five years	74,547	73,556	14.4%
Due after five years through ten years	11,117	12,016	2.3%
Due after 10 years	15,417	16,942	3.3%
	494,438	496,187	97.1%
Residential mortgage-backed	1,634	1,634	0.3%
Asset backed	13,509	13,472	2.6%
CMO	583	216	0.0%
	$ 510,164	$ 511,509	100.0%

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

Held-to-maturity

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

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As at June 30, 2009				
U.S government and agency	$ 67,616	$ 747	$ (52)	$ 68,311
Non-U.S. government	189,083	4,095	(87)	193,091
Corporate	468,863	9,147	(2,936)	475,074
Residential mortgage-backed	8,874	79	(152)	8,801
Commercial mortgage-backed	20,191	1,448	(26)	21,613
Asset backed	37,038	1,805	(197)	38,646
CMO	1,371	1	(391)	981
	$ 793,036	$ 17,322	$ (3,841)	$ 806,517

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As at December 31, 2008				
U.S government and agency	$ 95,583	$ 2,155	$	$ 97,738
Non-U.S. government	156,620	9,466		166,086
Corporate	277,073	2,452	(2,107)	277,418
Residential mortgage-backed	9,819		(193)	9,626
Commercial mortgage-backed	17,074	1,045	(117)	18,002
Asset backed	29,057	297	(602)	28,752
CMO	1,490		(426)	1,064
	$ 586,716	$ 15,415	$ (3,445)	$ 598,686

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

The following tables summarize fixed maturity securities classified as held-to-maturity in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As at June 30, 2009						
U.S government and agency	$	$	$ 71,046	$ (52)	$ 71,046	$ (52)
Non-U.S. government			26,745	(87)	26,745	(87)
Corporate	11,874	(1,181)	122,077	(1,755)	133,951	(2,936)
Residential mortgage-backed	1,633	(150)	643	(2)	2,276	(152)
Commercial mortgage-backed	18	(12)	1,899	(14)	1,917	(26)
Asset backed	1,921	(195)	76	(2)	1,997	(197)
CMO	930	(391)			930	(391)
	$ 16,376	$ (1,929)	$ 222,486	$ (1,912)	$ 238,862	$ (3,841)

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As at December 31, 2008						
Corporate	$ 2,014	$ (46)	$ 21,391	$ (2,061)	$ 23,405	$ (2,107)
Residential mortgage-backed	2,699	(193)			2,699	(193)
Commercial mortgage-backed	58	(117)			58	(117)
Asset backed	26,642	(602)			26,642	(602)
CMO	1,011	(426)			1,011	(426)
	$ 32,424	$ (1,384)	$ 21,391	$ (2,061)	$ 53,815	$ (3,445)

As at June 30, 2009 and December 31, 2008, the number of fixed maturity securities classified as held-to-maturity in an unrealized loss position was 84 and 38, respectively, with a fair value of $238.9 million and $53.8 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for 12 months or longer was 29 and 24, respectively. As of June 30, 2009, none of these securities were considered to be other than temporarily impaired. The Company has the intent and ability to hold these securities until their maturities. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

The contractual maturities of our fixed maturities classified as held-to-maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value	% of Total Fair Value
As at June 30, 2009			
Due in one year or less	$ 144,121	$ 145,054	18.0%
Due after one year through five years	520,667	530,427	65.8%
Due after five years through ten years	60,774	60,995	7.5%
Due after 10 years			
	725,562	736,476	91.3%
Residential mortgage-backed	8,874	8,801	1.1%
Commercial mortgage-backed	20,191	21,613	2.7%
Asset backed	37,038	38,646	4.8%
CMO	1,371	981	0.1%
	$ 793,036	$ 806,517	100.0%

	Amortized Cost	Fair Value	% of Total Fair Value
As at December 31, 2008			
Due in one year or less	$ 80,002	$ 80,492	13.4%
Due after one year through five years	387,550	395,224	66.1%
Due after five years through ten years	61,724	65,526	10.9%
Due after 10 years			
	529,276	541,242	90.4%
Residential mortgage-backed	9,819	9,626	1.6%
Commercial mortgage-backed	17,074	18,002	3.0%
Asset backed	29,057	28,752	4.8%
CMO	1,490	1,064	0.2%
	$ 586,716	$ 598,686	100.00%

FAS 115-2 Other-Than-Temporary Impairment Process

Upon the adoption of FAS 115-2, effective April 1, 2009, the Company changed its quarterly process for assessing whether declines in the fair value of its fixed maturity investments, both available-for-sale and held-to-maturity, represented impairments that are other-than-temporary. The process now includes reviewing each fixed maturity investment that is impaired and determining: (1) if the Company has the intent to sell the debt security or (2) if it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery; and (3) assessing whether a credit loss exists, that is, where the Company believes that the present value of the cash flows expected to be collected from the security are less than the amortized cost basis of the security.

The Company had no planned sales of its available-for-sale or held-to-maturity investments as at June 30, 2009. In assessing whether it is more likely than not that the Company will be required to sell a security before its

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

anticipated recovery, the Company considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors. For the three months ended June 30, 2009, the Company did not recognize any other-than-temporary impairments due to required sales.

In evaluating credit losses, the Company considers a variety of factors in the assessment of a security including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the security to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the security to make scheduled interest or principal payments.

Based on the factors described above, the Company determined that a credit loss existed for one security. The Company did not consider an evaluation of future cash flows was necessary for this security and the impairment of $0.6 million was recognized in earnings.

Trading

The estimated fair value of investments in fixed maturity securities and short-term investments classified as trading securities were as follows:

	June 30, 2009	December 31, 2008
U.S government and agency	$ 75,404	$ 84,351
Corporate	25,466	30,644
Commercial mortgage-backed	34	
CMO	440	452
Asset backed	263	399
Equities	24,699	3,747
	$ 126,306	$ 119,593

Other Investments

At June 30, 2009 and December 31, 2008, the Company had $71.0 million and $60.2 million, respectively, of other investments recorded in limited partnerships, limited liability companies and equity funds. These other investments represented 2.0% and 1.7% of total investments and cash and cash equivalents at June 30, 2009 and December 31, 2008, respectively. All of the Company s investments in limited partnerships and limited liability companies that are categorized as other investments are subject to restrictions on redemptions and sales that are determined by the governing documents and limit the Company s ability to liquidate these investments in the short term. Due to a lag in the valuations reported by the managers, the Company records changes in the investment value with up to a three-month lag. These investments are accounted for under the equity method. As at June 30, 2009 and December 31, 2008, the Company had unfunded capital commitments relating to its other investments of $102.4 million and $108.0 million, respectively. As at June 30, 2009 and December 31, 2008, the Company had 94.6% and 90.6%, respectively, of other investments with a related party.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

Fair Value of Financial Instruments

In accordance with FAS No. 157, Fair Value Measurements (FAS 157), the Company has categorized its investments measured at fair value between levels as follows:

	June 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S government and agency	$	$ 211,006	$	$ 211,006
Non-U.S. government		20,557		20,557
Corporate		367,322		367,322
Residential mortgage-backed		1,386		1,386
Commercial mortgage-backed		34		34
Asset backed			263	263
CMO		646		646
Equities	12,755	8,744	3,200	24,699
Other investments			71,039	71,039
Total investments	$ 12,755	$ 609,695	$ 74,502	$ 696,952

	December 31, 2008			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S government and agency	$	$ 326,404	$	$ 326,404
Non-U.S. government		25,479		25,479
Corporate		259,299		259,299

Residential mortgage-backed				1,634				1,634
Asset backed				13,519		352		13,871
CMO				668				668
Equities		3,747						3,747
Other investments						60,237		60,237
Total investments	$	3,747	$	627,003	$	60,589	$	691,339

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended June 30, 2009:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of April 1, 2009	$ 284	$ 69,566	$ 2,091	$ 71,941
Net purchases (sales and distributions)		(212)		(212)
Total realized and unrealized (gains) losses	(21)	1,685	1,109	2,773
Net transfers in and/or (out) of Level 3				
Level 3 investments as of June 30, 2009	$ 263	$ 71,039	$ 3,200	$ 74,502

The amount of net gains/(losses) for the period included in earnings attributable to the fair value of changes in assets still held at June 30, 2009 was $1.8 million. Of this amount, $1.1 million was included in net realized gains/(losses) and $0.7 million was included in net investment income.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the six-month period ended June 30, 2009:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2009	$ 352	$ 60,237	$	$ 60,589
Net purchases (sales and distributions)		12,415	2,006	14,421
Total realized and unrealized (gains) losses	(89)	(1,613)	1,194	(508)
Net transfers in and/or (out) of Level 3				
Level 3 investments as of June 30, 2009	$ 263	$ 71,039	$ 3,200	$ 74,502

The amount of net (losses)/gains for the period included in earnings attributable to the fair value of changes in assets still held at June 30, 2009 was $(0.6) million. Of this amount, $1.1 million was included in net realized gains/(losses) and $(1.7) million was included in net investment income.

During the six months ended June 30, 2009 and 2008, proceeds from the sale and maturities of available-for-sale securities were $248.0 million and $155.3 million, respectively. Gross realized gains on sale of available-for-sale securities were $0.1 million and $0.3 million, respectively, and gross realized losses on sale of available-for-sale securities were $0.1 million and $nil, respectively.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INVESTMENTS (cont d)

Restricted Investments

The Company is required to maintain investments on deposit with various regulatory authorities to support its insurance and reinsurance operations. The investments on deposit are available to settle insurance and reinsurance liabilities. The Company also utilizes trust accounts to collateralize business with its insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The investments in trust as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted investments was as follows:

	June 30, 2009	December 31, 2008
Assets used for collateral in trust for third-party agreements	$ 188,563	$ 297,491
Deposits with U.S. regulatory authorities	6,251	11,751
	$ 194,814	$ 309,242

6. LOANS PAYABLE

On April 4, 2009, the Company repaid AU$80.7 million (approximately $57.6 million) of the outstanding principal of the Facility A commitment pursuant to the term facility agreement of the Company s wholly-owned subsidiary, Cumberland Holdings Limited. As at June 30, 2009, the outstanding loan balance related to the Cumberland Loan Facility was AU$147.9 million (approximately $119.2 million).

On June 29, 2009, Gordian received approval from the Australian regulators to release a further AU$123.9 million bringing the total approved and unpaid releases to AU$149.7 million. The Company expects the distributions to be made by Gordian in the third quarter of 2009. In accordance with the terms of the Cumberland Loan Facility, 50% of the total distributions will be used to paydown the Cumberland Loan Facility.

On December 30, 2008, in connection with the UAH acquisition, Royston Run-off Limited (Royston) borrowed the full amount of $184.6 million available under a term facilities agreement (the Unionamerica Facilities Agreement), with National Australia Bank Limited (NABL). Of that amount, Royston borrowed $152.6 million under Facility A and $32.0 million under Facility B. The loans are secured by a lien covering all of the assets of Royston. The Company provided a guarantee of all of Royston s obligations under the facilities agreement. The Facility A portion is repayable within three years from October 3, 2008, the date of the Unionamerica Facilities Agreement. The Facility B portion is repayable within four years from the date of the Unionamerica Facilities Agreement. The Flowers Fund has a 30% non-voting equity interest in Royston Holdings Ltd., the direct parent company of Royston.

On August 4, 2009, Royston entered into an amended and restated term facility agreement pursuant to which: (1) NABL s participation in the original $184.6 million facility was reduced from 100% to 50%, with Barclays Bank PLC providing the remaining 50%; (2) the guarantee provided by the Company of all of the obligations of Royston under the Unionamerica Facilities Agreement was terminated; and (3) the interest rate on the Facility A portion was reduced from LIBOR plus 3.50% to LIBOR plus 2.75% and the interest rate on the Facility B portion was reduced from LIBOR plus 4.00% to LIBOR plus 3.25%.

The fair values of the Company s floating rate loans approximate their book value.

7. EMPLOYEE BENEFITS

Our share-based compensation plans provide for the grant of various awards to our employees and to members of the board of directors. These are described in Note 12 to the Consolidated Financial Statements contained in our

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. EMPLOYEE BENEFITS (cont d)

Annual Report on Form 10-K for the year ended December 31, 2008. The information below includes both the employee and director components of our share-based compensation.

(a) Employee share plans

Employee stock awards for the six-months ended June 30, 2009 are summarized as follows:

	Number of Shares	Weighted Average Fair Value of the Award
Nonvested January 1, 2009	13,749	$ 813
Granted	67,451	3,454
Vested	(79,564)	(4,189)
Nonvested June 30, 2009	1,636	$ 96

i) 2004-2005 Employee Share Plan

On May 23, 2006, the Company entered into an agreement and plan of merger with The Enstar Group, Inc. (EGI) and a recapitalization agreement. These agreements provided for the cancellation of the then-current annual incentive compensation plan and replaced it with a new annual incentive compensation plan.

As a result of the execution of these agreements, the accounting treatment for share-based awards under the Company s employee share plan changed from book value to fair value. The determination of the share-award expenses was based on the fair-market value per share of EGI common stock as of the grant date and is recognized over the vesting period.

Compensation costs of $0.1 million and $0.3 million relating to the issuance of share-awards to employees of the Company in 2004 and 2005 have been recognized in the Company s statement of earnings for the three and six-months ended June 30, 2008, respectively, as compared to $Nil for the three and six-month periods ended June 30, 2009.

ii) 2006-2010 Annual Incentive Plan and 2006 Equity Incentive Plan

For the six months ended June 30, 2009 and 2008, 64,572 and 27,140 shares were awarded to officers and employees under the 2006 Equity Incentive Plan. The total value of the awards for the six months ended June 30, 2009 and 2008 were $3.3 million and $2.6 million, respectively, and was charged against the 2006-2010 Annual Incentive Plan accrual established for the years ended December 31, 2008 and 2007, respectively.

The expense relating to the 2006-2010 Annual Incentive Plan for the three and six-months ended June 30, 2009, was $1.6 million and $3.6 million, respectively, as compared to $2.0 million and $4.0 million for the three and six-month periods ended June 30, 2008, respectively.

iii) Enstar Group Limited Employee Share Purchase Plan

Compensation costs of less than $0.1 million and $0.2 million relating to the shares issued under the Employee Share Purchase Plan (the Plan) have been recognized in the Company s statement of earnings for the three and six-month periods ended June 30, 2009, respectively, as compared to less than $0.1 million and $0.1 million for the three and six-month periods ended June 30, 2008, respectively. As at June 30, 2009, 5,574 shares have been issued to employees under the Plan.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. EMPLOYEE BENEFITS (cont d)

(b) Options

	Number of Shares	Weighted Average Exercise Price	Intrinsic Value of Shares
Outstanding January 1, 2009	490,371	$ 25.40	$ 16,545
Granted			
Exercised	(162,785)	17.18	(2,796)
Forfeited			
Outstanding June 30, 2009	327,586	$ 29.49	$ 9,619

Stock options outstanding and exercisable as of June 30, 2009 were as follows:

Ranges of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$10 - $20	160,860	$ 17.23	1.6 years
$40 - $60	166,726	41.32	4.2 years

(c) Deferred Compensation and Stock Plan for Non-Employee Directors

For the six-months ended June 30, 2009 and 2008, 3,431 and 1,987 restricted share units, respectively, were credited to the accounts of Non-Employee Directors under the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors (the Deferred Compensation Plan).

Following T. Wayne Davis resignation from the Board of Directors, 1,576 restricted share units previously credited to his account under the Deferred Compensation Plan were converted into the same number of the Company s ordinary shares on April 1, 2009, with fractional shares paid in cash. Also on April 1, 2009, 14,146 restricted stock units previously credited to Mr. Davis account under EGI s Deferred Compensation and Stock Plan for Non-Employee Directors were converted into the same number of the Company s ordinary shares.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share of amounts attributable to the Company s ordinary shareholders for the three and six month periods ended June 30, 2009 and 2008.

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Basic earnings per share		
Net earnings attributable to Enstar Group Limited before extraordinary gain	$ 8,751	$ 11,173
Weighted average shares outstanding basic	13,532,608	11,959,125
Earnings per share attributable to Enstar Group Limited before extraordinary gain basic	$ 0.65	$ 0.93
Diluted earnings per share		
Net earnings attributable to Enstar Group Limited before extraordinary gain	$ 8,751	$ 11,173
Weighted average shares outstanding basic	13,532,608	11,959,125
Share equivalents:		
Unvested shares	1,769	14,548
Options	245,543	261,550
Restricted share units	7,633	3,133
Weighted average shares outstanding diluted	13,787,553	12,238,356
Earnings per share attributable to Enstar Group Limited before extraordinary gain diluted	$ 0.63	$ 0.91

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EARNINGS PER SHARE (cont d)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Basic earnings per share		
Net earnings (loss) attributable to Enstar Group Limited before extraordinary gain	$ 20,282	$ (12,336)
Weighted average shares outstanding basic	13,448,525	11,943,330
Earnings (loss) per share attributable to Enstar Group Limited before extraordinary gain basic	$ 1.51	$ (1.03)
Diluted earnings per share		
Net earnings (loss) attributable to Enstar Group Limited before extraordinary gain	$ 20,282	$ (12,336)
Weighted average shares outstanding basic	13,448,525	11,943,330
Share equivalents:		
Unvested shares	7,726	
Options	237,070	
Restricted share units	7,532	
Weighted average shares outstanding diluted	13,700,853	11,943,330
Earnings (loss) per share attributable to Enstar Group Limited before extraordinary gain diluted	$ 1.48	$ (1.03)

The following securities have not been included in the computation of diluted earnings per share for the six- month period ended June 30, 2008 because to do so would have been anti-dilutive.

Share equivalents:	**2008**
Unvested shares	20,205
Options	257,859
Restricted share units	2,637
Total	280,701

9. RELATED PARTY TRANSACTIONS

The Company has entered into certain transactions with companies and partnerships that are affiliated with J. Christopher Flowers and John J. Oros. Mr. Flowers is a member of the Company s board of directors and is one of the Company s largest shareholders. Mr. Oros is the Company s Executive Chairman and a member of the board of directors.

During the six months ended June 30, 2009, the Company funded an additional $5.7 million of its outstanding capital commitment to entities affiliated with Messrs. Flowers and Oros. The Company had, as of June 30, 2009 and December 31, 2008, investments in entities affiliated with Messrs. Flowers and Oros with a total value of $67.2 million and $54.5 million, respectively, and outstanding commitments to entities managed by Messrs. Flowers and Oros, as of those dates, of $98.3 million and $104.0 million, respectively. The Company s outstanding commitments may be drawn down over approximately the next five years.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. RELATED PARTY TRANSACTIONS (cont d)

On January 16, 2009, the Company committed to invest approximately $8.7 million in JCF III Co-invest I L.P., an entity affiliated with Messrs. Flowers and Oros, in connection with its investment in certain of the operations, assets and liabilities of IndyMac Bank, F.S.B.

As at June 30, 2009, the related party investments associated with Messrs. Flowers and Oros accounted for 96% of the total unfunded capital commitments of the Company, and 94.6% of the total amount of investments classified as Other Investments by the Company.

10. SEGMENT INFORMATION

The determination of reportable segments is based on how senior management monitors the Company s operations. The Company measures the results of its operations under two major business categories: reinsurance and consulting.

All of the consulting fees for the reinsurance segment relate to intercompany fees paid to the consulting segment.

