

VALIDUS HOLDINGS LTD

Form S-4/A

October 23, 2012

As filed with the Securities and Exchange Commission on October 23, 2012

Registration No. 333-183999

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

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Amendment No. 2 to

FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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VALIDUS HOLDINGS, LTD.  
(Exact name of registrant as specified in its charter)

|   |   |  |
|---|---|--|
| Bermuda   | 6331  | 98-0501001                                 |
| (State or other jurisdiction of<br>incorporation or organization) | (Primary Standard Industrial<br>Classification Code Number) | (I.R.S. Employer<br>Identification Number) |

29 Richmond Road, Pembroke, Bermuda HM 08  
(441) 278-9000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Robert F. Kuzloski, Esq.  
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**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this Registration Statement becomes effective and upon completion of the mergers described in the enclosed proxy statement/prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. £

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. £

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. £

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.

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

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

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

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

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, and the rules thereunder, or until the registration statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this proxy statement/prospectus is not complete and may be changed. The registrant may not complete the mergers described herein and issue the securities described herein until the registration statement filed with the Securities and Exchange Commission (of which this proxy statement/prospectus forms a part) becomes effective. This proxy statement/prospectus is not an offer to sell the securities described herein and Validus Holdings, Ltd. is not soliciting an offer to buy the securities described herein in any state or jurisdiction in which such sale or offer is not permitted.**

**PRELIMINARY SUBJECT TO COMPLETION DATED OCTOBER 23, 2012**

**PROPOSED MERGERS YOUR VOTE IS VERY IMPORTANT**

To the shareholders of Flagstone Reinsurance Holdings, S.A.:

The board of directors of Flagstone Reinsurance Holdings, S.A. ( Flagstone ) has approved a merger agreement with Validus Holdings, Ltd. ( Validus ) pursuant to which Validus will acquire Flagstone. Under the terms of the merger agreement, the acquisition will be completed by means of two mergers. First, Flagstone will become a Bermuda entity through a first-step merger into Flagstone Reinsurance Holdings (Bermuda) Limited ( Flagstone Bermuda ), a newly-formed subsidiary of Flagstone that is organized in Bermuda. Second, immediately following the first-step merger, Flagstone Bermuda, as the successor-in-interest to Flagstone, will merge through a second-step merger into a newly-formed Validus subsidiary. Following the second-step merger, the successor-in-interest to Flagstone will be wholly owned by Validus.

If the mergers are completed, for each Flagstone share you hold immediately prior to the completion of the mergers, you will have the right to receive 0.1935 common shares of Validus and \$2.00 in cash (less any applicable withholding taxes and without interest), plus cash in lieu of any fractional Validus common share you would otherwise be entitled to receive.

Validus common shares are quoted on the New York Stock Exchange (the NYSE ) under the symbol VR. The closing price of a Validus common share on the NYSE on October 22, 2012, the most recent practicable date prior to the date of this proxy statement/prospectus, was \$36.50. Flagstone shares, which are currently quoted on the NYSE under the symbol FSR, would be delisted upon completion of the mergers. The closing price of a Flagstone share on the NYSE on October 22, 2012, the most recent practicable date prior to the date of this proxy statement/prospectus, was \$9.08.

Based on the Validus common shares and Flagstone shares outstanding as of October 22, 2012, and the exchange ratio of 0.1935 Validus common shares to be issued for each Flagstone share in the mergers, we anticipate that Validus will issue approximately 14,290,388 Validus common shares in the mergers, which will represent, in the aggregate, approximately 12.0% of the issued and outstanding Validus common shares on a pro forma, fully-diluted basis, immediately after the mergers.

We are sending you this proxy statement/prospectus to ask you to vote your Flagstone shares, in person or by proxy, at an extraordinary general meeting of Flagstone shareholders on a proposal to approve the merger agreement, the first-step merger and the first-step statutory merger agreement and to approve a non-binding, advisory proposal to approve the compensation that may be paid or become payable to Flagstone s named executive officers in connection with, or following the completion of, the mergers.