	Three Months Ended June 30, 2009		
	Reinsurance	Consulting	Total
Consulting fees	$ (8,247)	$ 12,426	$ 4,179
Net investment income	17,593	900	18,493
Net realized gains	5,080		5,080
	14,426	13,326	27,752
Net reduction in loss and loss adjustment expense liabilities	(17,393)		(17,393)
Salaries and benefits	2,961	8,953	11,914
General and administrative expenses	6,727	4,183	10,910
Interest expense	4,675		4,675
Net foreign exchange gain	(948)	(663)	(1,611)
	(3,978)	12,473	8,495
Earnings before income taxes	18,404	853	19,257
Income taxes	1,723	(1,700)	23
Net earnings (loss)	20,127	(847)	19,280
Less: Net earnings attributable to noncontrolling interest	(10,529)		(10,529)
Net earnings (loss) attributable to Enstar Group Limited	$ 9,598	$ (847)	$ 8,751

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. SEGMENT INFORMATION (cont d)

	Three Months Ended June 30, 2008		
	Reinsurance	Consulting	Total
Consulting fees	$ (9,037)	$ 12,615	$ 3,578
Net investment income	19,512	1,707	21,219
Net realized gains	1,014		1,014
	11,489	14,322	25,811
Net reduction in loss and loss adjustment expense liabilities	(25,483)		(25,483)
Salaries and benefits	5,172	8,775	13,947
General and administrative expenses	8,968	5,004	13,972
Interest expense	7,643		7,643
Net foreign exchange gain	(4,932)	(3)	(4,935)
	(8,632)	13,776	5,144
Earnings before income taxes	20,121	546	20,667
Income taxes	(3,186)	(7)	(3,193)
Net earnings	16,935	539	17,474
Less: Net earnings attributable to noncontrolling interest	(6,301)		(6,301)
Net earnings attributable to Enstar Group Limited	$ 10,634	$ 539	$ 11,173

	Six Months Ended June 30, 2009		
	Reinsurance	Consulting	Total
Consulting fees	$ (16,243)	$ 23,758	$ 7,515
Net investment income	34,690	1,112	35,802
Net realized losses	(930)		(930)
	17,517	24,870	42,387
Net reduction in loss and loss adjustment expense liabilities	(44,072)		(44,072)
Salaries and benefits	6,427	17,904	24,331
General and administrative expenses	14,784	8,508	23,292
Interest expense	9,640		9,640

Net foreign exchange loss (gain)		361		(374)		(13)
		(12,860)		26,038		13,178
Earnings before income taxes and share of net earnings of partly owned company		30,377		(1,168)		29,209
Income taxes		1,848		(1,207)		641
Share of net earnings of partly owned company		269				269
Net earnings (loss)		32,494		(2,375)		30,119
Less: Net earnings attributable to noncontrolling interest		(9,837)				(9,837)
Net earnings (loss) attributable to Enstar Group Limited	$	22,657	$	(2,375)	$	20,282

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. SEGMENT INFORMATION (cont d)

	Six Months Ended June 30, 2008		
	Reinsurance	**Consulting**	**Total**
Consulting fees	$ (16,285)	$ 25,918	$ 9,633
Net investment income (loss)	25,010	(3,201)	21,809
Net realized gains	(70)		(70)
	8,655	22,717	31,372
Net reduction in loss and loss adjustment expense liabilities	(24,798)		(24,798)
Salaries and benefits	7,234	18,070	25,304
General and administrative expenses	17,257	8,626	25,883
Interest expense	10,958		10,958
Net foreign exchange gain	(5,895)	(375)	(6,270)
	4,756	26,321	31,077
Earnings (loss) before income taxes	3,899	(3,604)	295
Income taxes	(4,747)	1,793	(2,954)
Loss before extraordinary gain	(848)	(1,811)	(2,659)
Extraordinary gain Negative goodwill	50,280		50,280
Net earnings (loss)	49,432	(1,811)	47,621
Less: Net earnings attributable to noncontrolling interest	(24,761)		(24,761)
Net earnings (loss) attributable to Enstar Group Limited	$ 24,671	$ (1,811)	$ 22,860

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of Enstar Group Limited

We have reviewed the accompanying condensed consolidated balance sheet of Enstar Group Limited and subsidiaries (the Company) as of June 30, 2009, and the related condensed consolidated statements of earnings and comprehensive income for the three-month and six-month periods ended June 30, 2009 and 2008, and changes in shareholders equity and cash flows for the six-month periods ended June 30, 2009 and 2008. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Enstar Group Limited and subsidiaries as of December 31, 2008 and the related consolidated statements of earnings, comprehensive income, changes in shareholders equity, and cash flows for the year then ended prior to retrospective adjustment for the adoption of FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, (not presented herein); and in our report dated March 4, 2009, we expressed an unqualified opinion on those consolidated financial statements. We have also audited the adjustments that were applied to retrospectively adjust the December 31, 2008 consolidated financial statements of Enstar Group Limited and subsidiaries (not presented herein). In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche

Hamilton, Bermuda
August 7, 2009

Item 2. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following is a discussion and analysis of our results of operations for the three and six months ended June 30, 2009 and 2008. This discussion and analysis should be read in conjunction with the attached unaudited consolidated financial statements and notes thereto and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Business Overview

Enstar Group Limited, or Enstar, was formed in August 2001 under the laws of Bermuda to acquire and manage insurance and reinsurance companies in run-off, and to provide management, consulting and other services to the insurance and reinsurance industry.

Since our formation we have acquired a number of insurance and reinsurance companies and are now administering those businesses in run-off. We derive our net earnings from the ownership and management of these companies primarily by settling insurance and reinsurance claims below the recorded loss reserves and from returns on the portfolio of investments retained to pay future claims. In addition, we have formed other businesses that provide management and consultancy services, claims inspection services and reinsurance collection services to our affiliates and third-party clients for both fixed and success-based fees.

Recent Transactions

On May 29, 2009, we, through our indirect subsidiary, Nordic Run-Off Limited, entered into a definitive agreement for the purchase of Copenhagen Reinsurance Company Ltd., or Copenhagen Re, from Alm. Brand Forsikring A/S for a total purchase price of approximately $28.0 million. Copenhagen Re is a Norwegian domiciled reinsurer that is in run-off. We expect the purchase price to be financed from available cash on hand. Completion of the transaction is conditioned on, among other things, regulatory approval and satisfaction of various customary closing conditions. We expect the transaction to close in the third quarter of 2009.

On January 31, 2009, we, through our indirect subsidiary, Sun Gulf Holdings Inc., completed the acquisition of all of the outstanding capital stock of Constellation Reinsurance Company Limited, or Constellation, for a total purchase price of approximately $2.5 million. Constellation is a New York domiciled reinsurer that is in run-off. The acquisition was funded from available cash on hand.

We own 50.1% of Shelbourne Group Limited, which in turn owns 100% of Shelbourne Syndicate Services Limited, the Managing Agency for Lloyd s Syndicate 2008, a syndicate approved by Lloyd s of London on December 16, 2007 to undertake Reinsurance to Close or RITC transactions (the transferring of liabilities from one Lloyd s Syndicate to another) with Lloyd s syndicates in run-off. In February 2009, Lloyd s Syndicate 2008 entered into a RITC agreement with a Lloyd s syndicate with total gross insurance reserves of approximately $67.0 million. JCF FPK I L.P., or JCF FPK, a joint investment program between J.C. Flowers II L.P., or the Flowers Fund, and Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, or FPK, owns 25.0% of Shelbourne Group Limited.

The Flowers Fund is a private investment fund advised by J.C. Flowers & Co. LLC. J. Christopher Flowers, a member of our board of directors and one of our largest shareholders, is the founder and Managing Member of J.C. Flowers & Co. LLC. John J. Oros, our Executive Chairman and a member of our board of directors, is a Managing Director of J.C. Flowers & Co. LLC. In July 2008, FPK acted as lead managing underwriter in our public share offering. An affiliate of the Flowers Fund controls approximately 41% of FPK.

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Results of Operations

The following table sets forth Enstar s selected consolidated statement of operations data for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
INCOME				
Consulting fees	$ 4,179	$ 3,578	$ 7,515	$ 9,633
Net investment income	18,493	21,219	35,802	21,809
Net realized gains (losses)	5,080	1,014	(930)	(70)
	27,752	25,811	42,387	31,372
EXPENSES				
Net reduction in loss and loss adjustment expense liabilities	(17,393)	(25,483)	(44,072)	(24,798)
Salaries and benefits	11,914	13,947	24,331	25,304
General and administrative expenses	10,910	13,972	23,292	25,883
Interest expense	4,675	7,643	9,640	10,958
Net foreign exchange gain	(1,611)	(4,935)	(13)	(6,270)
	8,495	5,144	13,178	31,077
Earnings before income taxes and share of net earnings of partly owned company	19,257	20,667	29,209	295
Income taxes	23	(3,193)	641	(2,954)
Share of net earnings of partly owned company			269	
Earnings (loss) before extraordinary gain	19,280	17,474	30,119	(2,659)
Extraordinary gain negative goodwill				50,280
NET EARNINGS	19,280	17,474	30,119	47,621
Less: Net earnings attributable to noncontrolling interest	(10,529)	(6,301)	(9,837)	(24,761)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 8,751	$ 11,173	$ 20,282	$ 22,860

Comparison of the Three Months Ended June 30, 2009 and 2008

We reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately $19.3 million for the three months ended June 30, 2009 as compared to approximately $17.5 million for the same period in 2008. The increase in earnings of approximately $1.8 million was primarily attributable to the following:

(i) an increase in investment income (net of realized gains) of $1.3 million primarily as a result of the reversal of prior period writedowns on our equity portfolio partially offset by lower investment income reflecting the impact of lower global short-term and intermediate interest rates;

(ii) reduction in salary and general and administrative costs of $5.1 million due to reduced costs primarily as a result of a lower British pound exchange rate to the U.S. dollar;

(iii) reduced interest expense of $3.0 million due primarily to lower interest rates on outstanding loans along with lower outstanding principal on the term loan facility agreement of our wholly owned subsidiary, Cumberland Holdings Limited, or the Cumberland Loan Facility; and

(iv) a reduction in income taxes of $3.2 million due to lower tax liabilities on the results of our taxable subsidiaries; partially offset by

(v) decreased reduction in loss and loss adjustment expense liabilities of $8.1 million; and

(vi) a reduction in foreign exchange gains of $3.3 million.

We recorded noncontrolling interest in earnings of $10.5 million and $6.3 million for the three months ended June 30, 2009 and 2008, respectively. The increase for the three months ended June 30, 2009 in noncontrolling interest was due primarily to an increase in the number of subsidiary companies for which there exists a noncontrolling interest. Accordingly, net earnings attributable to Enstar Group Limited decreased from approximately $11.2 million for the three months ended June 30, 2008 to approximately $8.8 million for the three months ended June 30, 2009.

Consulting Fees:

	Three Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 12,426	$ 12,615	$ (189)
Reinsurance	(8,247)	(9,037)	790
Total	$ 4,179	$ 3,578	$ 601

We earned consulting fees of approximately $4.2 million and $3.6 million for the three months ended June 30, 2009 and 2008, respectively.

Internal management fees of $8.2 million and $9.0 million were paid in the quarters ended June 30, 2009 and 2008, respectively, by our reinsurance companies to our consulting companies. The decrease in internal fees paid to the consulting segment was due primarily to a decrease in fees paid by our reinsurance companies in respect of internal collection and audit services.

Net Investment Income and Net Realized Gains:

	Three Months Ended June 30,					
	Net Investment Income			Net Realized Gains/(Losses)		
	2009	2008	Variance	2009	2008	Variance
	(in thousands of U.S. dollars)					
Consulting	$ 900	$ 1,707	$ (807)	$	$	$
Reinsurance	17,593	19,512	(1,919)	5,080	1,014	4,066
Total	$ 18,493	$ 21,219	$ (2,726)	$ 5,080	$ 1,014	$ 4,066

Net investment income for the three months ended June 30, 2009 decreased by $2.7 million to $18.5 million, as compared to $21.2 million for the same period in 2008. The decrease was primarily attributable to the following:

(i) lower investment income from fixed maturities and cash and cash equivalents, reflecting the impact of lower global short-term and intermediate interest rates the average U.S. Federal Funds Rate has decreased from 2.08% for the three months ended June 30, 2008 to 0.25% for the three months ended June 30, 2009;

(ii) decrease in the Australian dollar and British pound quarterly average foreign exchange rates; partially offset by

(iii) an appreciation of $0.4 million in the fair value of our investments in New NIB Partners L.P., the Flowers Fund, Affirmative Investment LLC and GSC European Mezzanine Fund II, LP for the three months ended June 30, 2009.

The average return on the cash and fixed maturity investments for the three months ended June 30, 2009 was 1.96%, as compared to the average return of 2.88% for the three months ended June 30, 2008. The average Standard & Poor s credit rating of our fixed income investments at June 30, 2009 was AA.

Net realized gains for the three months ended June 30, 2009 and 2008 were $5.1 million and $1.0 million, respectively. The change between 2008 and 2009 of approximately $4.1 million relates primarily to mark to market gains in 2009 in the market value of our equity portfolio.

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Net Reduction in Loss and Loss Adjustment Expense Liabilities:

The net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2009 and 2008 were $17.4 million and $25.5 million, respectively. The net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2009 of $17.4 million was attributable to a reduction in estimates of net ultimate losses of $17.7 million and a reduction in estimates of loss adjustment expense liabilities, or LAE, of $9.4 million, relating to 2009 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments of $9.8 million relating to companies acquired. The reduction in estimates of net ultimate losses of $17.7 million primarily related to the reduction in estimates of net ultimate losses of $13.0 million in one of our subsidiaries. This reduction in estimates of ultimate losses of $13.0 million was comprised of net favorable incurred loss development for the six months ended June 30, 2009 of $2.6 million and reductions in IBNR reserves of $10.4 million. The net favorable incurred loss development of $2.6 million, whereby net advised case and LAE reserves of $6.6 million were settled for net paid losses of $4.0 million, arose from the settlement of losses during the period below carried reserves. The net reduction in the estimate of the subsidiary s IBNR loss and loss adjustment expense liabilities of $10.4 million was the result of the application of our reserving methodologies to the reduced case and LAE reserves following the subsidiary s semi-annual actuarial review of reserves as required by local regulation.

The reduction in estimates of net ultimate losses of $25.2 million for the three months ended June 30, 2008 was primarily attributable to the reduction in estimates of net ultimate losses of $25.5 million related to one of our subsidiaries, which reduction was comprised of net favorable incurred loss development of $12.1 million and related reductions in IBNR reserves of $13.4 million. The net favorable incurred loss development of $12.1 million, whereby net advised case and LAE reserves of $21.2 million were settled for net paid losses of $9.1 million, arose from the settlement of non-commuted losses during the period below carried reserves and three commutations of assumed and ceded exposures at less than case and LAE reserves. The net reduction in the estimate of the subsidiary s IBNR loss and loss adjustment expense liabilities of $13.4 million was the result of an independent actuarial review and the application of our reserving methodologies to the reduced case and LAE reserves. During the three months ended June 30, 2008, another of our reinsurance subsidiaries commuted its largest exposure, which was fully reinsured by a single reinsurer with a AA- rating from Standard & Poors. The subsidiary paid net claims of $221.2 million and reduced net IBNR loss reserves by the same amount.

The following table shows the components of the movement in the net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2009 and 2008.

	Three Months Ended June 30,	
	2009	**2008**
	(in thousands of U.S. dollars)	
Net Losses Paid	$ 67,449	$ 260,866
Net Change in Case and LAE Reserves	(26,896)	(43,985)
Net Change in IBNR	(57,946)	(242,364)
Net Reduction in Loss and Loss Adjustment Expense Liabilities	$ (17,393)	$ (25,483)

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The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three months ended June 30, 2009 and June 30, 2008. Losses incurred and paid are reflected net of reinsurance recoverables.

	Three Months Ended June 30,	
	2009	2008
	(in thousands of U.S. dollars)	
Balance as of April 1	$ 2,797,827	$ 2,700,687
Less: Reinsurance recoverables	379,615	662,929
	2,418,212	2,037,758
Incurred Related to Prior Years	(17,393)	(25,483)
Paids Related to Prior Years	(67,449)	(260,866)
Effect of Exchange Rate Movement	72,776	31,106
Net balance as at June 30	$ 2,406,146	$ 1,782,515
Plus: Reinsurance recoverables	375,431	529,075
Balance as at June 30	$ 2,781,577	$ 2,311,590

Salaries and Benefits:

	Three Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 8,953	$ 8,775	$ (178)
Reinsurance	2,961	5,172	2,211
Total	$ 11,914	$ 13,947	$ 2,033

Salaries and benefits, which include expenses relating to our discretionary bonus and employee share plans, were $11.9 million and $13.9 million for the three months ended June 30, 2009 and 2008, respectively.

The reduction in total salaries and benefits of approximately $2.0 million is primarily attributable to:

(i) a reduction in the quarterly average British pound exchange rate to U.S. dollars for the three months ended June 30, 2008 and 2009 from approximately 1.972 to 1.552, respectively. Of our total headcount as at June 30, 2009 and June 30, 2008, approximately 67% and 63%, respectively, had their salaries paid in British pounds;

(ii) a reduction in the discretionary bonus expense for the three months ended June 30, 2009 of $0.5 million; partially offset by

(iii) increased staff costs due to an increase in average staff numbers for the three months ended June 30, 2008 of 249 to an average of 286 for the three months ended June 30, 2009.

Expenses relating to our discretionary bonus plan will be variable and dependent on our overall profitability.

General and Administrative Expenses:

	Three Months Ended June 30,		
	2009	**2008**	**Variance**
	(in thousands of U.S. dollars)		
Consulting	$ 4,183	$ 5,004	$ 821
Reinsurance	6,727	8,968	2,241
Total	$ 10,910	$ 13,972	$ 3,062

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General and administrative expenses attributable to the consulting segment decreased by $0.8 million during the three months ended June 30, 2009, as compared to the three months ended June 30, 2008.

General and administrative expenses attributable to the reinsurance segment decreased by $2.2 million during the three months ended June 30, 2009, as compared to the three months ended June 30, 2008. The reduction in general and administrative expenses is primarily attributable to the following:

(i) a reduction in the quarterly average British pound exchange rate to U.S. dollars for the three months ended June 30, 2008 and 2009 from approximately 1.972 to 1.552, respectively;

(ii) a reduction in consulting and third-party management expenses; partially offset by

(iii) increased legal fees incurred in our U.S. subsidiaries; and

(iv) increased costs resulting from companies acquired subsequent to June 30, 2008.

Interest Expense:

	Three Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	4,675	7,643	2,968
Total	$ 4,675	$ 7,643	$ 2,968

Interest expense of $4.7 million and $7.6 million was recorded for the three months ended June 30, 2009 and 2008, respectively. The decrease in interest expense is primarily attributable to the combination of:

(i) a reduction in the principal balance on the outstanding loan relating to the acquisition of AMP Limited s Australian-based closed reinsurance and insurance operations, or Gordian;

(ii) a reduction in the Australian LIBOR interest rate on the Cumberland Loan Facility between June 30, 2008 and June 30, 2009; and

(iii) a reduction in the average Australian dollar exchange rate to U.S. dollars from approximately 0.944 to 0.762 for the three months ended June 30, 2008 and June 30, 2009, respectively.

Foreign Exchange Gain:

	Three Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 663	$ 3	$ 660

Reinsurance	948	4,932	(3,984)
Total	$ 1,611	$ 4,935	$ (3,324)

We recorded a foreign exchange gain of $1.6 million for the quarter ended June 30, 2009, as compared to a foreign exchange gain of $4.9 million for the same period in 2008. For the quarter ended June 30, 2009, the foreign exchange gain arose primarily as a result of holding surplus British pounds relating primarily to cash collateral requirements to support British pound denominated letters of credit required by U.K. regulators, partially offset by foreign exchange losses arising as a result of the holding of surplus U.S. dollar assets in one of our subsidiaries whose functional currency is Australian dollars at a time when the U.S. dollar has been depreciating against the currency.

For the three months ended June 30, 2008, the foreign exchange gain arose primarily as a result of the holding of surplus net Australian dollars and Euros in the reinsurance segment at a time when these currencies had been appreciating against the U.S. dollar.

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Income Tax Recovery/(Expense):

	Three Months Ended June 30, 2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ (1,700)	$ (7)	$ (1,693)
Reinsurance	1,723	(3,186)	4,909
Total	$ 23	$ (3,193)	$ 3,216

We recorded an income tax recovery/(expense) of $0.1 million and $(3.2) million for the three months ended June 30, 2009 and 2008, respectively. During the three months ended June 30, 2009 and 2008, we incurred net income tax recovery/(expense) for our subsidiaries that operate in taxable jurisdictions of $0.1 million and $(6.7) million, respectively. For the three months ended June 30, 2008, this was partially offset by the expiration of the statute of limitations on certain previously recorded uncertain tax liabilities. In accordance with FIN 48, those liabilities were reversed with the corresponding adjustment being made to income tax recovery in the income statement. The benefit of the expiration of the statute of limitations on uncertain tax liabilities resulted in a recovery by us for the quarter ended June 30, 2008 of $3.5 million.

Noncontrolling Interest

	Three Months Ended June 30, 2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	(10,529)	(6,301)	(4,228)
Total	$ (10,529)	$ (6,301)	$ (4,228)

We recorded noncontrolling interest in earnings of $10.5 million and $6.3 million for the three months ended June 30, 2009 and 2008, respectively. The increase for the three months ended June 30, 2009 in noncontrolling interest was due primarily to an increase in the number of subsidiary companies for which there exists a noncontrolling interest.

Comparison of the Six Months Ended June 30, 2009 and 2008

We reported consolidated net earnings, before extraordinary item and net earnings attributable to noncontrolling interest, of approximately $30.1 million for the six months ended June 30, 2009 as compared to a net (loss) of approximately $(2.7) million for the same period in 2008. The increase in earnings of approximately $32.8 million was primarily a result of the following:

(i) an increase in investment income of $14.0 million primarily due to a decrease in the cumulative writedowns on our private equity investments of $21.0 million, partially offset by lower investment income reflecting the impact of lower global short-term and intermediate interest rates and a $0.9 million increase in net realized losses;

(ii) an increased reduction in loss and loss adjustment expense liabilities of $19.3 million;

(iii) a reduction in salary and general and administrative costs of $3.6 million due to lower actual expenses primarily as a result of a lower British pound exchange rate to the U.S. dollar; and

(iv) a reduction in income taxes of $3.6 million due to lower tax liabilities on the results of our taxable subsidiaries; partially offset by

(v) a reduction in foreign exchange gains and consulting fees of $8.4 million.