**Flagstone s board of directors has unanimously (1) approved the merger agreement and the transactions contemplated by the merger agreement (including the mergers) and (2) determined that it is in the best interests of Flagstone and its shareholders that Flagstone enter into the merger agreement and that the mergers**

**and the terms thereof, together with the other transactions contemplated by the merger agreement and the first-step statutory merger agreement, are fair to, and in the best interests of, Flagstone and its shareholders. Accordingly, Flagstone's board of directors unanimously recommends that Flagstone shareholders vote FOR the approval of the merger agreement, the first-step merger and the first-step statutory merger agreement. Flagstone's board of directors also unanimously recommends that Flagstone shareholders vote FOR the non-binding advisory proposal to approve the compensation that may be paid or become payable to Flagstone's named executive officers in connection with, or following the completion of, the mergers.**

This proxy statement/prospectus provides Flagstone shareholders with detailed information about Flagstone's extraordinary general meeting, the mergers, Validus and Flagstone. You can also obtain information from publicly available documents filed by Validus and Flagstone with the SEC. **Validus**

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**and Flagstone encourage you to read this entire document carefully, including the section titled *Risk Factors* beginning on page 22.**

Your vote is very important. Whether or not you plan to attend Flagstone's extraordinary general meeting, please take time to submit your proxy or voting instructions as soon as possible so that your shares may be represented and voted at Flagstone's extraordinary general meeting. I look forward to greeting those of you who are able to attend.

Sincerely,

David A. Brown  
Chief Executive Officer  
Flagstone Reinsurance Holdings, S.A.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the securities to be issued under this proxy statement/prospectus, passed upon the merits or fairness of the securities to be issued under this proxy statement/prospectus, or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

This proxy statement/prospectus is dated October 23, 2012, and is first being sent or mailed to the shareholders of Flagstone on or about October 25, 2012.

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**Flagstone Reinsurance Holdings, S.A.**  
**65, Avenue de la Gare, 9th Floor**  
**L-1611 Luxembourg**  
**Grand Duchy of Luxembourg**  
**RCS Luxembourg number: B 153.214**

**NOTICE OF EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS  
TO BE HELD ON NOVEMBER 28, 2012**

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of shareholders (which we refer to as the extraordinary general meeting ) of Flagstone Reinsurance Holdings, S.A. (which we refer to as Flagstone ) will be held on November 28, 2012, at 2:00 p.m. Central European Time at Hôtel Le Royal Luxembourg, 12 Boulevard Royal, Luxembourg L-2449, Grand Duchy of Luxembourg for the following purposes:

**Extraordinary Business**

1. To consider and vote on a proposal to approve the Agreement and Plan of Merger, dated as of August 30, 2012 (which we refer to as the merger agreement ), among Flagstone, Flagstone Reinsurance Holdings (Bermuda) Limited (which we refer to as Flagstone Bermuda ), Validus Holdings, Ltd. (which we refer to as Validus ) and Validus UPS, Ltd. (which we refer to as Merger Sub ) (a copy of which is attached to the accompanying proxy statement/prospectus as Annex A), the merger of Flagstone with and into Flagstone Bermuda, with Flagstone Bermuda surviving this merger (which we refer to as the first-step merger ) and

the First-Step Statutory Merger Agreement, dated as of September 27, 2012, between Flagstone and Flagstone Bermuda and published in the *Mémorial C, Recueil des Sociétés et des Associations* on October 15, 2012 (a copy of which is attached to the accompanying proxy statement/prospectus as Annex B, and which we refer to as the first-step statutory merger agreement ), upon hearing (1) the special merger report of the board of directors of Flagstone pursuant to Article 265 of the Luxembourg law of August 10, 1915 on commercial companies, as amended (which we refer to as the Luxembourg Corporate Law ) and (2) the report of the independent expert (*réviseur d'entreprise agréé*) pursuant to Article 266 of the Luxembourg Corporate Law (which we refer to collectively as the merger proposal ).

**Special Business**

2. To consider and vote on a

non-binding,  
advisory  
proposal  
required under  
the  
Dodd-Frank  
Wall Street  
Reform and  
Consumer  
Protection Act  
and Section  
14A of the  
Securities  
Exchange Act  
of 1934, and  
the rules  
thereunder to  
approve the  
compensation  
that may be  
paid or  
become  
payable to  
Flagstone s  
named  
executive  
officers in  
connection  
with, or  
following the  
completion of,  
the first-step  
merger and  
the merger of  
Flagstone  
Bermuda with  
and into  
Merger Sub  
immediately  
following the  
first-step  
merger (which  
we refer to  
collectively as  
the mergers )  
(this  
non-binding,  
advisory  
proposal  
relates only to  
compensation

or other arrangements between Flagstone s named executive officers and Flagstone in existence prior to completion of the mergers that may result in a payment to Flagstone s named executive officers in connection with, or following, the completion of the mergers and does not relate to any new compensation or other arrangements between Flagstone s named executive officers and Validus or, following the mergers, the surviving company in the mergers and its subsidiaries) (which we refer to as the non-binding compensation proposal ).