We recorded noncontrolling interest in earnings of $9.8 million and $24.8 million for the six months ended June 30, 2009 and 2008, respectively. The decrease for the six months ended June 30, 2009 in noncontrolling interest was due primarily to the noncontrolling interest s share of the negative goodwill relating to the Gordian

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acquisition in 2008. Accordingly, net earnings attributable to Enstar Group Limited decreased from approximately $22.9 million for the six months ended June 30, 2008 to approximately $20.3 million for the six months ended June 30, 2009.

Consulting Fees:

	Six Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 23,758	$ 25,918	$ (2,160)
Reinsurance	(16,243)	(16,285)	42
Total	$ 7,515	$ 9,633	$ (2,118)

We earned consulting fees of approximately $7.5 million and $9.6 million for the six months ended June 30, 2009 and 2008, respectively. The decrease in consulting fees primarily related to decreased incentive fees earned from third-party agreements.

Internal management fees of $16.2 million and $16.3 million were paid in the six months ended June 30, 2009 and 2008, respectively, by our reinsurance companies to our consulting companies.

Net Investment Income and Net Realized (Losses):

	Six Months Ended June 30,					
	Net Investment Income			Net Realized (Losses)		
	2009	2008	Variance	2009	2008	Variance
	(in thousands of U.S. dollars)					
Consulting	$ 1,112	$ (3,201)	$ 4,313	$	$	$
Reinsurance	34,690	25,010	9,680	(930)	(70)	(860)
Total	$ 35,802	$ 21,809	$ 13,993	$ (930)	$ (70)	$ (860)

Net investment income for the six months ended June 30, 2009 increased by $14.0 million to $35.8 million, as compared to $21.8 million for the same period in 2008. The increase was primarily attributable to the combination of the following items:

(i) Decrease from $22.7 million to $1.7 million in writedowns in the fair value of our investments in New NIB Partners L.P., the Flowers Fund, Affirmative Investment LLC and GSC European Mezzanine Fund II, LP for the six months ended June 30, 2008 and 2009, respectively; partially offset by

(ii)

lower investment income from fixed maturities and cash and cash equivalents, reflecting the impact of lower global short-term and intermediate interest rates the average U.S. Federal Funds Rate has decreased from 2.65% for the six months ended June 30, 2008 to an average of 0.25% for the six months ended June 30, 2009.

The average return on the cash and fixed maturity investments for the six months ended June 30, 2009 was 1.76%, as compared to the average return of 4.10% for the six months ended June 30, 2008. The average Standard & Poor s credit rating of our fixed income investments at June 30, 2009 was AA.

Net realized (losses) for the six months ended June 30, 2009 and 2008 were $(0.9) million and $(0.1) million, respectively. The increase was due primarily to the writedown of our equity investments in 2009.

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Fair Value Measurements

The following table summarizes all of our financial assets and liabilities measured at fair value by FAS No. 157, Fair Value Measurements, or FAS 157, heirarchy.

	June 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
U.S. government and agency	$	$ 211,006	$	$ 211,006
Non-U.S. government		20,557		20,557
Corporate		367,322		367,322
Residential mortgage-backed		1,386		1,386
Commercial mortgage-backed		34		34
Asset backed			263	263
CMO		646		646
Equities	12,755	8,744	3,200	24,699
Other investments			71,039	71,039
Total investments	$ 12,755	$ 609,695	$ 74,502	$ 696,952

Net Reduction in Loss and Loss Adjustment Expense Liabilities:

The net reduction in loss and loss adjustment expense liabilities for the six months ended June 30, 2009 and 2008 was $44.1 million and $24.8 million, respectively. The net reduction in loss and loss adjustment expense liabilities for the six months ended June 30, 2009 of $44.1 million was attributable to a reduction in estimates of net ultimate losses of $47.6 million, a reduction in aggregate provisions for bad debts of $9.7 million and a reduction in estimates of loss adjustment expense liabilities of $19.5 million, relating to 2009 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments relating to companies acquired amounting to $32.7 million.

The reduction in estimates of net ultimate losses of $47.6 million primarily related to a reduction in estimates of loss reserves in two of our subsidiaries of $33.9 million following the commutation of one of our largest ten assumed and ceded exposures at less than case and LAE reserves and the agreement of claims liabilities of certain policyholders at levels that required a reassessment of IBNR loss reserves.

In addition, we recognized a reduction in estimates of net ultimate losses of $13.0 million in one of our subsidiaries as a result of net favorable incurred loss development for the six months ended June 30, 2009 of $2.6 million and reductions in IBNR reserves of $10.4 million. The net favorable incurred loss development of $2.6 million, whereby net advised case and LAE reserves of $6.6 million were settled for net paid losses of $4.0 million, arose from the settlement of losses during the period below carried reserves. The net reduction in the estimate of the subsidiary s IBNR loss and loss adjustment expense liabilities of $10.4 million was the result of the application of our reserving methodologies to the reduced case and LAE reserves following the subsidiary s semi-annual actuarial review of reserves as required by local regulation.

The reduction in estimates of net ultimate losses of $23.9 million for the six months ended June 30, 2008 was primarily attributable to the reduction in estimates of net ultimate losses of $25.5 million related to one of our subsidiaries, which reduction was comprised of net favorable incurred loss development of $12.1 million and related reductions in IBNR reserves of $13.4 million. The net favorable incurred loss development of $12.1 million, whereby net advised case and LAE reserves of $21.2 million were settled for net paid losses of $9.1 million, arose from the settlement of non-commuted losses during the period below carried reserves and approximately three commutations of assumed and ceded exposures at less than case and LAE reserves. The net reduction in the estimate of the subsidiary s IBNR loss and loss adjustment expense liabilities of $13.4 million was the result of an independent actuarial review and the application of our reserving methodologies to the reduced case and LAE reserves. During the six months ended June 30, 2008, another of our reinsurance subsidiaries commuted its largest exposure, which was fully reinsured by a single reinsurer with an AA- rating from Standard & Poor s. The subsidiary paid net claims of $221.2 million and reduced net IBNR loss reserves by the same amount.

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The following table shows the components of the movement in the net increase in loss and loss adjustment expense liabilities for the six months ended June 30, 2009 and 2008.

	Six Months Ended June 30, 2009	2008
	(in thousands of U.S. dollars)	
Net Losses Paid	$ 79,821	$ 257,491
Net Change in Case and LAE Reserves	(42,202)	(39,443)
Net Change in IBNR	(81,691)	(242,846)
Net (Reduction) in Loss and Loss Adjustment Expense Liabilities	$ (44,072)	$ (24,798)

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the six months ended June 30, 2009 and June 30, 2008. Losses incurred and paid are reflected net of reinsurance recoverables.

	Six Months Ended June 30, 2009	2008
	(in thousands of U.S. dollars)	
Balance as of January 1	$ 2,798,287	$ 1,591,449
Less: Reinsurance recoverables	394,575	427,964
	2,403,712	1,163,485
Incurred Related to Prior Years	(44,072)	(24,798)
Paids Related to Prior Years	(79,821)	(257,491)
Effect of Exchange Rate Movement	66,126	40,519
Retroactive Reinsurance Contracts Assumed	48,818	394,913
Acquired on Acquisition of Subsidiaries	11,383	465,887
Net balance as at June 30	2,406,146	1,782,515
Plus: Reinsurance recoverables	375,431	529,075
Balance as at June 30	$ 2,781,577	$ 2,311,590

Salaries and Benefits:

	Six Months Ended June 30, 2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 17,904	$ 18,070	$ 166
Reinsurance	6,427	7,234	807

Total	$ 24,331	$ 25,304	$ 973

Salaries and benefits, which include expenses relating to our discretionary bonus and employee share plans, were $24.3 million and $25.3 million for the six months ended June 30, 2009 and 2008, respectively. The reduction in salaries and benefits is primarily attributable to:

(i) a reduction in the average British pound exchange rate to U.S. dollars for the six months ended June 30, 2008 and 2009 from approximately 1.975 to 1.493, respectively. Of our total headcount as at June 30, 2009 and June 30, 2008, approximately 67% and 63%, respectively, had their salaries paid in British pounds;

(ii) a reduction in the discretionary bonus expense for the six months ended June 30, 2009 of $0.5 million; partially offset by

(iii) increased staff costs due to an increase in average staff numbers from 243 at June 30, 2008 to 287 as at June 30, 2009.

Expenses relating to our discretionary bonus plan will be variable and dependent on our overall profitability.

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General and Administrative Expenses:

	Six Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 8,508	$ 8,626	$ 118
Reinsurance	14,784	17,257	2,473
Total	$ 23,292	$ 25,883	$ 2,591

General and administrative expenses attributable to the reinsurance segment decreased by $2.6 million during the six months ended June 30, 2009, as compared to the six months ended June 30, 2008. For the six months ended June 30, 2008, we incurred approximately $4.5 million of bank loan structure fees in respect of acquisitions we completed during that period. For the six months ended June 30, 2009 we did not incur any similar fees. In addition, expenses were lower as a result of a reduction in the British pound exchange rate, in which a large portion of our costs are denominated. The reduced expenses were partially offset by increased costs resulting from companies acquired subsequent to June 30, 2008.

Interest Expense:

	Six Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	9,640	10,958	(1,318)
Total	$ 9,640	$ 10,958	$ (1,318)

Interest expense of $9.6 million and $11.0 million was recorded for the six months ended June 30, 2009 and 2008, respectively. The decrease in interest expense is primarily attributable to the combination of:

(i) a reduction in the principal balance on the Cumberland Loan Facility:

(ii) a reduction in the Australian LIBOR interest rate on the Cumberland Loan Facility between June 30, 2008 and June 30, 2009; and

(iii) a reduction in the average Australian dollar exchange rate to U.S. dollars from approximately 0.925 to 0.713 for the six months ended June 30, 2008 and June 30, 2009, respectively.

Foreign Exchange Gain/(Loss):

Six Months Ended June 30,

	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ 374	$ 375	$ (1)
Reinsurance	(361)	5,895	(6,256)
Total	$ 13	$ 6,270	$ (6,257)

We recorded a foreign exchange gain of $0.1 million for the six-month period ended June 30, 2009, as compared to a foreign exchange gain of $6.3 million for the same period in 2008. For the six months ended June 30, 2009, the foreign exchange gain arose primarily as a result of holding surplus British pounds relating primarily to cash collateral requirements to support British pound denominated letters of credit required by U.K. regulators, partially offset by the combination of realized foreign exchange losses on currency translations and foreign exchange losses arising as a result of the holding of surplus U.S. dollar assets in one of our subsidiaries whose functional currency is Australian dollars at a time when the U.S. dollar has been depreciating against the currency.

For the six months ended June 30, 2008, the foreign exchange gain arose primarily as a result of the holding of surplus net Australian dollars and Euros in the reinsurance segment at a time when these currencies were appreciating against the U.S. dollar.

In addition to the foreign exchange gains recorded in our consolidated statement of earnings for the six months ended June 30, 2009, we recorded in our condensed consolidated statement of comprehensive income currency translation adjustment gains, net of noncontrolling interest, of $26.4 million as compared to $7.7 million for the same period in 2008. For the six months ended June 30, 2009, the currency translation adjustment gains related primarily to Gordian. As the functional currency of Gordian is Australian dollars, we are required to record any U.S. dollar gains or losses on the translation of the net Australian dollar assets of Gordian through accumulated other comprehensive income.

Income Tax Recovery/(Expense):

	Six Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$ (1,207)	$ 1,793	$ (3,000)
Reinsurance	1,848	(4,747)	6,595
Total	$ 641	$ (2,954)	$ 3,595

We recorded income tax recovery/(expense) of $0.6 million and $(3.0) million for the six months ended June 30, 2009 and 2008, respectively. Income tax (expense)/recovery of $(1.2) million and $1.8 million were recorded in the consulting segment for the six months ended June 30, 2009 and 2008, respectively. The variance between the two periods was primarily attributable to our recording of tax recoveries on losses incurred by our U.S. operations for the six months ended June 30, 2008.

Income tax recovery/(expense) of $1.8 million and $(4.8) million were recorded in the reinsurance segment for the six months ended June 30, 2009 and 2008, respectively. During the period ended June 30, 2009 and 2008, we recorded net income tax (recovery)/expense related to those subsidiaries operating in taxable jurisdictions of $1.8 million and $(8.3) million, respectively.

In addition, the benefit of the expiration of the statute of limitations on uncertain tax liabilities resulted in a recovery by us during the six months ended June 30, 2008 of $3.5 million.

Negative Goodwill:

	Six Months Ended June 30,		
	2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance		50,280	(50,280)
Total	$	$ 50,280	$ (50,280)

Negative goodwill of $nil million and $50.3 million, was recorded for the six months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2008 the negative goodwill of $50.3 million was earned in connection with our acquisition of AMP Limited s Australian-based closed reinsurance and insurance operations, or Gordian, and represents the excess of the cumulative fair value of net assets acquired of $455.7 million over the cost of $405.4 million. This excess was, in accordance with SFAS 141 Business Combinations, recognized as an extraordinary gain in 2008. The negative goodwill arose primarily as a result of the income earned by Gordian between the date of the balance sheet on which the agreed purchase price was based, June 30, 2007, and the date the acquisition closed, March 5, 2008.

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Noncontrolling Interest

	Six Months Ended June 30, 2009	2008	Variance
	(in thousands of U.S. dollars)		
Consulting	$	$	$
Reinsurance	(9,837)	(24,761)	14,924
Total	$ (9,837)	$ (24,761)	$ 14,924

We recorded noncontrolling interest in earnings of $9.8 million and $24.8 million for the six months ended June 30, 2009 and 2008, respectively. The decrease for the six months ended June 30, 2009 in noncontrolling interest was due primarily to the noncontrolling interest s share of the negative goodwill relating to the Gordian acquisition in 2008.

Liquidity and Capital Resources

On April 4, 2009, we repaid AU$80.7 million (approximately $56.7 million) of the outstanding principal of the Facility A commitment pursuant to the Cumberland Loan Facility. As at June 30, 2009, the outstanding loan balance related to the Cumberland Loan Facility was AU$147.9 million (approximately $119.2 million).

On June 29, 2009, we received approval from the Australian regulators to release a further AU$123.9 million bringing the total approved and unpaid releases to AU$149.7 million. We expect the distributions to be made in the third quarter of 2009. In accordance with the terms of the Cumberland Loan Facility, 50% of the total distributions will be used to pay down the Cumberland Loan Facility.

Other than this repayment, there have been no material changes to our liquidity position or capital resource requirements since December 31, 2008. For more information refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 5, 2009.

On December 30, 2008, in connection with the Unionamerica Holdings Limited acquisition, Royston Run-off Limited, or Royston, borrowed the full amount of $184.6 million available under a term facilities agreement, or the Unionamerica Facilities Agreement, with National Australia Bank Limited, or NABL. Of that amount, Royston borrowed $152.6 million under Facility A and $32.0 million under Facility B. The loans are secured by a lien covering all of the assets of Royston. We provided a guarantee of all of Royston s obligations under the facilities agreement. The Facility A portion is repayable within three years from October 3, 2008, the date of the Unionamerica Facilities Agreement. The Facility B portion is repayable within four years from the date of the Unionamerica Facilities Agreement. The Flowers Fund has a 30% non-voting equity interest in Royston Holdings Ltd., the direct parent company of Royston.

On August 4, 2009, Royston entered into an amended and restated term facility agreement pursuant to which: (1) NABL s participation in the original $184.6 million facility was reduced from 100% to 50%, with Barclays Bank PLC providing the remaining 50%; (2) the guarantee provided by us of all of the obligations of Royston under the Unionamerica Facilities Agreement was terminated; and (3) the interest rate on the Facility A portion was reduced from LIBOR plus 3.50% to LIBOR plus 2.75% and the interest rate on the Facility B portion was reduced from LIBOR plus 4.00% to LIBOR plus 3.25%.

With respect to the six-month periods ended June 30, 2009 and 2008, net cash provided by our operating activities was $29.1 million and $334.3 million, respectively. The decrease in cash flows was primarily attributable to a decrease in the net assets assumed on retroactive reinsurance contracts during the six-months ended June 30, 2009.

Net cash used in investing activities for the six-month periods ended June 30, 2009 and 2008 was $312.2 million and $196.8 million, respectively. The decrease in the cash flows was primarily due to an increase in net purchases of investments partially offset by an increase in cash provided by the sales and maturities of available-for-sale securities.

Net cash (used in) provided by financing activities for the six month periods ended June 30, 2009 and 2008 was $(74.5) million and $334.0 million, respectively. The decrease in cash flows was primarily attributable to the receipt

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of bank loans and capital contributions by noncontrolling interest shareholders relating to acquisitions completed during the six months ended June 30, 2008 which did not recur in 2009.

Commitments and Contingencies

There have been no other material changes in our commitments or contingencies since December 31, 2008. For more information refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Commitments and Contingencies included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 5, 2009.

Critical Accounting Estimates

Our critical accounting estimates are discussed in Management s Discussion and Analysis of Results of Operations and Financial Condition Critical Accounting Policies included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 5, 2009.

Off-Balance Sheet and Special Purpose Entity Arrangements

At June 30, 2009, we have not entered into any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

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Cautionary Statement Regarding Forward-Looking Statements

This quarterly report contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, with respect to our financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities, plans and objectives of our management, as well as the markets for our ordinary shares and the insurance and reinsurance sectors in general. Statements that include words such as estimate, project, plan, intend, expect, anticipate, believe, would, should, could, seek, and similar statements of a future or forward-lookin identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements are necessarily estimates or expectations, and not statements of historical fact, reflecting the best judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in and incorporated by reference in this quarterly report.

Factors that could cause actual results to differ materially from those suggested by the forward-looking statements include:

- risks associated with implementing our business strategies and initiatives;
- the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time;
- risks relating to the availability and collectability of our reinsurance;
- changes in economic conditions, including interest rates, inflation, currency exchange rates, equity markets and credit conditions including current market conditions and the instability in the global credit markets, which could affect our investment portfolio, our ability to finance future acquisitions and our profitability;
- losses due to foreign currency exchange rate fluctuations;
- tax, regulatory or legal restrictions or limitations applicable to us or the insurance and reinsurance business generally;
- increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;
- emerging claim and coverage issues;
- lengthy and unpredictable litigation affecting assessment of losses and/or coverage issues;
- loss of key personnel;
- changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at management s discretion;
- operational risks, including system or human failures;
- risks that we may require additional capital in the future which may not be available or may be available only on unfavorable terms;

the risk that ongoing or future industry regulatory developments will disrupt our business, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;

changes in Bermuda law or regulation or the political stability of Bermuda;

changes in tax laws or regulations applicable to us or our subsidiaries, or the risk that we or one of our non-U.S. subsidiaries become subject to significant, or significantly increased, income taxes in the United States or elsewhere; and

changes in accounting policies or practices.

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The factors listed above should be not construed as exhaustive and should be read in conjunction with the other cautionary statements and Risk Factors that are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on March 5, 2009, as well as in the materials filed and to be filed with the SEC. We undertake no obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.

Item 3. *QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK*

There have been no material changes in our market risk exposures since December 31, 2008. For more information refer to Quantitative and Qualitative Disclosures about Market Risk included in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 5, 2009.

Item 4. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

Our management performed an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2009. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

Our management has performed an evaluation, with the participation of our Chief Executive Officer and our Chief Financial Officer, of changes in our internal control over financial reporting that occurred during the three months ended June 30, 2009. Based upon that evaluation there were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material adverse effect on our business, results of operations or financial condition. Nevertheless, we cannot assure you that lawsuits, arbitrations or other litigation will not have a material adverse effect on our business, financial condition or results of operations. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental claims. There can be no assurance that any such future litigation will not have a material adverse effect on our business, financial condition or results of operations.

In April 2008, we, Enstar US, Inc., or Enstar US, Dukes Place Limited and certain affiliates of Dukes Place, or, collectively, Dukes Place, were named as defendants in a lawsuit filed in the United States District Court for the Southern District of New York by National Indemnity Company, or NICO, an indirect subsidiary of Berkshire Hathaway. The complaint alleges, among other things, that Dukes Place, we and Enstar US: (i) interfered with the rights of NICO as reinsurer under reinsurance agreements entered into between NICO and each of Stonewall and Seaton, two Rhode Island domiciled insurers that are indirect subsidiaries of Dukes Place, and (ii) breached certain duties owed to NICO under management agreements between Enstar US and each of Stonewall and Seaton. The suit was filed shortly after Virginia Holdings Ltd., our indirect subsidiary, or Virginia, completed a hearing before the Rhode Island Department of Business Regulation as part of Virginia s application to buy a 44.4% interest in the insurers from Dukes Place. Virginia completed that acquisition on June 13, 2008. The suit does not seek a stated amount of damages. On July 23, 2008, we and Enstar US filed a motion to dismiss Count I (relating to breach of fiduciary duty), Count III (relating to breach of contract) and Count V (relating to inducing breach of contract), in each case for failure to state a claim upon which relief can be granted. Subsequently, the parties entered into a Stipulation and Order filed with the Court on October 7, 2008, by which (i) NICO agreed to dismiss Count V of its Complaint with prejudice, (ii) the defendants agreed to withdraw their motion to dismiss Counts I and III without prejudice, reserving all of their rights and defenses to challenge these claims on the merits, and (iii) NICO agreed to extend the defendants time to file an answer and counterclaim. On November 5, 2008, we, Enstar US and Dukes Place filed an answer to NICO s complaint and Dukes Place asserted certain counterclaims against NICO. On January 12, 2009, NICO filed a motion to dismiss certain of the counterclaims, along with a motion for summary judgment addressed to the counterclaims. We, Enstar US and Dukes Place filed papers in opposition to NICO s motion on February 23, 2009, and NICO filed reply briefs in support of its motion on March 23, 2009. We, Enstar US and Dukes Place are currently in discussions with NICO regarding a potential settlement of all claims and counterclaims. Our management believes the suit will not have a material impact on us or our subsidiaries.

Item 1A. *RISK FACTORS*

Our results of operations and financial condition are subject to numerous risks and uncertainties described in Risk Factors included in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on March 5, 2009. The risk factors identified therein have not materially changed.

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Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

The following matters were submitted to a vote of shareholders at our Annual General Meeting of Shareholders on June 9, 2009:

1. Election of the following nominees to serve as members of our Board of Directors in the classes set forth below.

Class III Directors:

Nominee	Votes For	Votes Against	Votes Abstained
Paul J. Collins	10,029,773	685,314	17,897
J. Christopher Flowers	10,030,551	684,887	17,546
Dominic F. Silvester	10,309,619	405,486	17,879

Class II Director:

Nominee	Votes For	Votes Against	Votes Abstained
Charles T. Akre, Jr.	10,666,313	42,829	23,842

The continuing members of our Board of Directors following the Annual General Meeting of Shareholders include T. Whit Armstrong, Robert J. Campbell, Gregory L. Curl, Paul J. O Shea and John J. Oros.

2. Ratification of the selection of Deloitte & Touche, Hamilton, Bermuda, to act as our independent registered public accounting firm for the fiscal year ending December 31, 2009 and authorization of our Board of Directors, acting through the Audit Committee, to approve the fees for the independent registered public accounting firm.

Votes For	Votes Against	Votes Abstained
10,699,313	11,355	22,316

3. Election of directors of each of our subsidiaries identified in Proposal Number Four in the Proxy Statement, filed with the SEC on April 30, 2009 (nominees for the respective subsidiaries and the results of voting are set forth below).

1. AG AUSTRALIA HOLDINGS LIMITED

Nominees:	For	Against	Abstain
Paul J. O Shea	10,579,438	66,610	86,936
Nicholas A. Packer	10,579,438	66,560	86,986
Steven Given	10,579,488	66,560	86,936
Sandra O Sullivan	10,579,488	66,560	86,936

2. BANTRY HOLDINGS LTD

Nominees:	For	Against	Abstain
Duncan M. Scott	10,579,488	66,560	86,936
Adrian C. Kimberley	10,579,438	66,560	86,986
Richard J. Harris	10,579,488	66,560	86,936

3. B.H. ACQUISITION LIMITED

Nominees:	For	Against	Abstain
Adrian C. Kimberley	10,579,438	66,560	86,986
Richard J. Harris	10,579,488	66,560	86,936
Paul J. O Shea	10,579,438	66,610	86,936
David Rocke	10,579,488	66,560	86,936

4. BLACKROCK HOLDINGS LTD.

Nominees:	For	Against	Abstain
Duncan M. Scott	10,579,488	66,560	86,936
Adrian C. Kimberley	10,579,438	66,560	86,986
Richard J. Harris	10,579,488	66,560	86,936

5. BOSWORTH RUN-OFF LIMITED

Nominees:	For	Against	Abstain
Gareth Nokes	10,579,488	66,560	86,936
Alan Turner	10,579,488	66,560	86,936

6. BRAMPTON INSURANCE COMPANY LIMITED

Nominees:	For	Against	Abstain
Max Lewis	10,579,438	66,610	86,936
Albert Maass	10,579,438	66,560	86,986
Gareth Nokes	10,579,488	66,560	86,936
C. Paul Thomas	10,579,438	66,610	86,936
Thomas Nichols	10,579,488	66,560	86,936
Alan Turner	10,579,438	66,560	86,986

7. BRITTANY INSURANCE COMPANY LTD.

Nominees:	For	Against	Abstain
Paul J. O Shea	10,579,438	66,610	86,936
Richard J. Harris	10,579,488	66,560	86,936
Adrian C. Kimberley	10,579,438	66,560	86,986
Duncan M. Scott	10,579,488	66,560	86,936
David Rocke	10,579,488	66,560	86,936

8. CAPITAL ASSURANCE COMPANY INC

Nominees:	For	Against	Abstain
Karl J. Wall	10,579,488	66,560	86,936
Robert Carlson	10,579,488	66,560	86,936
Andrea Giannetta	10,579,478	66,570	86,936
Debbie Haran	10,579,478	66,570	86,936
James Grajewski	10,579,438	66,560	86,986

9. CAPITAL ASSURANCE SERVICES INC.

Nominees:	For	Against	Abstain
Karl J. Wall	10,579,488	66,560	86,936
Robert Carlson	10,579,488	66,560	86,936
Andrea Giannetta	10,579,488	66,560	86,936
Debbie Haran	10,579,488	66,560	86,936
James Grajewski	10,579,428	66,570	86,986

10. CASTLEWOOD (BERMUDA) LIMITED

Nominees:	For	Against	Abstain
Paul J. O Shea	10,579,428	66,620	86,936
Richard J. Harris	10,579,478	66,570	86,936
Adrian C. Kimberley	10,579,428	66,570	86,986
David Rocke	10,579,478	66,570	86,936

11. CAVELL HOLDINGS LIMITED

Nominees:	For	Against	Abstain
Alan Turner	10,579,428	66,570	86,986
Derek Reid	10,579,478	66,570	86,936
Gareth Nokes	10,579,438	66,610	86,936

12. CAVELL INSURANCE COMPANY LIMITED

Nominees:	For	Against	Abstain
Alan Turner	10,579,428	66,570	86,986
Derek Reid	10,579,478	66,570	86,936
Darren S. Truman	10,579,488	66,560	86,936
Gareth Nokes	10,579,438	66,610	86,936
C. Paul Thomas	10,579,488	66,560	86,936
Thomas Nichols	10,579,438	66,560	86,986

13. CAVELL LEASING LIMITED

Nominees:	For	Against	Abstain
Derek Reid	10,579,478	66,570	86,936
Alan Turner	10,579,428	66,570	86,986

14. CAVELL OVERSEAS LIMITED

Nominees:	For	Against	Abstain
Derek Reid	10,579,488	66,560	86,936
Alan Turner	10,579,438	66,560	86,986

15. CHURCH BAY LIMITED

Nominees:	For	Against	Abstain
Gary Potts	10,579,478	66,570	86,936
Jann Skinner	10,579,488	66,560	86,936
Bruce Bollom	10,579,428	66,570	86,986
Paul J. O Shea	10,579,438	66,610	86,936
Nicholas A. Packer	10,579,488	66,560	86,936

16. CIRRUS RE COMPANY A/S

Nominees:	For	Against	Abstain

Alan Turner	10,579,438	66,560	86,986
David Rocke	10,579,488	66,560	86,936
Jan Endressen	10,579,488	66,560	86,936

17. COBALT SOLUTIONS SERVICES LTD.

Nominees:	**For**	**Against**	**Abstain**
Paul J. O Shea	10,579,438	66,610	86,936
Nicholas A. Packer	10,579,488	66,560	86,936
Steven Given	10,579,488	66,560	86,936
Sandra O Sulliva	10,579,488	66,560	86,936

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18. COMOX HOLDINGS LIMITED

Nominees:	For	Against	Abstain
Adrian C. Kimberley	10,579,438	66,560	86,986
Richard J. Harris	10,579,488	66,560	86,936
Paul J. O Shea	10,579,438	66,610	86,936
David Rocke	10,579,488	66,560	86,936

19. COMPAGNIE EUROPEENE D ASSURANCES INDUSTRIELLES S.A.

Nominees:	For	Against	Abstain
David Rocke	10,579,488	66,560	86,936
C. Paul Thomas	10,579,488	66,560	86,936
Nicholas A. Packer	10,579,488	66,560	86,936
Paul J. O Shea	10,579,438	66,610	86,936
John J. Oros	10,579,438	66,560	86,986
Dominic F. Silvester	10,579,488	66,560	86,936

20. CONSTELLATION REINSURANCE COMPANY LIMITED

Nominees:	For	Against	Abstain
Karl J. Wall	10,579,438	66,560	86,986
Robert Carlson	10,579,438	66,560	86,986
Thomas J. Balkan	10,579,438	66,560	86,986
Joseph Follis	10,579,438	66,560	86,986
Andrea Giannetta	10,579,438	66,560	86,986
Mark A. Kern	10,579,438	66,560	86,986
Raymond Rizzi	10,579,438	66,560	86,986
Teresa Reali	10,579,438	66,560	86,986
Donna L. Stolz	10,579,438	66,560	86,986
James Grajewski	10,579,438	66,560	86,986
Jay Banskota	10,579,438	66,560	86,986
Richard C. Ryan	10,579,438	66,560	86,986
Rudy A. Dimmling	10,579,438	66,560	86,986

21. COURTENAY HOLDINGS LTD.

Nominees:	For	Against	Abstain
Adrian C. Kimberley	10,579,438	66,560	86,986
Richard J. Harris	10,579,438	66,560	86,986
Paul J. O Shea	10,579,428	66,570	86,986
David Rocke	10,579,438	66,560	86,986

22. CRANMORE ADJUSTERS LIMITED

Nominees:	For	Against	Abstain
David Hackett	10,579,438	66,560	86,986
Alan Turner	10,579,438	66,560	86,986
Steven Norrington	10,579,438	66,560	86,986
Philip Cooper	10,579,438	66,560	86,986
Mark Wood	10,579,438	66,560	86,986
David Ellis	10,579,438	66,560	86,986
Gareth Nokes	10,579,438	66,560	86,986

23. CRANMORE (US) INC.

Nominees:	For	Against	Abstain
Cheryl D. Davis	10,579,478	66,570	86,936
John J. Oros	10,579,488	66,560	86,936
Karl J. Wall	10,579,478	66,570	86,936
Donna L. Stolz	10,579,488	66,560	86,936

24. CUMBERLAND HOLDINGS LTD.

Nominees:	For	Against	Abstain
Adrian C. Kimberley	10,579,488	66,560	86,936
Richard J. Harris	10,579,488	66,560	86,936
Paul J. O Shea	10,579,478	66,570	86,936
David Rocke	10,579,488	66,560	86,936

25. DENMAN HOLDINGS LIMITED

Nominees:	For	Against	Abstain
Richard J. Harris	10,579,488	66,560	86,936
John J. Oros	10,579,488	66,560	86,936
Cameron Leamy	10,579,488	66,560	86,936
Kenneth Thompson	10,579,488	66,560	86,936

26. ELECTRICITY PRODUCERS INSURANCE COMPANY (BERMUDA) LIMITED

Nominees:	For	Against	Abstain
Paul J. O Shea	10,579,478	66,570	86,936
Adrian C. Kimberley	10,579,488	66,560	86,936
David Rocke	10,579,488	66,560	86,936
Richard J. Harris	10,579,488	66,560	86,936
Orla Gregory	10,579,488	66,560	86,936
Duncan M. Scott	10,579,488	66,560	86,936

27. ENSTAR ACQUISITIONS LTD.

Nominees:	For	Against	Abstain
Gareth Nokes	10,579,488	66,560	86,936
Alan Turner	10,579,478	66,570	86,936

28. ENSTAR AUSTRALIA HOLDINGS PTY LTD.

Nominees:	For	Against	Abstain
Gary Potts	10,579,488	66,560	86,936
Jann Skinner	10,579,488	66,560	86,936
Bruce Bollom	10,579,488	66,560	86,936
Paul J. O Shea	10,579,488	66,560	86,936
Nicholas A. Packer	10,579,488	66,560	86,936

29. ENSTAR AUSTRALIA LIMITED

Nominees:	For	Against	Abstain
Paul J. O Shea	10,579,428	66,620	86,936
Nicholas A. Packer	10,579,488	66,560	86,936
Nick Hall	10,579,438	66,560	86,986
Mark Sinderberry	10,579,488	66,560	86,936
Orla Gregory	10,579,488	66,560	86,936

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30. ENSTAR BROKERS LIMITED

Nominees:	For	Against	Abstain
Richard J. Harris	10,579,478	66,570	86,936
Elizabeth DaSilva	10,579,428	66,570	86,986
Adrian C. Kimberley	10,579,488	66,560	86,963
David Rocke	10,579,488	66,560	86,963

31. ENSTAR (EU) HOLDINGS LIMITED

Nominees:	For	Against	Abstain
David Hackett	10,579,478	66,570	86,936
Alan Turner	10,579,488	66,560	86,936
Gareth Nokes	10,579,488	66,560	86,936

32. ENSTAR (EU) LTD.

Nominees:	For	Against	Abstain
David Hackett	10,579,488	66,560	86,936
Alan Turner	10,579,488	66,560	86,936
Duncan McLaughlin	10,579,438	66,610	86,936
Derek Reid	10,579,438	66,560	86,986
C. Paul Thomas	10,579,488	66,560	86,936
David Grisley	10,579,488	66,560	86,936
David Atkins	10,579,488	66,560	86,936
Gareth Nokes	10,579,438	66,560	86,986
Thomas Nichols	10,579,438	66,560	86,986

33. ENSTAR FINANCIAL SERVICES INC.

Nominees:	For	Against	Abstain
John J. Oros	10,579,478	66,570	86,936
Cheryl D. Davis	10,579,478	66,570	86,936

34. ENSTAR GROUP OPERATIONS INC.

Nominees:	For	Against	Abstain
John J. Oros	10,579,488	66,560	86,936
Cheryl D. Davis	10,579,488	66,560	86,936

35. ENSTAR HOLDINGS (US) INC.

491,684.76

Total Current Assets

31,838,847.04

31,838,847.04

Non-current

Credit Receivables - Globex

(0.04)

(0.04)

Credit Receivables - CBD

2,406,046.80

2,406,046.80

Deferred Income Tax - Tax Loss

12,951,887.15

12,951,887.15

-

Provision for Loss - Deferred Income Tax - Tax Loss

(8,937,664.81)

8,937,664.81

-

Deferred Income Tax - Temporary Differences

1,448,086.98

1,375,225.63

72,861.35

PIS

47,384,918.22

47,384,918.22

COFINS

214,248,882.40

214,248,882.40

Equity Interests - CNova

(77,483,243.53)

(77,483,243.53)

Equity Interests - CDiscount	
	52,296.12
	52,296.12
Equity Interest at - Lux Co.	
	12,295,904.46
	12,295,904.46
Total non-current assets	
	204,367,113.75
	198,977,665.78
TOTAL ASSETS	
	236,205,960.79
	230,816,512.82
LIABILITIES AND NET WORTH	
LIABILITIES	

Non-Current

Obligations Extra.COm	
	5,517,241.38
	5,517,241.38

NPC - Brussels (Reimbursement of Expenses)	61,215,986.06			61,215,986.06
Other Provisions	214,298.09			214,298.09
Provisions for Contingencies	4,415,252.59			4,415,252.59
Indemnification Assets	(4,415,252.59)			(4,415,252.59)
Loan Agreement - CBD	76,144,039.11	10,895,645.22		65,248,393.89
Loan Agreement - Via Varejo	63,937,417.39	8,990,328.61		54,947,088.78
Interest without Loan Agreement - CBD-NPC	23,734,433.63			23,734,433.63
Interest without Loan Agreement - Via Varejo	19,929,070.99			19,929,070.99
TOTAL LIABILITIES	250,692,486.65			230,806,512.82
NET WORTH				
Paid-up Capital Stock	50,741,294.71			50,741,294.71
Equity Method	165,853.33			165,853.33
Capital Reserve	6,120,324.11			6,120,324.11
Legal Reserve	404,762.17			404,762.17
Transactions with non-controlling shareholders NPC	320,613,633.33			320,613,633.33
Fair Value - Financial Assets	8,585.88			8,585.88
Profit (Loss) in the Corporate Interest	(15,871,321.17)			(15,871,321.17)
Accumulated Profit (Loss)	(295,506,586.68)	14,327,112.78	28,823,638.64	(281,010,060.82)
Equity Valuation Adjustment (Law 11.638/07)	21,697,831.21			21,697,831.21
CN Stock Option Reserve	7,166,617.12			7,166,617.12
Discount Stock Option Reserve	5,248,080.01			5,248,080.01
Shares Held in Treasury	(742,846.83)			(742,846.83)
Pension Plan - Discount	(1,531,120.81)			(1,531,120.81)
Accumulated Conversion Adjustments	(113,001,632.24)			(113,001,632.24)
TOTAL NET WORTH	(14,486,525.86)			10,000.00
TOTAL LIABILITIES AND NET WORTH	236,205,960.79	43,150,751.42	43,150,751.42	230,816,512.82

EXHIBIT 4

NOVA PONTOCOM COMÉRCIO ELETRÔNICO S.A.

Net Assets attributed to RECEIVING COMPANIES (amounts in Reais)

	Spun-off portions to be acquired by			
	CBD	Via Varejo	Holding 1	Holding 2
ASSETS				
Current				
Judicial Deposits	3,124,729.26			
Recoverable PIS	2,328,667.19	1,921,454.20		
Recoverable COFINS	11,268,902.70	9,298,314.72		
Income Tax to be Refunded/Offset	778,745.01	642,566.22	1,864,496.60	119,286.38
Recoverable INSS	491,684.76			
Total Current Assets	17,992,728.92	11,862,335.14	1,864,496.60	119,286.38
Non-current				
Credit Receivables - Globex	-	(0.04)	-	-
Credit Receivables - CBD	2,406,046.80	-	-	-
Deferred Income Tax - Tax Loss	-	-	-	-
Provision for Loss - Deferred Income Tax - Tax Loss	-	-	-	-
Deferred Income Tax - Temporary Differences	72,861.35	-	-	-
PIS	30,751,198.61	16,633,719.61	-	-
COFINS	139,040,230.13	75,208,652.27	-	-
Equity Interests - CNova	(40,835,126.31)	(34,288,596.34)	(2,217,641.10)	(141,879.78)
Equity Interests - CDiscount	27,561.04	23,142.56	1,496.76	95.76
Equity Interest at - Lux Co.	6,480,172.86	5,441,296.54	351,920.00	22,515.07
Total non-current assets	137,942,944.48	63,018,214.60	(1,864,224.34)	(119,268.96)
TOTAL ASSETS	155,935,673.39	74,880,549.74	272.26	17.42

EXHIBIT 4 (Continued)

NOVA PONTOCOM COMÉRCIO ELETRÔNICO S.A.

Net Assets attributed to RECEIVING COMPANIES (amounts in Reais)

	Spun-off portions to be acquired by			
	CBD	Via Varejo	Holding 1	Holding 2
LIABILITIES AND NET WORTH				
LIABILITIES				
Non-current				
Obligations Extra.COm	5,517,241.38	-	-	-
NPC - Brussels (Reimbursement of Expenses)	61,215,986.06	-	-	-
Other Provisions	214,298.09	-	-	-
Provisions for Contingencies	4,415,252.59	-	-	-
Indemnification Assets	(4,415,252.59)	-	-	-
Loan Agreement - CBD	65,248,393.89	-	-	-
Loan Agreement - Via Varejo	-	54,947,088.78	-	-
Interest without Loan Agreement - CBD-NPC	23,734,433.63	-	-	-
Interest without Loan Agreement - Via Varejo	-	19,929,070.99	-	-
TOTAL LIABILITIES	155,930,353.05	74,876,159.77	-	-
NET WORTH.				
Paid-up Capital Stock	26,996,096.19	22,275,294.71	1,381,517.43	88,386.38
Equity Method	90,872.05	74,981.28	-	-
Capital Reserve	3,353,362.98	2,766,961.13	-	-
Legal Reserve	221,771.67	182,990.50	-	-
Transactions with non-controlling shareholders NPC	175,666,169.08	144,947,464.25	-	-
Fair Value - Financial Assets	4,704.26	3,881.62	-	-
Profit (Loss) in the Corporate Interest	(8,695,993.86)	(7,175,327.31)	-	-
Accumulated Profit (Loss)	(153,568,929.43)	(126,714,364.10)	(683,066.25)	(43,701.05)
Equity Valuation Adjustment (Law 11.638/07)	11,888,374.32	9,809,456.89	-	-
CN Stock Option Reserve	3,926,633.32	3,239,983.80	-	-

Discount Stock Option Reserve	2,875,455.11	2,372,624.90	-	-
Shares Held in Treasury	-	-	(698,178.91)	(44,667.92)
Pension Plan - Discount	(838,910.45)	(692,210.36)	-	-
Accumulated Conversion Adjustments	(61,914,284.89)	(51,087,347.35)	-	-
TOTAL OF NET WORTH	5,320.34	4,389.97	272.27	17.42
TOTAL LIABILITIES AND NET WORTH	155,935,673.39	74,880,549.74	272.27	17.42

EXHIBIT 4.1.2(vii)

Agreements entered into between Nova Pontocom and Via Varejo and entered into between Nova Pontocom and CBD which will be liquidated by means of equity merger

Agreements entered into between Nova Pontocom and Via Varejo:

1. Loan Agreement dated 18 July 2011, in the amount of R$ 37,212,560.70 (thirty-seven million, two hundred and twelve thousand, five hundred and sixty reais and seventy cents), with loan date established as of 6 February 2013, and payment date established as of 6 February 2014, extended to 6 February 2017, secured by promissory note in the same amount; and

2. Loan Agreement dated 18 July 2011, in the amount of R$ 26,724,856.67 (twenty-six million, seven hundred twenty-four thousand, eight hundred fifty-six reais and sixty seven cents), with loan date established as of 25 April 2013, and payment date established as of 6 February 2014, extended to 6 February 2017, secured by promissory note in the same amount.