The extraordinary and special business of the extraordinary general meeting set out above is described in more detail in the accompanying proxy statement/prospectus. Flagstone will transact no other business at the extraordinary general meeting except such business as may properly be brought before the extraordinary general meeting or any

adjournment, reconvening or postponement thereof.

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The approval of the merger proposal, which requires the affirmative vote of at least three-fourths of the Flagstone shares present or represented at the extraordinary general meeting, is required for completion of the mergers. The approval of the non-binding compensation proposal, which requires the affirmative vote of at least two-thirds of the Flagstone shares present or represented at the extraordinary general meeting, is not required for completion of the mergers.

Flagstone has fixed the close of business on October 5, 2012 as the record date for the extraordinary general meeting. Only Flagstone shareholders of record as of the close of business on the record date are entitled to receive notice of, and to vote at, the extraordinary general meeting or any adjournment, reconvening or postponement thereof.

**Flagstone's board of directors has unanimously (1) approved the merger agreement and the transactions contemplated by the merger agreement (including the mergers) and (2) determined that it is in the best interests of Flagstone and its shareholders that Flagstone enter into the merger agreement and that the mergers and the terms thereof, together with the other transactions contemplated by the merger agreement and the first-step statutory merger agreement, are fair to, and in the best interests of, Flagstone and its shareholders. Accordingly, Flagstone's board of directors unanimously recommends that Flagstone shareholders vote FOR the merger proposal. Flagstone's board of directors also unanimously recommends that Flagstone shareholders vote FOR the non-binding compensation proposal.**

**Your vote is very important. Whether or not you plan to attend the extraordinary general meeting, we encourage you to read the accompanying proxy statement/prospectus carefully and submit your proxy or voting instructions as soon as possible.** If you are a shareholder of record holding your shares directly in your name, you may submit your proxy by signing, dating and returning your proxy card in the enclosed postage-paid envelope or by personal delivery to Flagstone's registered office. This proxy may be revoked by the record holder if the shares are represented in person and voted at the extraordinary general meeting. If you are a beneficial owner holding your shares in street name (through a broker, bank, trustee or other nominee) as of the close of business on the record date, you should submit your voting instructions in accordance with the instructions on the voting instruction form provided to you.

The accompanying proxy statement/prospectus provides a detailed description of the mergers and the merger agreement. We urge you to read the accompanying proxy statement/prospectus, including any documents incorporated by reference, and its Annexes carefully and in their entirety.

The accompanying proxy statement/prospectus, proxy card and notice of extraordinary general meeting will be available from October 25, 2012 at Flagstone's registered office.

By order of the board of directors  
of Flagstone Reinsurance Holdings, S.A.

William F. Fawcett  
General Counsel and Corporate Secretary  
Luxembourg, Grand Duchy of Luxembourg  
October 23, 2012

**Important Notice Regarding the Availability of Proxy Materials for the  
Extraordinary General Meeting of Shareholders to be held on November 28, 2012.**

**The Notice of Extraordinary General Meeting and the Proxy Statement/Prospectus  
are available at <http://phx.corporate-ir.net/phoenix.zhtml?c=205986&p=extragenmeeting>**

**REFERENCES TO ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates by reference important business and financial information about Validus and Flagstone from documents previously filed with the United States Securities and Exchange Commission (which we refer to as the SEC) that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge from the SEC's website at [www.sec.gov](http://www.sec.gov). You can also obtain the documents that are incorporated by reference in this proxy statement/prospectus from Validus or Flagstone by requesting them in writing or by telephone using the following contact information:

|   |    |   |
|---|----|---|
| Validus Holdings, Ltd.<br>29 Richmond Road<br>Pembroke HM 08<br>Bermuda<br>Attention: Jon Levenson,<br>Executive Vice President<br>(441) 278-9000 | or | Flagstone Reinsurance Holdings, S.A.<br>2nd Floor, Wellesley House<br>90 Pitts Bay Road,<br>Pembroke HM 08<br>Bermuda<br>Attention: Brenton Slade,<br>Chief Marketing Officer<br>(441) 278-4303 |
|---|----|---|

**If you would like to request any documents, in order to ensure timely delivery, please do so by November 20, 2012 in order to receive them before the extraordinary general meeting.** Validus or Flagstone, as the case may be, will mail properly requested documents to requesting shareholders by first class mail, or another equally prompt means, within one business day after the receipt of such request.