Agreements entered into between Nova Pontocom and CBD:

3. Loan Agreement dated 18 July 2011, in the amount of R$ 44,317,348.02 (forty-four million, three hundred and seventeen thousand, three hundred forty-eight reais and two cents), with loan date established as of 6 February 2013, and payment date established as of 6 February 2014, extended to 6 February 2017, secured by promissory note in the same amount; and

4. Loan Agreement dated 18 July 2011, in the amount of R$ 31,826,691.09 (thirty-one million, eight hundred twenty-six thousand, six hundred ninety-one reais and nine cents), with loan date established as of 25 April 2013, and payment date established as of 6 February 2014, extended to 6 February 2017, secured by promissory note in the same amount.

Exhibit II – Merger Protocol

November 18, 2015

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

and

SÉ SUPERMERCADOS LTDA.

MERGER PROTOCOL AND JUSTIFICATION

of Sé Supermercados Ltda. into Companhia Brasileira de Distribuição

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MERGER PROTOCOL AND JUSTIFICATION OF SÉ SUPERMERCADOS LTDA. INTO COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

By this private instrument:

(1) **COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO**, a publicly held company, with head offices in the City of São Paulo, State of São Paulo, at Av. Brigadeiro Luis Antônio, No. 3,142, CEP 01402-000, enrolled with the Corporate Taxpayers' Registry ("**CNPJ/MF**") under No. 47.508.411/0001-56, herein represented in accordance to its By-laws ("**Merging Company**"); and

(2) **SÉ SUPERMERCADOS LTDA.**, a limited liability company, with head offices in the City of São Paulo, State of São Paulo, at Av. Brigadeiro Luís Antônio, No. 3,172, Jardim Paulista, CEP 01402-002, enrolled with the CNPJ/MF under No. 01.545.828/0001-98, herein represented in accordance to its Articles of Association ("**Merged Company**" or "**Sé**" and, when jointly referred with the Merging Company, the "**Parties**" and, individually, a "**Party**"),

DECIDE, pursuant to the provisions of Articles 224, 225 and 227 of Law No. 6,404 dated December 15, 1976, as amended ("**Brazilian Corporate Law**") and Articles 1,116 to 1,118 of Law 10,406 dated January 10, 2002, as amended ("**Civil Code**"), to enter into this Merger Protocol and Justification ("**Protocol**"), in order to regulate the terms and conditions applicable to the merger of the Merged Company into the Merging Company ("**Merger**"), subject to to the approvals mentioned in Section 4.2 below.

1 Purpose

The purpose of this Protocol is to set forth the basis of the Merger proposal to be discussed by the shareholders and the quotaholder of the Parties, as applicable. If the proposal subject of this Protocol is approved:

(i) the Merging Company shall succeed the Merged Company in all its rights and obligations and all assets and liabilities of the Merged Company, will be transferred to the Merging Company; and

(ii) the Merged Company will be extinguished and therefore the quotas of the Merged Company's corporate capital will be extinguished and canceled, and the corporate capital of the Merging Company will remain unchanged, subject to the provisions set forth in Section 4.1.2.

2 Justification and interest of the Parties in carrying out the Merger

The management of the Parties understands that the Merger will offer patrimonial, legal and financial benefits, among which:

(i) the optimization of the corporate structure of the group to which the Parties belong; and

(ii) the reduction of costs in administrative areas and the fulfillment of ancillary obligations, creating synergies to be benefited from.

3 Appraisal

3.1 Appraisal. The Parties agree that, pursuant to the appraisal report attached hereto as **<u>Exhibit 3.1</u>** ("**Report**"), the value of the Merged Company's net equity wasappraised by **MAGALHÃES ANDRADE S/S AUDITORES INDEPENDENTES**, enrolled with the Regional Accounting Council of the State of São Paulo, under No. 2SP000233/O-3 and with the CNPJ/MF under No. 62.657.242/0001-00, with head offices in the City of São Paulo, State of São Paulo, at Av. Brigadeiro Faria Lima, No. 1,893, 6th floor, Jardim Paulistano ("**Appraiser**"), on the reference date of September 30, 2015, based on the balance sheet prepared by the management of the Merged Company on the same date and for this specific purpose. According to the Report, the value of the Merged Company's net equityon September 30, 2015 corresponds, reflecting the effect of subsequent events as described in the Report, on the date of the Report, to two billions, seven hundred and thirteen million, thirty thousand, four hundred and six reais and sixty-four cents (R$ 2,713,030,406.64).

3.2 Changes in equity. In case the proposed Merger is approved, the changes in the equity of the Merged Company which occur after the base date of September 30, 2015 shall be absorbed by the Merging Company and duly registered in its financial statements.

3.3 Conflict. The Appraiser declared it has no direct or indirect interest in the companies involved in the Merger or, also, in relation to the Merger itself, which could prevent it from preparing or affect the preparation of the Report required for the purposes of the Merger.

4 General Aspects of the Merger

In case the Merger proposal is approved, the Merger shall be implemented as follows:

4.1 Corporate Capital

4.1.1 Current composition.

(i) The corporate capital of the Merged Company is one billion, four hundred and forty-four million, one hundred and forty-one thousand, seven hundred and fifty-two reais and nine cents (BRL 1,444,141,752.09), divided into three hundred and sixty-six million, two hundred and sixty-seven thousand and thirty-four (366,267,034) quotas with par value of 3.94286577287 each, totally held by the Merging Company.

(ii) The corporate capital of the Merging Company, fully subscribed and paid for, is six billion, eight hundred and six million, eighty-nine thousand, four hundred and fifty-four reais and eighty-one cents (BRL 6,806,089,454,81), divided into two hundred and sixty-five million, six hundred and ninety-nine thousand and seven hundred and seventy-nine (265,699,779) book entry shares without par value, of which (a) ninety-nine million, six hundred and seventy-nine thousand and eight hundred and fifty-one (99,679,851) common shares; and (b) one hundred and sixty-six million, nineteen thousand and nine hundred and twenty-eight (166,019,928) preferred shares.

4.1.2 Effects of the Merger in the Parties' corporate capital and provisions related to the quotas held by the Merging Company in the Merged Company. On the date of the Merger:

(i) the Merging Company shall fully absorb the net assets of Sé in exchange of the quotas held by it in Sé’s corporate capital, which will be canceled asa result of the Merger;

(ii) the interest held by the Merging Company in Sé’s corporate capital shall be replaced in the balance sheet of the Merging Company by the assets and liabilities that comprise Sé’s net equity, by their respective book value; and

(iii) the corporate capital of the Merging Company shall remain unchanged. Therefore, it is not necessary to establish any exchange ratio.

4.2 Conditions for the implementation of the Merger. The implementation of the Merger, the Appraiser indication and the approval of its Report and other terms and conditions of the Protocol are subject to the approval or ratification, as the case may be, of the board of directors and of the shareholders of the Merging Company and of the quotaholder of the Merged Company.

4.3 Effects of the Merger. In case the Merger is approved, the Merged Company shall be extinguished and universally succeeded by the Merging Company, without any interruption, in all its assets and liabilities, rights and obligations of any nature whatsoever.

4.4 Reimbursement amount. Considering that the Merging Company is the sole quotaholder of the Merged Company, withdrawal rights are not applicable.

4.5 Use of the corporate name. The Merged Company may continue to conduct the transactions, on its behalf, until all the registries are formalized and all authorizations required are obtained under the applicable legislation for the effectiveness of the Merger.

5 MISCELLANEOUS

5.1 Severability. A potential declaration of nullity or unenforceability of any of the provisions of this Protocol by any court shall not affect the validity and enforceability of the other, which shall be fully complied with. The Parties agree to use their best efforts to validly agree to obtain the same effects of the provision declared null or unenforceable.

5.2 Entire agreement, exhibits and amendments. This Protocol and its exhibits constitute the totality of understandings and agreements between the management of the Parties, as applicable, in relation to the matters agreed herein. This Protocol and its exhibits may only be modified or amended by means of a written instrument executed by all the managers of the Parties.

5.3 Filing. Once the Merger is approved by the Merging Company’s shareholders and by the Merged Company’s quotaholder, the management of the Merging Company’s shall file and publish all corporate acts related to the Merger.

5.4 Governing law. This Protocol shall be governed and construed in accordance with the laws of the Federative Republic of Brazil.

5.5 Recommendation. In view of the elements exposed, which include all the requirements of Articles 224 and 225 of the Brazilian Corporate Law, the Merger is deemed to serve the interests of the Parties involved, their shareholders and quotaholder, and therefore its implementation is recommended.

In witness whereof, the Parties execute this Merger Protocol and Justification in six (6) counterparts of the same content and effect in the presence of the two (2) witnesses signed below.

São Paulo, November 18, 2015.

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Ronaldo Iabrudi dos Santos Pereira	**Christophe José Hidalgo**
Chief Executive Officer	Vice Chief Executive and Finance Officer

SÉ SUPERMERCADOS LTDA.

Antônio Sérgio Salvador dos Santos	**Luiz Elísio Castello Branco de Melo**
Officer	Officer

Witnesses:

Name:	Name:
ID:	ID:
CPF/MF:	CPF/MF:

EXHIBIT 3.1
Report

SÉ SUPERMERCADOS LTDA.

Accounting appraisal report on book value for the purpose of merger

November 10, 2015 **1 00 082/15**

To the

Shareholders and Members of the companies **Companhia Brasileira de Distribuição and Sé Supermercados Ltda.**

MAGALHÃES ANDRADE S/C AUDITORES INDEPENDENTES, a Brazilian auditing and consulting company registered with the Regional Accountants' Board of the State of São Paulo under number 2SP000233/O-3, filed with the Brazilian Corporate Taxpayers' Roll under number 62.657.242/0001-00 and with head offices at Av. Brigadeiro Faria Lima, 1893 - 6th floor, Jardim Paulistano district, city of Sao Paulo, State of Sao Paulo, Brazil, appointed by you to act as an expert appraiser to perform the accounting appraisal of the net assets of Sé Supermercados Ltda., to be merged into the equity of Companhia Brasileira de Distribuição, complying with the due procedures and verifications as required to perform its duties, hereby submits the undersigned.

A P P R A I S A L   R E P O R T

attached hereto.

Sao Paulo, November 10, 2015.

MAGALHÃES ANDRADE S/C

External Auditors, accreditation number CRC2SP000233/O-3

GUY ALMEIDA ANDRADE

Partner

Accountant, accreditation number: CRC1SP116.758/O-3

A P P R A I S A L   R E P O R T

INTRODUCTION

1. By means of this present transaction, **Sé Supermercados Ltda.** (**SÉ** or **MERGED COMPANY**) is merged into **Companhia Brasileira de Distribuição** (hereby, **CBD** or **MERGING COMPANY**).

2. The present merger is part of a restructuring project of Grupo Pão de Açúcar (**GPA**), to which both parties above belong, and which chiefly aims at achieving considerable benefits of administrative, economic, and financial nature, primarily by rationalizing and simplifying the corporate structure of **GPA**, enabling operational and tax synergies.

3. Therefore, the purpose of this **APPRAISAL REPORT** is to ascertain the book value of the net assets of **SÉ**, taking into account the company's financial position as of September 30, 2015.

4. The Appraisal Report is hereby issued in connection with the audited balance sheets of the **MERGED COMPANY,** prepared for such purpose on September 30, 2015, as well as the summary of the significant accounting policies.

5. The Management of **SÉ** is responsible for preparing and appropriately presenting the company's balance sheets pursuant to the accounting practices adopted in Brazil and by the internal controls it determined as necessary so that such balance sheets contain no significant discrepancies, whether caused by fraud or error.

6. Our responsibility is to express an opinion on the net assets to be merged based on our audit, conducted in accordance with both Brazilian and international auditing standards. Such standards require

compliance with ethical requirements by auditors and that the audit be planned and performed to obtain reasonable assurance that the financial statements are free from any relevant distortions.

7. An auditing procedure involves performing selected procedures to obtain evidence on the amounts and disclosures made in the financial statements. Such selected procedures depend on the auditors' judgment, including the assessment of risks of material errors in the financial statements, whether due to fraud or error. In such risk assessment, the auditors consider the relevant internal controls to prepare and present appropriately the Company's financial statements to plan all the auditing procedures suitable under these circumstances, but not for the purpose of expressing an opinion on the effectiveness of those internal controls used by the Company. An auditing procedure also includes an evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as an evaluation of the overall presentation of the financial statements taken as a whole.

8. We believe that the audit evidence is sufficient and appropriate to base our opinion.

FINANCIAL POSITION OF THE MERGED COMPANY

9. The appraisal is made at the book value, pursuant to article 226 of Law 6,404/76 (the Brazilian Corporations Act) and CVM (Brazilian Securities and Exchange Committee) normative instructions numbers 319/99 and 320/99, based on the Company's financial position as shown in the balance sheets ascertained on September 30, 2015 prepared for such purpose, as submitted in **ANNEX 1** and that is summarized as follows:

ASSETS	2,832,551,513.14
(-) LIABILITIES	119,521,106.50
NET WORTH	2,713,030,406.64

10. Such balance sheets have been prepared according to the generally accepted accounting practices adopted in Brazil and complying with CVM standards; in addition, the significant notes to financial statements used to prepare this report are shown in **ANNEX 2.** For appraisal purposes, the company's activities were considered according to the concept of continuity of normal business.

11. The capital stock of **SÉ** is R$ 1,444,141,752.09 (one billion, four hundred and forty- four million, one hundred and forty-one thousand, seven hundred and fifty-two reais and nine cents of Brazilian Real), divided into 366,267,034 (three hundred and sixty-six million two hundred and sixty-seven thousand and thirty-four) shares, with the par value of R$ 3.94286577287 each, fully owned by the only partner or shareholder, **CBD.**

12. As a result of the merger, the shares formerly held by **SÉ** will be cancelled.

EFFECTS ON THE MERGING COMPANY

17. The balance sheets of **CBD** as of September 30, 2015 are shown in **ANNEX 3** and its financial position as of that date is summarized below:

ASSETS	22,404,631,607.80
(-) LIABILITIES	11,938,459,857.16
NET WORTH	10,466,171,750.64

18. **CBD** is the controlling entity of **SÉ** and registers such investment on its non-current assets, and evaluates it by the value of the investee's net assets (equity method).

19. As already mentioned, **CBD** is the sole shareholder of **SÉ**.

20. Outstanding balances, both of assets and liabilities, held between **CBD** and **SÉ** are shown in **ANNEX 4** and will be eliminated upon the merger transaction.

21. As a result of the merger, **CBD's** investment made in **SÉ** is reduced, being replaced by the assets and liabilities of the **MERGED COMPANY**, as provided for in **ANNEX 5** with no effect on **CBD's** net worth.

22. **ANNEX 5** also shows all the adjustments resulting from the merger and **CBD'S balance sheets** after such merger.

CONCLUSION

23. In view of the aforementioned findings and statements, it is hereby concluded that the net worth of **SÉ** to be merged into **Companhia Brasileira de Distribuição** is that of **R$ 2,713,030,406.64** (two billion, seven hundred and thirteen million, thirty thousand, four hundred and six Real, and sixty-four cents of Real). Such merger, however, does not cause any changes in the net worth of the **MERGING COMPANY**, as it is **SÉ's** sole shareholder, and such amount is recorded in the **MERGING COMPANY's** assets as an investment, which is evaluated by the equity method in order to reflect the value of the net worth of **SÉ**, the subsidiary.

STATEMENTS

24. The expert appraiser hereby expressly states, pursuant to section I, article 5 of CVM normative instructions No. 319 of December 3, 1999, does not have any interest, whether direct or indirect, in **Companhia Brasileira de Distribuição** or in **Sé Supermercados Ltda.**, or even in this merger transaction, and there is not any other situation that could be deemed as a conflict of interest. The appraiser also reports, pursuant to section II, paragraph 5 of the aforementioned CVM normative instructions No. 319 that all of **CBD**'sand **SÉ**'smanagers did not restrict, hinder or do any acts that could have compromised the access, use or knowledge of information, assets, documents or work methodologies relevant for the quality of the conclusions made.

This Appraisal Report is issued in ten (10) counterparts of equal contents and it is composed of four (4) pages and five (5) annexes printed on one side only and initialed by the undersigned expert appraiser.

Sao Paulo (SP, Brazil), November 10, 2015.

MAGALHÃES ANDRADE S/C

External Auditors, accreditation number CRC2SP000233/O-3

GUY ALMEIDA ANDRADE

Partner

Accountant CRC1SP116.758/O-6

ANNEX 1

SÉ SUPERMERCADOS LTDA.

Balance sheets prepared on September 30, 2015

(amounts stated in Brazilian Real)

ASSETS

Current Assets	
Cash	1,696,624.80
Investments with immediate liquidity	76,934,188.01
Customers	4,771,512.70
Accounts receivable from related parties	1,640,848.03
Third-party credit claims	10,785,312.04
Employees' credits	910,030.38
Recoverable taxes	10,890,587.13
Dividends receivable	34,195,396.15
Credit from suppliers	587,946.89
Inventories	56,814,111.76
Anticipated expenses	2,366,454.29
Total current assets	201,593,012.18
Noncurrent Assets	
Subsidiaries' credit	2,391,766,560.47
People's credit	11,954.81
Recoverable taxes	1,585,839.34
Escrow deposits with courts of law	2,361,338.98
Other long-term credits	134,094.69
Investments	(0.01)
Net fixed assets	232,118,712.68
Intangible assets	2,980,000.00
Total noncurrent assets	2,630,958,500.96
TOTAL ASSETS	2,832,551,513.14

ANNEX 1 (continued)

SÉ SUPERMERCADOS LTDA.

Balance sheets prepared on September 30, 2015

(amounts stated in Brazilian Real)

LIABILITIES AND NET WORTH

Current Assets	
Loans and financing	7,088,171.75
Suppliers	64,425,683.99
Tax obligations	8,861,662.48
Labor-related obligations	8,492,667.53
Obligations with related parties	235,347.58
Other liabilities	3,120,306.09
Total current liabilities	92,223,839.42
Noncurrent Assets	
Loans and financing	21,432,466.05
Contingencies	5,565,981.45
Financial instruments	298,819.58
Total noncurrent liabilities	27,297,267.08
TOTAL LIABILITIES	119,521,106.50
NET WORTH	
Capital Stock	1,444,141,752.09
Capital reserves	319,250,542.37
Profits reserve	949,638,112.18
TOTAL NET WORTH	2,713,030,406.64
TOTAL LIABILITIES AND NET WORTH	2,832,551,513.14

ANNEX 2

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

1. Basis to prepare the financial statements

The individual mid-period financial statements have been prepared pursuant to IAS 34

- "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") and according to the accounting Technical Pronouncement CPC 21 - "Interim Financial Reporting", and presented in accordance with the standards approved and issued by the Brazilian Securities and Exchange Committee ("CVM"), applicable to the preparation of Quarterly Financial Statements ("ITR"). The financial statements are based on the historical cost, except for certain financial instruments measured at fair value. These financial statements are stated in Real, the Brazilian legal tender. The valid currency for the MERGED COMPANY is the Brazilian Real. The interim financial statements for the three-month period ended on March 31, 2015 were approved by the Board of Directors on October 29, 2015.

2. Significant accounting policies

2.1. Financial instruments

Financial assets are initially recognized at fair value when the **MERGED COMPANY** assumes contractual rights to receive cash or other financial assets from contracts in which it is part. Financial assets are derecognized when the rights to receive cash flows connected to the financial assets expire or when all the risks and benefits have been substantially transferred to third parties. Assets and liabilities are recognized when rights or obligations are retained in the transfer by the MERGED COMPANY. Financial liabilities are recognized when the **MERGED COMPANY** undertakes contractual obligations to settle in cash or when it undertakes third-parties' liabilities through a contract in which it is part. Financial liabilities are initially recognized at fair value and are derecognized when they are settled, cease to exist, or expire. Financial instruments measured at amortized cost are measured subsequently to their initial recognition at the effective interest rate. Income and expenses from interests due, monetary and exchange variation, net of estimated losses for not receiving financial assets, are recognized when incurred in the statement of income as financial income and expenses. THE **MERGED COMPANY** ascertains every month the loss estimates for not receiving financial assets. An estimate for loss is recognized when there is objective evidence that the **MERGED COMPANY** failed to receive all amounts payable on their due dates. To make such calculation, the **MERGED COMPANY** considers historical losses, historical statistical information, *aging* of receivables and assessment of the likelihood of further portfolio deterioration, taking into account macroeconomic and market factors. When the collection of accounts receivable is unlikely, its book value and its corresponding loss estimate are recognized in the income statement for the period. Subsequent recoveries are recognized, if any, under the caption selling expenses in the income statement for the year.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.1. Financial instruments (continued)

(i) Financial assets

Initial recognition and measurement

The financial assets held by the MERGED COMPANY are classified according to the purpose for which they were acquired or contracted, in the following categories: (i) financial assets at fair value through profit or loss; (ii) loans and receivables, and (iii) investments held to maturity. The MERGED COMPANY determines the classification of its financial assets at initial recognition.

Financial assets are initially recognized and measured at fair value through income and transaction costs, charged to the income statement. Loans and receivables are carried at amortized cost. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (negotiations under normal conditions) are recognized on the trade date, i.e., the date on which the MERGED COMPANY undertakes to purchase or sell such assets. The MERGED COMPANY'S financial assets include cash and cash equivalents, accounts receivable from customers, accounts receivable from related parties, and derivative financial instruments.

Subsequent Measurement

- Financial assets at fair value through profit or loss: they represent assets acquired for purposes of realization in the short term and are measured at fair value on the date of each balance sheets. Interest rates, monetary variation, exchange variation and variations deriving from the valuation at fair value are recognized in the income statement as financial income or expenses, if any.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, they are measured using the amortized cost method of effective interest rate. Income from interests, indexation, and exchange rate variation, less impairment losses, as applicable, are recognized in the income statement whether as financial income or expenses, as incurred; and

- Financial assets held to maturity: financial assets and liabilities that can not be classified as loans and receivables because they are quoted in an active market. In this case, such financial assets are acquired with the intent and ability to be held in portfolio until maturity. They are valued at merger cost, plus income earned against the income statement, by using the method of effective interest rate.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.1. Financial instruments (continued)

(i) Financial assets (continued)

Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized upon:

- The rights to receive cash flows expire; and

- The MERGED COMPANY transfers its rights to receive cash flows from the assets or assumes an obligation to pay in full to a third party the cash flows received under a pass-through arrangement; and (a) the MERGED COMPANY has transferred substantially all the risks and rewards connected to the assets; or (b) the MERGED COMPANY have not transferred nor retained substantially all the risks and connected to the assets, but it has transferred the control thereof.

In case the MERGED COMPANY assigns its rights to receive cash flows from an asset or enters into a pass-through arrangement, without having either transferred or retained substantially all the risks and rewards of the asset nor transferred controlling rights on the asset, such asset is held and recognizes a corresponding liability. The assigned asset and the corresponding liability are measured in a way so as to reflect the rights and obligations retained by the MERGED COMPANY and its subsidiaries.

Impairment losses of financial assets

On the balance sheet dates, the MERGED COMPANY checks for traces of impairment losses of any asset or group of financial assets. The impairment loss of any asset or group of financial assets is only (and exclusively) considered if there is objective evidence resulting from one or more events that occurred after the initial recognition of the asset (a 'loss event'), and in case such event may impact the estimated future cash flows of the asset or group of financial assets, which can be reliably estimated. Evidence of impairment loss may include signs that debtors (or a group of debtors) are experiencing significant financial difficulties, moratorium or default on repayment of interests or principal, probability of entering in bankruptcy or other financial reorganization and when such data indicate a measurable decrease in future cash flows, such as changes in interest rates on arrears or economic conditions that correlate with defaults.

Particularly in relation to financial assets held to maturity, the MERGED COMPANY will, first of all, check for objective evidence of impairment losses for individual financial assets

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ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.1. Financial instruments (continued)

(i) Financial assets (continued)

Impairment losses of financial assets (Continued)

that are individually significant, or collectively for assets that are not individually significant. If the MERGED COMPANY determines that there is no objective evidence of impairment loss of a financial asset assessed individually - be such loss significant or not - the MERGED COMPANY then ranks it in a group of financial assets with similar credit risk characteristics, which are evaluated collectively. Assets individually assessed for impairment loss, or for which the impairment loss is (or keeps being) recognized are not included in the collective assessment of loss.

The loss amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not incurred) discounted at the original effective interest rate of the financial asset. The carrying value of the asset is reduced by using an allowance account, and the amount of loss is recognized in the income statement of the fiscal year. Income from interests is recorded in the financial statements as part of financial income. In the case of loans or investments held to maturity with variable interest rate, the MERGED COMPANY and its subsidiaries measure the non-recovery based on the fair value of the instrument adopting an observable market price.

If, in a subsequent period, the amount of impairment loss is reduced and such reduction can be related objectively to an event occurring after the recognition of provision (such as an improvement in the debtor's credit rating), the reversal of impairment loss previously recognized is recognized in the income statement. In case a low is subsequently recovered, the recovery is also recognized in the income statement.

(ii) Financial liabilities

Financial liabilities in the scope of the so-called CPC 38 (IAS 39) standard are classified as loans, financing and derivative financial instruments designated as hedging instruments in an effective hedge relationship, as appropriate. The MERGED COMPANY determines the classification of its financial assets at initial recognition. All financial liabilities are initially recognized at fair value and, in the case of loans and financing, plus directly attributable transaction costs. Financial liabilities of the MERGED COMPANY include suppliers, loans and financing, debentures, financing for purchase of assets and derivative financial instruments.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.1. Financial instruments (continued)

(ii) Financial liabilities (continued)

Subsequent Measurement

After initial recognition, loans and borrowings are subsequently measured at amortized cost adopting the method of effective interest rate. Gains and losses are recognized in the income statement when the liabilities are derecognized, as well as by the amortization process using the method of effective interest rate.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on terms substantially different, or the terms of an existing liability are substantially modified, such a replacement or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognized in income.

Compensation of financial instruments

Financial assets and liabilities are offset and presented net in the financial statements if, and only if, there is the right to offset the recognized amounts and also the intention to settle them on a net basis or to realize the assets and settle the liabilities simultaneously.

2.2. Transactions in foreign currency

Transactions in foreign currencies are initially recognized at fair value of the corresponding currencies on the date that the transaction qualifies for recognition. Monetary assets and liabilities stated in foreign currencies are translated into Brazilian Real according to the market price effective on the date of the balance sheets. Differences arising from payment or the translation of monetary items are recognized in the financial income.

2.3. Hedge accounting

The MERGED COMPANY uses derivative financial instruments such as interest rate swaps and foreign exchange swaps. Such derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value at each balance sheet date. Derivatives are accounted for as financial assets when fair value is positive and as liabilities when negative. Any gains or losses resulting from changes in the fair value of derivatives are recorded directly in the income statement.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.3. Hedge accounting (continued)

At the beginning of the hedging relationship, the MERGED COMPANY formally allots and registers the hedge relationship to which it wants to apply the hedge accounting, as well as its target and the risk management strategy to sign it. The documentation includes identification of the hedging instrument, the protected item or transaction, the nature of the hedged risk and how the MERGED COMPANY should assess the effectiveness of changes in the fair value of the hedging instrument in neutralizing the exposure to changes in fair value of hedged item or cash flows attributable to the hedged risk. It is expected that such hedges are highly effective in offsetting changes in fair value or cash flows, and they are continuously assessed to determine whether they actually have been highly effective over all years of financial reports for which they were intended.

For hedge accounting purposes, these are classified as fair value hedges when hedging exposure to changes in fair value of a recognized asset or liability.

They are accounted for as fair value hedges, adopting the following procedures:

- The change in fair value of a derivative financial instrument classified as hedge interest rate is recognized as financial income. The change in fair value of the hedged item is recorded as part of the carrying value of the hedged item and is recognized in the income statement;

- As regards fair value hedges connected to items carried at amortized cost, the adjustment to carrying value is amortized in the income statement over the remaining year until maturity. The amortization of the effective interest rate may begin as soon as an adjustment exists and shall occur at most at the time when the hedged item ceases to be adjusted for changes in fair value attributable to the hedged risk;

- If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss; and

- To calculate fair value, debts and swaps are measured using rates published in the financial market and projected to the date of maturity. The discount rate used to calculate the interpolation method of foreign currency loans is developed through the curves of DDI, clean Coupon and DI rates used and published by the Brazilian stock exchange known as BM&FBovespa, and for loans in the Brazilian legal currency the DI curve is used, which is an index disclosed by CETIP and calculated by the method of exponential interpolation.

2.4. Cash and Cash Equivalents

Include cash, bank accounts and short-term, highly-liquid investments, readily convertible to known amounts of cash and subject to

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.4. Cash and cash equivalents (continued)

an insignificant risk of change in value, with intention and possibility of being redeemed in the short term within 90 days from the application date.

2.5. Accounts receivable

They are registered and kept in the balance sheets at their sales figures and net of estimated losses from doubtful accounts, which is recognized based on the history of losses and risk analysis of the entire client portfolio and probability of receipt.

Accounts receivables are non-derivative financial assets with fixed payments without quotation in an active market. After initial measurement, these financial assets are subsequently measured at amortized cost using the method of effective interest rate ("EIR"), by deducting the impairment loss. Amortized cost is calculated taking into account any discounts or premiums on merger and fees or costs that compose the EIR. The EIR amortization is included in net financial income, in the income statement of the fiscal year. Expenses arising from the impairment loss are recognized in the income statement of the fiscal year.

At every closing of the balance sheets the MERGED COMPANY assesses whether the assets or groups of financial assets had an impairment loss.

Estimated losses with doubtful accounts of customers is based on a history of effective losses over the last 24 months, besides the evaluation of macroeconomic events such as unemployment and consumer confidence index, as well as the volume of overdue loans of portfolio of accounts receivable.

The receivables are deemed irrecoverable and thus they are written off the portfolio of receivables when the payment is not made after 180 days from the due date.

2.6. Inventories

They are carried at cost or at the net realizable value, whichever is less. Acquired inventories are recorded at average cost, including storage and handling costs, to the extent that such costs are necessary to bring the stocks in its condition of sale in stores, net of rebates received from suppliers. The net realizable value is the selling price in the ordinary course of business, less estimated costs necessary to make the sale. Inventories are reduced by an allowance for losses and breakage, which are periodically reviewed and assessed for adequacy.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.7. Bonuses

Bonuses received from suppliers are measured and recognized based on contracts and agreements executed, which are recorded in income to the extent that the corresponding inventories are sold. They include agreements for volume purchasing, logistics and timely negotiations for margin restoration, reimbursement of expenses among others and are recorded as a reduction of accounts payable to their suppliers, since under agreement terms the MERGED COMPANY is entitled to liquidate liabilities with suppliers net of bonuses receivable.

2.8. Present value adjustment of assets and liabilities

The current monetary assets and liabilities, when relevant, and long-term assets and liabilities, are adjusted to present value. The adjustment to present value is calculated taking into account contractual cash flows and the corresponding interest rate, whether explicit or implicit. Interests included in revenues, expenses and costs related to those assets and liabilities are adjusted to the appropriate recognition in accordance with the accrual basis. The adjustment to present value of sales in installments is recorded against the caption "Accounts receivable" and its realization is recorded in the "Net operating income" account, according to maturity. Other items in the balance sheet whose application of present value adjustment becomes necessary, has its counterpart in the "Financial income" section.

2.9. Reduction to impairment of non-financial assets

The recovery test (*impairment test*) aims at presenting in a prudent way the actual net realizable value of an asset. Such realization can be performed directly or indirectly, respectively, through sale or the cash flows generation on use of assets in the MERGED COMPANY'S activities.

Every year the MERGED COMPANY performs the impairment test of its tangible or intangible assets or whenever there is any internal or external evidence that the asset may have an impairment loss.

The impairment of an asset is defined as the higher of fair value of the asset or the value in use of its cash generating unit (CGU), unless the asset does not generate cash inflows that are largely independent of the inputs box of other assets or groups of assets.

If the carrying amount of an asset or CGU exceeds its impairment, such asset is deemed as nonrecoverable and a provision for devaluation is created to adjust the carrying value to its impairment. In assessing the impairment, the estimated future cash flows are discounted to present value, adopting a discount rate, which is the capital cost of the CBD ("WACC"), before taxes, that reflects current assessments market about the value of money over time and specific risks of the asset.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.9. Impairment of non-financial assets (continued)

Impairment losses are recognized in the income statement in those expense categories consistent with the function of the impaired asset. The impairment loss previously recognized is reversed only if there are changes in the assumptions used to determine the recoverable amount of the asset on initial recognition or later, except in the case of goodwill that cannot be reversed in future years.

2.10. Fixed Assets

Fixed assets are stated at cost, net of accumulated depreciation and/or impairment losses, if any. The cost includes the amount for the merger of equipment and the borrowing costs for long-term construction projects if the recognition criteria are met. When significant components of property and equipment are replaced, such components are recognized as individual assets with particular shelf lives and depreciations. Likewise, when a significant replacement is performed, its cost is recognized in the carrying amount of the equipment as a replacement, provided they meet the recognition criteria. All other repair and maintenance costs are recognized in profit or loss as incurred in the income of the fiscal year.

Asset category	Average annual depreciation rate
Buildings	2.50%
Leasehold improvements	4.41%
Machines and equipment	9.17%
IT equipment	20.93%
Software	11.81%
Facilities	7.88%
Furniture and equipment	10.21%
Vehicles	21.52%
Decoration	20.0%

Items of fixed assets, and any significant parts are written off upon they are assigned or when there is not any expected future economic benefits derived from its use or assignment. Any gains or losses resulting from the disposal of assets are included in the income statement.

Residual values, shelf life of assets and depreciation methods are reviewed at the end of every year, and adjusted prospectively, if applicable. The MERGED COMPANY revised the shelf life of fixed and intangible assets in year 2014 and concluded that there are no changes to be carried out this fiscal year.

2.11. Capitalized interests

Interests from loans directly attributable to the merger, construction or manufacturing of an asset that requires a substantial period of time to be finished for the intended use or sale (qualifying assets) are capitalized as part of the cost of the underlying assets during the construction phase.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.11. Capitalized interests (continued)

From the date the corresponding asset becomes effective, capitalized costs are depreciated over the estimated shelf life of such asset.

2.12. Property investment

Investment properties are measured at historical cost (including transaction costs), net of accumulated depreciation and or impairment losses, if any.

Investment properties are written off when sold or when they cease to be used permanently and is not expected any future economic benefit from their sale. An investment property is also transferred when there is intent to sell and this case is considered as non-current assets available for sale. The difference between the net sales value and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

2.13. Intangible assets

The separately acquired intangible assets are measured at cost being upon their initial recognition, being deducted by amortization and any impairment losses. The internally generated intangible assets, excluding capitalized software development costs, are reflected in the income statement that were incurred.

Intangible assets consist mainly of software purchased from third parties, software developed for internal use, goodwill (right to use the stores), customer lists, advantageous lease agreements, profitable contracts to supply furniture and brands.

Intangible assets with a defined shelf life are amortized using the straight line method. The period and the amortization method are reviewed at least in the end of every fiscal year. Changes in the expected shelf life or in the expected pattern of consumption of future economic benefits embodied in assets are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting assumptions.

Software development costs recognized as assets are amortized over their estimated shelf lives, which is 10 years.

Intangible assets with indefinite shelf lives are not amortized; they are rather tested for impairment in the end of each fiscal year or whenever there are signs that their carrying amount may not be recoverable, whether individually or at the level of cash generating unit. The assessment is reviewed annually to determine whether such indefinite shelf life is still valid. Otherwise, the estimated shelf life is prospectively changed from indefinite to definite.

Gains or losses, where applicable, resulting from derecognition of an intangible asset are measured as the difference between the net proceeds from the sale and

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.13. Intangible assets (continued)

the carrying amount of the asset, being recognized in the income statement of the fiscal year when the asset is written off.

2.14. Classification of assets and liabilities as current and noncurrent

Assets (except for deferred income tax and social contribution) with intent to be realized or intended to be sold or consumed within twelve months from the balance sheets date, are classified as current assets. Liabilities (excluding deferred income tax and social contribution) with settlement expected within twelve months from the balance sheets date are classified as current liabilities. All other assets and liabilities (including deferred taxes) are classified as "non-current" assets and liabilities.

Deferred tax assets and liabilities are classified as "non-current", net per legal entity, as required by the corresponding accounting pronouncement.

2.15. Leasing

The definition of an agreement as a lease is based on the terms of such arrangement on its inception date, that is, if compliance with such agreement depends on the use of one or more specific assets or if such arrangement conveys a right to use the asset.

The MERGED COMPANY leases equipment and commercial spaces under both cancelable and non-cancelable leases. The terms of such leases vary between 5 and 20 years.

The MERGED COMPANY as lessee

Leasing agreements that transfer to the MERGED COMPANY substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the inception of the leasing at fair value of the leased property or the present value of minimum lease payments, whichever is less. Leasing payments are apportioned between finance charges and reduction of the leasing liability so as to achieve a constant interest rate on the balance of the liability. Financial costs are recognized as expenses in the fiscal year.

Leased assets are depreciated over their shelf life. However, if there is not a reasonable certainty that the MERGED COMPANY will obtain ownership by the end of the leasing term, the asset is depreciated over its estimated shelf life or the leasing term, whichever is less; capitalization of improvements and renovations carried out in stores are also considered.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.15. Leasing agreements (continued)

The MERGED COMPANY and its subsidiaries as lessees (continued)

The leasing agreements are classified as operating leasing when there is not any transfer of risk and benefits derived from ownership of the leased item.

Payments of leasing installments (excluding costs for services such as insurance and maintenance) classified as operating leases are recognized as expenses, according to their competence, during the term of the lease.

Contingent rents are recognized as expenses in the fiscal years in which they incur. The MERGED COMPANY as lessor

Leasing agreements in which the MERGED COMPANY does not transfer substantially all the risks and rewards of ownership on the asset are classified as operating leasing agreements. Initial direct costs incurred in negotiating operating leasing agreements are added to the carrying value of the leased asset and recognized over the lease term on the same basis as rental income.

Contingent rents are recognized as revenue in the fiscal years in which they are earned.

2.16. Allowances

Allowances are recognized when the MERGED COMPANY have a present (whether legal or not formalized) obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle such obligation, and a reliable estimate of the obligation can be made. In cases in which the MERGED

COMPANY and its subsidiaries have the expectation of repayment of all or part of the provision - for example, under an insurance contract - the reimbursement is recognized as a separate asset but only when it is virtually certain. An expense connected to any provision is recorded in the income statement of the fiscal year, net of any reimbursement. In cases of lawyers' fees on success, the MERGED COMPANY has as policy to make an allowance at the time such fees are actually incurred, i.e., when the lawsuits are finally judged, and those amounts corresponding to lawsuits not yet finished are disclosed in the notes to the financial statements.

2.17. Dividend distribution

The distribution of dividends to the MERGED COMPANY'S shareholders is recognized as a liability in the end of the fiscal year, based on the minimum mandatory dividends as set forth in the bylaws. Any amounts exceeding such

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

2. Significant accounting policies (continued)

2.17. Dividend distribution (continued)

minimum amount are only recorded on the date on which such incremental dividends are approved by the MERGED COMPANY'S shareholders.

2.18. Revenues to be recognized

Anticipated revenues are recorded by the MERGED COMPANY as a liability by the anticipation of amounts received from trading partners for exclusivity in providing intermediary services of supplementary or extended warranties and recognized in income by submitting a proof of service that such warranties have been actually sold to with commercial partners.

2.19. Net Worth

Equity shares are classified under net worth.

In case equity shares are acquired from the MERGED COMPANY itself (treasury shares), the payable compensation, including any directly attributable incremental costs, is deducted from net worth, and remain registered as treasury shares until the shares are canceled or relocated in the market. When such shares are subsequently relocated, any consideration received, net of any directly attributable incremental transaction costs, is included in net worth. Losses or gains resulting from the purchase, sale, issue or cancellation of instruments representing the MERGED COMPANY'S own capital are not recognized.

2.20. Calculation of the net profit

Revenues are recognized to the extent that it is probable that the MERGED COMPANY will have economic benefits and it is possible to measure revenues reliably. Revenues are measured at fair value of the consideration received, excluding discounts, rebates and taxes or charges on sales. The MERGED COMPANY assesses its revenue-generating agreements according to specific criteria to determine whether it will act as principal or agent. The MERGED COMPANY concluded that it will act as principal in all its revenue-generating agreements, except those connected to sales of extended warranties brokerage and sale of insurance policy brokerage. Particularly in this case the MERGED COMPANY acts as agent, and the revenue is recognized on a net basis, which reflects the commission received from insurance companies.

ANNEX 2 (continued)

SÉ SUPERMERCADOS LTDA.

Notes to the financial statements prepared on September 30, 2015

3. Related parties

3.1. Balances with Companhia Brasileira de Distribuição:

	2015
Assets	
Customers	1,637,320.89
Accounts receivable from related parties	1,460,381,682.37
	1,462,019,003.26
Liabilities	
Suppliers	40,626,099.80
Transactions	
Sales	348,392,013
Purchases	4,155,184
Revenues (Expenses)	17,862,860

4. Fixed Assets

4.1. Impairment loss of fixed assets

In view of the negative external indicators due to the economic downturn, the MERGED COMPANY reviewed the impairment tests performed as of December 31, 2014 with the current assumptions for the base date of September 30, 2015. The MERGED COMPANY concluded not be necessary to recognize loss for non- performance.

5. Intangible assets

5.1. Goodwill and intangible asset impairment tests

Goodwill and intangible assets were subjected to impairment testing on December 31, 2014,by the method described in Note No. 4 - Significant accounting policies of the financial statements as of December 31, 2014 released on February 12, 2015.

In view of the negative external indicators due to the economic downturn, the MERGED COMPANY reviewed the impairment tests performed as of December 31, 2014 with the current assumptions for the base date of September 30, 2015. The MERGED COMPANY concluded not be necessary to recognize loss for non- performance.

ANNEX 3

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Balance Sheets as of September 30, 2015

ASSETS	
Current Assets	
Cash available	67,957,290.90
Investments with immediate liquidity	1,676,411,784.84
Customers	97,414,247.25
Accounts receivable from related parties	83,196,327.41
Third-party credit claims	147,892,222.26
Employees' credits	28,439,143.50
Recoverable taxes	124,822,407.39
Dividends receivable	57,582,053.28
Credit from suppliers	287,029,815.74
Available for sale	2,418,183.40
Inventories	2,383,996,563.06
Anticipated expenses	77,862,250.67
Financial instruments	109,394,218.14
Total current assets	5,144,416,507.84
Noncurrent Assets	
Credits from subsidiaries	252,414,525.38
People's credit	53,303,762.01
Recoverable taxes	587,751,585.24
Escrow deposits with courts of law	435,747,241.32
Anticipated expenses	20,132,785.04
Other long-term credits	110,725,927.83
Financial instruments	365,899,656.93
Investments	7,810,349,746.76
Net fixed assets	6,897,390,433.21
Intangible assets	726,499,436.24
Total noncurrent assets	17,260,215,099.96
TOTAL ASSETS	22,404,631,607.80

ANNEX 3 (continued)

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Balance Sheets as of September 30, 2015

LIABILITIES AND NET WORTH	
Current Assets	
Loans and financing	1,816,322,553.34
Suppliers	2,626,209,287.51
Tax obligations	102,525,235.77
Labor-related obligations	367,956,862.32
Obligations with related parties	1,764,607,944.26
Dividends payable	952,360.77
Other liabilities	474,630,022.86
Total current liabilities	7,153,204,266.83
Noncurrent Assets	
Loans and financing	3,606,681,123.79
Taxes payable in installments	580,065,666.16
Contingencies	498,957,763.46
Tax obligations	55,095,792.09
Anticipated revenues	33,935,470.64
Financial instruments	10,519,774.19
Total noncurrent liabilities	4,785,255,590.33
TOTAL LIABILITIES	11,938,459,857.16
NET WORTH	
Capital Stock	6,799,129,214.63
Capital reserves	244,446,747.17
Profits reserve	3,500,740,207.10
Adjustment reserves	(78,144,418.26)
TOTAL NET WORTH	10,466,171,750.64

5. Intangible assets

TOTAL LIABILITIES AND NET WORTH	22,404,631,607.80

ANNEX 4

SÉ SUPERMERCADOS LTDA.

Balances held with the MERGED COMPANY as of September 30, 2015

(amounts stated in Brazilian Real - R$)

		Assets	Liabilities
	Current Assets	**Noncurrent Assets**	**Current Assets**
Accounts receivable	1,637,320.89		
Receivables from parent company	-	1,460,438,332.04	-
Suppliers	-	-	-
Obligations with related parties	-	-	40,727,466.37
	1,637,320.89	1,460,438,332.04	40,727,466.37

ANNEX 5

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Financial position after the merger
(amounts stated in Brazilian Real – R$)

			Adjust		
	CBD	Sé Supermercado	Debts	Credits	Balance after merger
ASSETS					
Current Assets					
Cash available	67,957,290.90	1,696,624.80			69,653,915.70
Investments with immediate liquidity	1,676,411,784.84	76,934,188.01			1,753,345,972.85
Customers	97,414,247.25	4,771,512.70			102,185,759.95
Accounts receivable from related parties	83,196,327.41	1,640,848.03		42,364,787.26	42,472,388.18
Third-party credit claims	147,892,222.26	10,785,312.04			158,677,534.30
Employees' credits	28,439,143.50	910,030.38			29,349,173.88
Recoverable taxes	124,822,407.39	10,890,587.13			135,712,994.52
Dividends receivable	57,582,053.28	34,195,396.15			91,777,449.43
Credit from suppliers	287,029,815.74	587,946.89			287,617,762.63
Available for sale	2,418,183.40	-			2,418,183.40
Inventories	2,383,996,563.06	56,814,111.76			2,440,810,674.82
Anticipated expenses	77,862,250.67	2,366,454.29			80,228,704.96
Financial instruments	109,394,218.14	-			109,394,218.14
Total current assets	5,144,416,507.84	201,593,012.18			5,303,644,732.76
Noncurrent Assets					
Subsidiaries' credit	252,414,525.38	2,391,766,560.47		1,460,606,126.03	1,183,574,959.82
People's credit	53,303,762.01	11,954.81			53,315,716.82
Recoverable taxes	587,751,585.24	1,585,839.34			589,337,424.58
Escrow deposits with courts of law	435,747,241.32	2,361,338.98			438,108,580.30
Anticipated expenses	20,132,785.04	-			20,132,785.04
Other long-term credits	110,725,927.83	134,094.69			110,860,022.52
Financial instruments	365,899,656.93	-			365,899,656.93
Investments	7,810,349,746.76	(0.01)		2,713,030,406.64	5,097,319,340.11

Net fixed assets	6,897,390,433.21	232,118,712.68	7,129,509,145.89
Intangible assets	726,499,436.24	2,980,000.00	729,479,436.24
Total noncurrent assets	17,260,215,099.96	2,630,958,500.96	15,717,537,068.25
TOTAL ASSETS	22,404,631,607.80	2,832,551,513.14	21,021,181,801.01

Debts

ANNEX 5 (continued)

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Financial position after the merger

(amounts stated in Brazilian Real – R$)

			Adjust		
	CBD	**Sé Supermercados**	**Debts**	**Credits**	**Balance after merger**
LIABILITIES AND NET WORTH					
LIABILITIES					
Current Assets					
Loans and financing	1,816,322,553.34	7,088,171.75			1,823,410,725.09
Suppliers	2,626,209,287.51	64,425,683.99	42,364,787.26		2,648,270,184.24
Tax obligations	102,525,235.77	8,861,662.48			111,386,898.25
Labor-related obligations	367,956,862.32	8,492,667.53			376,449,529.85
Obligations with related parties	1,764,607,944.26	235,347.58	1,460,606,126.03		304,237,165.81
Dividends payable	952,360.77	-			952,360.77
Other liabilities	474,630,022.86	3,120,306.09			477,750,328.95
Total current liabilities	7,153,204,266.83	92,223,839.42			5,742,457,192.96
Noncurrent Assets					
Loans and financing	3,606,681,123.79	21,432,466.05			3,628,113,589.84
Taxes payable in	580,065,666.16	-			580,065,666.16

installments					
Contingencies	498,957,763.46	5,565,981.45			504,523,744.91
Tax obligations	55,095,792.09	-			55,095,792.09
Anticipated revenues	33,935,470.64	-			33,935,470.64
Financial instruments	10,519,774.19	298,819.58			10,818,593.77
Total non-current liabilities	4,785,255,590.33	27,297,267.08			4,812,552,857.41
TOTAL LIABILITIES	11,938,459,857.16	119,521,106.50			10,555,010,050.37
NET WORTH					
Capital Stock	6,799,129,214.63	1,444,141,752.09	1,444,141,752.09		6,799,129,214.63
Capital reserves	244,446,747.17	319,250,542.37	319,250,542.37		244,446,747.17
Profits reserve	3,500,740,207.10	949,638,112.18	949,638,112.18		3,500,740,207.10
Adjustment reserves	(78,144,418.26)	-			(78,144,418.26)
TOTAL NET WORTH	10,466,171,750.64	2,713,030,406.64			10,466,171,750.64
TOTAL LIABILITIES AND NET WORTH	22,404,631,607.80	2,832,551,513.14	4,216,001,319.93	4,216,001,319.93	21,021,181,801.01

5. Intangible assets

Exhibit III – By-laws

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

CNPJ/MF (Corporate Taxpayers' Registry with the Treasury Department) No. 47.508.411/000156

NIRE (Company Registration with the State Registry of Commerce) No. 35.300.089.901

Authorized-Capital Publicly-Held Company

CHAPTER I

NAME, HEAD OFFICE, PURPOSE AND DURATION

ARTICLE 1 - COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO ("Company") is a publicly held company with head offices and jurisdiction at Av. Brigadeiro Luís Antonio, 3142, in the City of São Paulo, Federative Republic of Brazil, hereinafter governed by these By-laws, by Law 6404 dated December 15th, 1976, as amended, and other applicable legal provisions.

Sole Paragraph – Upon the Company's admission to the special listing segment named Level 1 of Corporate Governance of the BM&FBOVESPA S.A. – the BM&F BOVESPA Commodities and Futures Exchange ("BM&FBOVESPA"), the Company, its shareholders, Managers and members of the Fiscal Council, when installed, subject themselves to the provisions of the Level 1 Listing Rules on Corporate Governance issued by BM&FBOVESPA ("Level 1 Rules").

ARTICLE 2 - The corporate purpose of the Company is the sale of manufactured, semi- manufactured or raw products, both Brazilian and foreign, of any type or species, nature or quality, provided that the sale of such products is not prohibited by law.

First Paragraph - The Company may also engage in the following activities:

a) manufacture, processing, handling, transformation, exportation, importation and representation of food or non-food products either on its own or through third parties;

b) international trade, including that involving coffee;

c) importation, distribution and sale of cosmetic products for hygienic or make-up purposes, toiletries, sanitary and related products and food supplements;

d) sale of drugs and medicines, pharmaceutical and homeopathic specialties, chemical products, accessories, dental care equipment, tools and equipment for surgery, production of chemical products and pharmaceutical specialties, with the possibility that such activities of the Company are specialized as Drugstore, Allopathic Drugstore, Homeopathic Drugstore or Manipulation Drugstore of each specialty;

e) sale of oil products, filling up of fuels of any kind, rendering of technical assistance services, garage, repair, washing, lubrication, sale of accessories and other similar services, of any vehicles;

f) sale of products, drugs and general veterinary medicines; veterinary consultation, clinic and hospital and pet shop with bath and shearing service;

g) rental of any recorded media;

h) provision of photo, film and similar studio services;

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i) execution and administration of real estate transactions, purchasing, promoting subdivisions and incorporations, leasing and selling real estate properties on the Company's own behalf as well as for third parties;

j) acting as distributor, agent and representative of merchants and industrial concerns established in Brazil or abroad and, in such capacity, for consignors or on its own behalf acquiring, retaining, possessing and carrying out any operations and transactions in its own interests or on behalf of such consignors;

k) provision of data processing services;

l) building and construction services of all kinds, either on its own behalf or for third parties, purchase and sale of construction materials and installation and maintenance of air conditioning systems, cargo loaders and freight elevators;

m) use of sanitary products and related products;

n) general municipal, state and interstate ground freight transportation for its own products and those of third parties, including warehousing, depositing, loading, unloading, packaging and guarding any such products, and subcontracting the services contemplated in this item;

o) communication services, general advertising and marketing, including for bars, cafes and restaurants, which may extend to other compatible or connected areas, subject to any legal restrictions;

p) purchase, sale and distribution of books, magazines, newspapers, periodicals and similar products;

q) performance of studies, analysis, planning and markets research;

r) performance of market test for the launching of new products, packing and labels;

s) creation of strategies and analysis of "sales behavior in specific sectors", of special promotions and advertising;

t) provision of management services of food, meal, drugstore, fuel and transportation vouchers/cards and other cards resulting from the activities related to its corporate purpose; and

u) lease and sublease of its own or third-party furnishings;

v) provision of management services;

w) representation of other companies, both Brazilian and foreign, and participation as a partner or shareholder in the capital stock of other companies irrespective of their form or object of same, and in commercial enterprises of any nature;

x) Agency, brokerage or intermediation of coupons and tickets;

y) Services related to billing, receipts or payments, of coupons, bills or booklets, rates, taxes and for third parties, including those made by electronic means or by automatic teller machines; supply of charging position, receipt or payment; issuing of booklets, forms of compensation, printed and documents in general;

z) Provision of services in connection with parking lot, stay and the safeguard of vehicles; and

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aa) Import of Wines, Beverages and Vinegars.

Second Paragraph - The Company may provide guarantees or collateral for business transactions of its interest, although it must not do so merely as a favor.

ARTICLE 3 - The Company's term of duration shall be indefinite.

CHAPTER II

CAPITAL STOCK AND SHARES

ARTICLE 4 The Company Capital is six billion seven hundred and eighty-six million, hundred and seventy thousand, eight hundred and sixty-eight Reais and sixty-nine cents (R$ 6.786.170.868,69), fully paid in and divided into two hundred sixty-five million one hundred thirty-seven thousand, seven hundred ninety-one (265.137.791) shares with no par value, of which ninety-nine million, six hundred seventy-nine thousand and eight hundred fifty-one (99,679,851) are common shares and one hundred sixty-five million four hundred fifty-seven thousand, nine hundred and forty (165.457.940) are preferred shares.

First Paragraph - The shares of capital stock are indivisible in relation to the Company and each common shares entitles its holder to one vote at the General Shareholders' Meetings.

Second Paragraph - The shares shall be recorded in book-entry systems and be kept in deposit accounts on behalf of their holders with the authorized financial institution designated by the Company, without issuance of share certificates.

Third Paragraph – Shareholders can, at any time, convert common shares into preferred shares, since they are paid-up and observing the limit of article 5 below. Conversion requests should be sent in writing to the Executive Board. Conversion requests received by the Executive Board should be ratified on the first Board of Directors' meeting, since the conditions above are complied with.

Fourth Paragraph – The cost of the service of transferring the ownership of the book-entry shares charged by the depositary financial institution may be passed on to the shareholder, pursuant to the third paragraph of Article 35 of Law No. 6,404 dated 12/15/76, subject to the maximum limits established by the Brazilian Securities Exchange Commission ("Comissão de Valores Mobiliários", or "CVM").

ARTICLE 5 - The Company is entitled to issue new shares without maintaining proportion between types and/or classes of the existing shares, provided that the number of preferred shares shall not exceed the limit of two thirds (2/3) of the total issued shares.

First Paragraph - The preferred shares shall be entitled to the following privileges and preferences:

a) priority in the reimbursement of capital, in an amount calculated by dividing the Capital Stock by the number of outstanding shares, without premium, in the event of liquidation of the Company;

b) priority in the receipt of a minimum annual dividend in the amount of eight cents of Real (R$ 0.08) per one (1) preferred share, on a non-cumulative basis;

c) participation under equal conditions as the common shares in the distribution of bonus shares resulting from capitalization of reserves or retained earnings; and

d) participation in the receipt of dividend as set forth in Article 36, IV, item "c" of these By-laws, which shall be distributed for the common and preferred shares so as to for each preferred share shall be ascribed a dividend ten percent (10%) higher than the dividend assigned to each common share, pursuant to the provisions of Article 17, first paragraph, of Law No. 6,404/76, as amended by Law No. 10,303/01, including, for purposes of such calculation, in the sum of the total amount of dividends paid to the preferred shares, the amount paid as minimum dividend set forth in item "b" of this First Paragraph.

Second Paragraph - The preferred shares shall have no voting rights.

Third Paragraph - The preferred shares shall acquire voting rights in the event that the Company fails to pay the minimum or fixed dividends to which they are entitled according to these By-laws for a period of three (3) consecutive fiscal years, according to the provisions of first paragraph of Article 111 of Law No. 6,404/76. These voting rights will cease upon the payment of such minimum or fixed dividends.

ARTICLE 6 - The Company is authorized to increase its Capital Stock by resolution of the Board of Directors without the need to amendment the Company by-laws, up to the limit of four hundred million (400,000,000) shares, through issuance of new common or preferred shares, with due regard to the limit established in article 5 above.

First Paragraph - The limit of the Company's authorized capital shall only be modified by decision of a General Shareholders Meeting.

Second Paragraph - Within the limit of the authorized capital and in accordance with the plan approved by the General Shareholders Meeting, the Company may grant stock options to the members of its management bodies or employees, or to individuals providing services to the Company.

ARTICLE 7 - The issuance of shares, subscription bonuses or debentures convertible into shares, may be approved by the Board of Directors, with the exclusion or reduction of the term for the exercise of preemptive rights, as provided in Article 172 of Law No. 6,404/76.

Sole Paragraph - Except for the provision set out in the heading of this article, the shareholders shall be entitled to preemptive rights, in proportion to their respective equity interests, in the subscription of any Company's capital increases, with the exercise of such right being governed by the legislation applicable thereto.

CHAPTER III

GENERAL SHAREHOLDERS' MEETING

ARTICLE 8 -The General Meeting is the meeting of the shareholders, which shareholders may attend in person or appoint and constitute their representatives under the provisions of the Law, in order to resolve on matters of the interest of the Company

ARTICLE 9 – The General Shareholders' Meeting shall be called, incepted and chaired by the Board of Directors Chairman, in his absence, by the Board of Directors Vice-Chairman or, in his absence, by an Officer appointed by the Board of Directors Chairman and shall have the following attributions:

I. the amendment to the Company's By-laws;

II. the appointment and removal of members of the Company's Board of Directors at any time;

III. the appointment and removal of the Chairman and the Vice-Chairman of the Company's Board of Directors;

IV. the approval, annually, of the accounts and financial statements of the Company´s management, prepared by them;

V. the approval of any issuance of common or preferred shares up to the limit of the authorized capital, as provided in Article 6 above and any bonuses, debentures convertible into its shares or with secured guarantee or securities or other rights or interests which are convertible or exchangeable into or exercisable for its shares, or any other options, warrants, rights, contracts or commitments of any character pursuant to which the Company is or may be bound to issue, transfer, sell, repurchase or otherwise acquire any shares and the terms and conditions of subscription and payment;

VI. the approval of any appraisals of assets, which the shareholders may contribute for the formation of the Company's capital;

VII. the approval of any proposal for change the corporate form, amalgamation, merger (including absorption of shares), spin-off or split of the Company, or any other form of restructuring of the Company;

VIII. the approval of any proposal for dissolution or liquidation of the Company, appointing or replacement of its liquidator(s);

IX. the approval of the accounts of the liquidator(s);

X. the establishment of the global annual compensation of the members of any management body of the Company, including fringe benefits;

XI. the approval or the amendment of the annual operating plan; and

XII. the approval of any delisting of shares of the Company for trading on stock exchanges.

ARTICLE 10 - Any resolution of the General Shareholders' Meeting shall be taken by the approval of shareholders representing at least the absolute majority of the present shareholders entitled to vote, except if qualified quorum is required by law.

ARTICLE 11 – The Annual Shareholders' Meeting shall have the attributions set forth in the law and shall take place during the first four months following the end of each fiscal year. Sole Paragraph - Whenever necessary, the General Shareholders' Meeting may be installed extraordinarily, and may be carried out subsequently with the Annual Shareholders' Meeting.

CHAPTER IV

MANAGEMENT

ARTICLE 12 - The Company shall be managed by a Board of Directors and an Executive Board.

First Paragraph - The term of office of the members of the Board of Directors and the Executive Board shall be up to two (2) years, reelection being permitted.

Second Paragraph - The Directors and the Executive Board shall take office by signing their oaths in the Minutes Book of the Board of Directors or of the Executive Board, as the case may be. The investiture of the members of the Board of Directors and the Board shall be conditioned on prior execution of the Statement of Consent of the Managers under the terms of the provision in the Level 1 Rules, as well as compliance with the applicable legal requirements.

Third Paragraph - The term of office of the Directors and Executive Officers shall be extended until their respective successors take office.

Fourth Paragraph - The minutes of the meetings of the Board of Directors and of the Executive Board shall be record in the proper book, which shall be signed by the present Directors and Executive Officers, as the case may be.

Section I

Board of Directors

ARTICLE 13-The Board of Directors shall consist of at least three (3) and no more than twelve (12) members, elected and removed by the General Shareholders' Meeting.

Sole Paragraph - In the event of permanent vacancy of a Director´s office, the Board of Directors shall elect a substitute to fulfill such position permanently, until the end of the relevant term in office. In the event of simultaneous vacancy of the majority of the positions, General Shareholders' Meeting shall be called in order to proceed with a new election.

ARTICLE 14 - The Board of Directors shall have a Chairman and a Vice-Chairman, both appointed by the Shareholders' Meeting.

First Paragraph – The positions of Chairman of the Board of Director and of President-Director or Chief Executive Officer of the Company cannot be accumulated by one and the same person.

Second Paragraph - In the event of absence or impediment of the Chairman of the Board of Directors, he shall be replaced by the Vice-Chairman of the Board of Directors. In the event of vacancy of the Chairman position, the Vice-Chairman shall automatically take such position and call a Shareholders' Meeting within fifteen (15) days from the date of said vacancy, for the appointment of a new Chairman of the Board of Directors on a permanent basis, until the end of the relevant term of office.

ARTICLE 15 - The Board of Directors shall ordinarily meet at least six times every year, to review the financial and other results of the Company and to review and follow-up of the annual operating plan, and shall extraordinarily meet whenever necessary.

First Paragraph - The Chairman shall call the meetings of the Board of Directors, by his or her initiative or at the written request of any Director.

Second Paragraph – The calls for the meetings of the Board of Directors shall be made by electronic means, facsimile or letter, with at least seven (7) days in advance, including the agenda of the meeting and specifying the place and date to be held on first call and, as the case may be, on second call. Any proposal of resolutions and all necessary documentation related thereto shall be at the Board of Directors disposal. The meetings shall be held regardless the respective call notice in case of attendance of all Directors in office at such time, or by the prior written consent of the absents Directors.

Third Paragraph – The presence of at least half of the Board of Directors members shall be required for the installation of a meeting of the Board of Directors on first call, and the presence of any number of the members of the Board of Directors shall be required for the installation of a meeting on second call. For purposes of the quorum required in this Paragraph, it shall include the members represented as authorized by these By-laws.

ARTICLE 16 - The Board of Directors meetings shall be presided by its Chairman, or in his absence, he shall be replaced by the Vice-Chairman of the Board of Directors.

First Paragraph – The resolutions of the Board of Directors shall be taken by majority of votes cast by its members. Board members may partake of the meetings of the Board of Directors through e-conferencing, through video-conferencing or through any other means of electronic communications allowing the identification of the director and simultaneous communication with all the other ones attending the meeting. In this case, directors will be considered as present to the meeting and shall execute the corresponding minutes of such meeting afterwards.

Second Paragraph – In case of absence or temporary impediment of any member of the Board of Directors, the absent member may appoint, in writing, from among the other members of the Board of Directors, his or her substitute. In this case, the member who is replacing the temporarily absent or impeded member, in addition to his own vote, shall cast the vote of the replaced member.

ARTICLE 17 - The Board of Directors shall approve its Internal Regulations and appoint an Executive Secretary, who shall perform the duties defined in the Internal Regulations, as well as issue certificates and confirm, to third parties, the authenticity of resolutions taken by the Board of Directors.

ARTICLE 18 - In addition to the powers provided for in the applicable law, the Board of Directors shall have the powers to:

a) set forth the general guidelines of the Company's business;

b) appoint and remove the Executive Officers of the Company, establishing their duties and titles;

c) supervise action of the Executive Officers of the Company, examine, at any time, the records and books of the Company, request information on agreements executed or to be executed and on any other acts or matters;

d) call the General Shareholders' Meeting;

e) issue an opinion on the report of the management, the accounts of the Executive Board and the financial statements of the Company;

f) approve the issuance of shares of any type or class up to the limit of the authorized capital and establish the respective price and payment conditions;

g) appoint and remove the independent public accountants, observed the Audit Committee's recommendation;

h) issue an opinion on any and all proposals of the Executive Board to be submitted to the General Shareholders' Meetings;

i) authorize the acquisition of shares of the Company for purposes of cancellation or maintenance in treasury;

j) develop, jointly with the Executive Board, and approve a profit sharing and additional benefits program for the members of the management bodies and for the employees of the Company (Profit Sharing Program);

k) define the share of Company's profits to be allocated to the Profit Sharing Program in due compliance with the applicable legal provisions, these By-laws and the Profit Sharing Program in effect at such time. The amounts expensed or accrued in each fiscal year by way of profit sharing in addition to granting option to purchase Company's stock shall be limited up to fifteen per cent (15%) of the profit recorded in each fiscal year after the pertinent deductions have been effected in accordance with Article 189 of Law No. 6404/76;

l) set forth the number of shares to be issued under the stock option plan previously approved by the General Shareholders Meeting, provided that the limit established in item "l" above is duly observed;

m) set up Committees, that shall be responsible for making proposals or recommendations and giving their opinions to the Board of Directors and set forth its respective attributions, in accordance with the provisions of these By-laws ;

n) approve the acquisition, sale, disposal or creation of any lien on any asset, including any real estate, of the Company or any other investments made by the Company in an individual amount or cumulated over a fiscal year in excess of the amount in Reais equivalent to twenty million U.S. Dollars (US$20,000,000.00) or in excess of an amount equal to one percent (1%) of the net equity of the Company as determined in its latest annual balance sheet or quarterly financial statements, whichever is greater;

o) approve any financial arrangement involving the Company, including the lending or borrowing of funds and the issuance of non-convertible and unsecured debentures, in excess of an individual amount equivalent to one half (0.5) of EBITDA of the preceding twelve (12) months; and

p) approve the joint venture of the Company with third parties involving an individual investment or cumulated over a fiscal year. in excess of the amount in Reais equivalent to US$20,000,000.00 (twenty million U.S. Dollars) or in excess of an amount equal to one percent (1%) of the net equity of the Company as determined in its latest annual balance sheet or quarterly financial statements, whichever is greater; and

q) the approval of any change in the Company's dividend policy.

First Paragraph - In case a resolution to be taken by the corporate bodies of companies controlled by the Company or companies of which the Company elect its directors or executive officers, the Board of Directors shall instruct the vote to be cast by the members elected or appointed by the Company to those corporate bodies if the matter of such resolution refers to the items (n), (o) and (p) of this Article, being the parameters referred therein calculated in accordance with the latest annual balance sheet or quarterly financial statements of such controlled or invested companies.

Second Paragraph - The Board of Directors shall approve a policy for related party transactions and may establish limits, authority and specific procedures for the approval of such transactions.

Section II

Management’s Auxiliary Bodies

ARTICLE 19 – The Company shall have as support body to the Board of Directors an Audit Committee composed of at least three (3) and no more than five (5) members, of which two (2), at least, shall be external and independent members (“External Members”), subject to the provisions of Article 21 and the Chapter V of these By-laws.

First Paragraph - The members of the Audit Committee shall be elected by the Board of Directors and meet all the applicable independency requirements as set forth in the rules of the Securities and Exchange Commission.

Second Paragraph - The External Members of the Audit Committee shall fulfill the following prerequisites:

a) not be a member of the Board of Directors of the Company or of its controlled companies; and

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b) have knowledge or experience in auditing, controls, accounting, taxation or the rules applicable to publicly-held companies, as concerns the adequate preparation of their financial statements.

ARTICLE 20 – The members of the Audit Committee shall be elected by the Board of Directors for a term of office of two (2) years, with reelection being permitted for successive terms.

First Paragraph - During their term of office, the members of the Audit Committee may not be replaced except for the following reasons:

a) death or resignation;

b) unjustified absence from three (3) consecutive meetings or six (6) alternate meetings per year; or

c) a substantiated decision of the Board of Directors.

Second Paragraph - In the event of a vacancy in the Audit Committee, the Board of Directors shall elect a person to complete the term of office of the replaced member.

Third Paragraph -The Audit Committee shall:

a) propose to the Board of Directors the nomination of the independent auditors as well as their replacement;

b) review the management report and the financial statements of the Company and of its controlled companies, and provide the recommendations it deems necessary to the Board of Directors;

c) Review the quarterly financial information and the periodic financial statements prepared by the Company;

d) assess the effectiveness and sufficiency of the internal control structure and of the internal and independent audit processes of the Company and of its controlled companies, including in relation to the provisions set forth in the Sarbanes-Oxley Act, submitting the recommendations it deems necessary for the improvement of policies, practices and procedures;

e) provide its opinion, upon request of the Board of Directors, with respect to the proposals of the management bodies, to be submitted to the Shareholders' Meetings, relating to changes to the capital stock, issuance of debentures or warrants, capital budgets, dividend distribution, transformation, merger, amalgamation or spin-off; and

f) provide its opinion on the matters submitted to it by the Board of Directors, as well as on those matters it determines to be relevant.

ARTICLE 21 – In the event the Fiscal Council is established as set forth in Law 6,404/76 and in Chapter V below, the Audit Committee shall maintain its functions, subject to the powers granted to the Fiscal Council by law.

ARTICLE 22 – The Board of Directors may constitute other Committees and decides their composition, which shall have the function of receiving and analyzing information, elaborating proposals or making recommendations to the Board of Directors, in their specific areas, in accordance with their internal regulations to be approved by the Board of Directors.

Sole Paragraph - The members of the Committees created by the Board of Directors shall have the same duties and liabilities as the managers.

Section III

Executive Board

ARTICLE 23 - The Executive Board shall be composed of at least two (2) and no more than fourteen (14) members, shareholders or not, resident in Brazil, appointed and removed by the Board of Directors, being necessarily appointed one (1) as the Chief Executive Officer, one (1) Investor Relations Executive Officer and the others Vice Chief Executive Officers and Officers.

ARTICLE 24 - The Executive Officers shall be in charge of the general duties set forth in these by-laws and those establish by the Board of Directors and shall keep mutual cooperation among themselves and assist each other in the performance of their duties and functions.

First Paragraph – The duties and titles of each Executive Officer shall be established by the Board of Directors.

Second Paragraph - In the event of absences, occasional impairments and vacancy, the Executive Officers shall be replaced in the following manner:

a) in the event of absences and occasional impairments of the CEO, he shall be replaced by other Executive Officer indicated by him and in the event of permanent vacancy, the Board of Directors shall appoint the CEO's substitute within thirty (30) days, who shall complete the term of office of the CEO;

b) in the event of absences and occasional impairments of the remaining Executive Officers, they shall be replaced by the CEO and, in the event of permanent vacancy, the Board of Directors shall appoint the Executive Officer's substitute within fifteen (15) days, who shall complete the term of office of the substituted Executive Officer.

ARTICLE 25 - The Executive Board shall meet upon call of its CEO or of half of its Executive Officers in office.

Sole Paragraph - The minimum quorum required for the installation of a meeting of the Executive Board is the presence of at least one-third (1/3) of the Executive Officers in office at such time. The resolutions of the Executive Board shall be approved by the majority of the votes. In the event of a tie in connection of any matter subject to the Executive Officers approval, such matter shall be submitted to the Board of Directors.

ARTICLE 26 - In addition to the duties that may be attributed to the Executive Board by the General Shareholders' Meeting and by the Board of Directors, and without prejudice to the other legal duties, the Executive Board shall have the power to:

I - manage the Company's business and ensure compliance with these by-laws;

II – ensure that the Company's purpose is duly performed;

III - approve all plans, programs and general rules of operation, management and control for the development of the Company, in accordance with the guidelines determined by the Board of Directors;

IV - prepare and submit to the Annual Shareholders' Meeting a report on the corporate business activities, including the balance sheet and financial statements required by law for each fiscal year, as well as the respective opinions of the Fiscal Council, as the case may be;

V – guide all Company's activities under the guidelines set forth by the Board of Directors and appropriate to the fulfillment of its purposes;

VI – suggest investment and operating plans or programs to the Board of Directors;

VII - authorize the opening and closing of branches, agencies or depots and/or institute delegations, offices and representations in any location of the national territory or abroad;

VIII – render an opinion on any matter to be submitted to the Board of Directors approval; and

IX - develop and carry out, jointly with the Board of Directors, the Employee Profit Sharing Program.

ARTICLE 27 – The Chief Executive Officer, in particular, is entitled to:

a) plan, coordinate, conduct and manage all Company's activities, as well as perform all executive and decision-making functions;

b) carry out the overall supervision of all Company's activities, coordinating and guiding the other Executive Officers' activities;

c) call and install the meetings of the Executive Board;

d) coordinate and conduct the process of approval of the annual/multi-annual budget and of the investment and expansion plans together with the Board of Directors; and

e) suggest functions and respective candidates for the Executive Officers positions of the Company and submit such suggestion to the Board of Directors approval.

ARTICLE 28 - It is incumbent upon the Executive Officers to assist and support the CEO in the administration of the Company, in accordance with duties determined by the Board of Directors and perform all acts necessary for the regular Company's activities, as long as these acts have been duly authorized by the Board of Directors.

ARTICLE 29 - The Executive Officers shall represent the Company actively and passively, in court and outside courts and before third parties, performing and signing all acts that result in obligations to the Company.

First Paragraph – For the granting of powers-of-attorney, the Company shall be represented by two (2) Executive Officers, acting jointly, and all powers-of-attorney shall a validity term, except for powers-ofattorney granted for judicial purposes, in addition to the description of the powers granted which may cover any and all acts, including those related to banking operations;

Second Paragraph - In case of acts that entail any kind of acquisition, sale, disposal or creation of any lien on any Company's asset, including any real estate, as well as, for the granting of powers-of-attorney for the practice of such acts, the Company is required to be represented jointly by three (3) Executive Officers of whom one must always be the CEO and the others Executive Officers to be appointed by the Board of Directors.

Third Paragraph - The Company shall be considered duly represented:

a) jointly by two Executive Officers;

b) jointly by one Executive Officer to be appointed by the Board of Directors, and an attorney-in-fact, when so determined by the respective power-of-attorney and in accordance with the powers contained therein;

c) jointly by two attorneys-in-fact, when so determined by the respective power of attorney and in accordance with the powers contained therein;

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d) solely by an attorney-in-fact or Executive Officer, in specific cases, when so determined by the respective power of attorney and in accordance with the powers contained therein.

CHAPTER V

FISCAL COUNCIL

ARTICLE 30 – The Company shall have a Fiscal Council that shall operate on a non-permanent basis, being installed by the General Meeting, as provided for by law.

First Paragraph - The members of the Fiscal Council and their alternates shall occupy their positions up to the first Annual Shareholders' Meeting held after their respective appointments, reelection permitted.

Second Paragraph – At their first meeting, the members of the Fiscal Council shall elect its Chairman, who shall be responsible for enforcing the committee’s resolutions.

Third Paragraph - The Fiscal Council may request the Company to appoint qualified personnel to provide administrative and technical support.

ARTICLE 31 - The Fiscal Council shall be composed of no less than three (3) and up to five (5) effective members and the same number of alternates, residents in the country, shareholders or not, all of them qualified in accordance with the legal provisions.

First Paragraph – In the case of absence of impediment, the members of the Fiscal Council shall be replaced by their respective alternates.

Second Paragraph - In addition to cases of death, resignation, dismissal and other cases provided for by law, the position of the member shall be considered vacant when the member of the Fiscal Council is absent, without just cause, at two (2) consecutive meetings or three (3) non-consecutive meetings in the course of the year.

Third Paragraph - In the event of vacancy of the position of Fiscal Council member, if there is no alternate member, a General Meeting will be called to elect a member for the vacant position.

ARTICLE 32 - The Fiscal Council shall have the powers and duties conferred upon it by law and the Internal Regulation of the Fiscal Council.

First Paragraph - The Fiscal Council holds quarterly general meetings and extraordinary meetings whenever necessary.

Second Paragraph - Meetings are called by the Chairman of the Fiscal Council on his own initiative or per written request of any of its members.

Third Paragraph - The resolutions of the Fiscal Council shall be made by absolute majority vote of those in attendance. In order for a meeting to be instituted, the majority of the members must be present.

Fourth Paragraph - The members of the Fiscal Council shall participate in the committee’s meetings by telephone or video conference call, or any other electronic means of communication, and shall be considered present at the meeting. Immediately after the meeting is over, the members must confirm their votes through a written declaration sent to the Chairman of the Fiscal Council by conventional mail, fax, or electronic mail. Upon receipt, the Chairman of the Fiscal Council shall be empowered to sign the minutes of the meeting on behalf of its members.

ARTICLE 33 - The compensation of the members of the Fiscal Council shall be fixed by the General Shareholders' Meeting in which they are appointed, with due observance of the legal limit.

CHAPTER VI

CORPORATE YEAR AND FINANCIAL STATEMENTS

ARTICLE 34 - The fiscal year ends on December 31 of each year, when the balance sheet and financial statements required by applicable law shall be prepared.

ARTICLE 35 - The Company may, at the discretion of the Executive Board, prepare quarterly or semiannual balance sheets.

CHAPTER VII

PROFIT DESTINATION

ARTICLE 36 – Upon the preparation of the balance sheet, the following rules shall be observed with respect to the distribution of the profits:

I - from the profits of the fiscal year shall be deducted, before any allocation of net income, the accumulated losses and the provision of the income tax;

II - After deducting the portions described in item I above, the portion to be distributed in the form of employee profit sharing shall be deducted, as determined by the Board of Directors, in compliance with the Profit Sharing Program and under the terms and according to the limits provided in items "j" and "k" of Article 18 herein;

III - in due compliance with the terms and limits established in paragraphs of Article 152 of Law No. 6,404/76 and the limit established in item “k” of Article 18 herein, the amount corresponding to the managers in the Company’s profits shall be deducted, as determined by the Board of Directors, in compliance with the Profit Sharing Program;

IV - the remaining net profits shall have the following destination:

a) 5% (five per cent) shall be allocated to the legal reserve fund until such reserve reaches the limit of 20% (twenty per cent) of the Capital Stock;

b) amounts to the formation of the reserve for contingencies reserve, if so decided by the General Shareholders’ Meeting;

c) 25% (twenty five per cent) shall be allocated to the payment of the mandatory dividends pursuant to First Paragraph below, in accordance with the provisions contained in first and second paragraphs of Article 5 herein;

d) the profit not provisioned in the reserve described in Second Paragraph below and not allocated in accordance with the provisions of Article 196 of Law No. 6404/76 shall be distributed as additional dividends.

First Paragraph –The mandatory dividends shall be calculated and paid in accordance with the following rules:

a) the basis for calculation of the dividends payable shall be the net profit of the fiscal year, less the amounts allocated to the legal reserve and the contingency reserves and plus the amount obtained from the reversion of the reserves of contingencies formed in the previous fiscal year;

b) the payment of the dividend calculated in accordance with the provisions of the previous item may be limited to the amount of the net profit effectively realized of the fiscal year for that has ended pursuant to the law, provided that the difference is registered as reserve for profits to be realized;

c) the profits registered in the reserve for profits to be realized, when accrued and if such profits have not been absorbed by the losses in the subsequent fiscal years, shall be increased to the first declared dividends after such realization.

Second Paragraph – It is hereby created, the Reserve for Expansion, which purpose shall ensure resources for financing additional investments in fixed assets and working capital and to which shall be allocated up to 100% of the remaining profits after the deductions and destinations established in items "a", "b" and "c" of item IV above. The total amount provisioned in such reserve shall nor exceed the total amount of the Company's Capital Stock.

Third Paragraph - If duly authorized by the Board of Directors, the Company may elect to distribute interim dividends, ad referendum by the General Shareholders' Meeting.

Fourth Paragraph - The Company may elect to pay or credit interests as remuneration of its own capital calculated on the accounts of the net equity, in due observance of the rate and limits determined by law

ARTICLE 37 – The amount of dividends shall be placed at the shareholders disposition within a maximum term of sixty (60) days as from the date of their allotment, and may be monetarily adjusted, if so determined by the Board of Directors, subject to the applicable legal provisions.

ARTICLE 38 - The financial statements and accounts of the Company shall be audited on an annual basis by internationally recognized independent accountants.

CHAPTER VIII

LIQUIDATION

ARTICLE 39 – The Company shall be liquidated in the cases provided by law, and the General Shareholders' Meeting shall determine the form of liquidation, appoint the liquidator and the members of the Fiscal Council, which shall operate during the liquidation, and establish their compensation.

CHAPTER IX

FINAL PROVISIONS

ARTICLE 40 – The values in U.S. Dollars mentioned herein shall be exclusively used as reference for monetary update and shall be converted into Reals using the average exchange rate for the U.S. Dollar published by the Central Bank of Brazil.

ARTICLE 41 - The cases not regulated in these by-laws shall be solved in conformity with current applicable legislation.

ARTICLE 42 - The present by-laws shall come into effect as of the date of its approval by the General Shareholders Meeting.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA BRASILEIRA DE DISTRIBUIÇÃO

Date: December 22, 2015

By: /s/ Ronaldo Iabrudi
Name: Ronaldo Iabrudi
Title: Chief Executive Officer

By: /s/ Daniela Sabbag
Name: Daniela Sabbag
Title: Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates offuture economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.