See the section of this proxy statement/prospectus titled *Where You Can Find More Information* for more information about the documents referred to in this proxy statement/prospectus.

In addition, if you have questions about the extraordinary general meeting, the merger agreement or the mergers described in this proxy statement/prospectus, you may contact Flagstone's proxy solicitor, Okapi Partners LLC, at 437 Madison Avenue, 28th Floor, New York, NY 10022, call collect at (212) 297-0720 or call toll free at (855) 208-8902.

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**ABOUT THIS PROXY STATEMENT/PROSPECTUS**

This proxy statement/prospectus forms a part of a registration statement on Form S-4 (Registration No. 333-183999) filed by Validus with the SEC. It constitutes a prospectus of Validus under Section 5 of the Securities Act of 1933, as amended, and the rules and regulations thereunder (which we refer to as the Securities Act ), with respect to the voting common shares, par value \$0.175 per share, of Validus (which we refer to as the Validus common shares ) to be issued to Flagstone shareholders pursuant to the Agreement and Plan of Merger, dated as of August 30, 2012 (which we refer to as the merger agreement ), as it may be amended from time to time, by and among Validus, Flagstone, Validus UPS, Ltd. and Flagstone Reinsurance Holdings (Bermuda) Limited, a copy of which is included as Annex A to this proxy statement/prospectus. In addition, it constitutes a proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (which we refer to as the Exchange Act ), and a notice of meeting with respect to the extraordinary general meeting of Flagstone shareholders (which we refer to as the extraordinary general meeting ) at which Flagstone shareholders will consider and vote on the merger proposal and the non-binding compensation proposal.

You should rely only on the information contained in or incorporated by reference into this proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this proxy statement/prospectus. This proxy statement/prospectus is dated October 23, 2012. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than that date. You should not assume that the information incorporated by reference into this proxy statement/prospectus is accurate as of any date other than the date of the incorporated document containing such information. Neither the mailing of this proxy statement/prospectus to Flagstone shareholders nor the issuance by Validus of Validus common shares pursuant to the merger agreement will create any implication to the contrary.

**This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation.**

All references in this proxy statement/prospectus to Validus refer to Validus Holdings, Ltd., a Bermuda exempted company, and/or its consolidated subsidiaries, unless the context requires otherwise; all references in this proxy statement/prospectus to Flagstone refer to Flagstone Reinsurance Holdings, S.A., a Luxembourg joint stock corporation (*société anonyme*), and/or its consolidated subsidiaries, unless the context requires otherwise; all references to Merger Sub refer to Validus UPS, Ltd., a Bermuda exempted company, and a wholly owned subsidiary of Validus; all references to Flagstone Bermuda refer to Flagstone Reinsurance Holdings (Bermuda) Limited, a Bermuda exempted company, both in its capacity as a wholly owned subsidiary of Flagstone and in its capacity as the surviving company in the first-step merger. All references in this proxy statement/prospectus to the mergers refer to the mergers contemplated by the merger agreement, which are (1) the merger of Flagstone with and into Flagstone Bermuda pursuant to which Flagstone Bermuda will survive as a Bermuda exempted company and the successor-in-interest to Flagstone (which we refer to as the first-step merger ), and (2) immediately following the first-step merger, the merger of Flagstone Bermuda with and into Merger Sub pursuant to which Merger Sub will be the surviving company and the successor-in-interest to Flagstone (which we refer to as the second-step merger ). All references in this proxy statement/prospectus to the first-step statutory merger agreement refer to the First-Step Statutory Merger Agreement, dated as of September 27, 2012, between Flagstone and Flagstone Bermuda (a copy of which is attached to this proxy statement/prospectus as Annex B). All references in this proxy statement/prospectus to Flagstone shares refer to the common shares, par value \$0.01 per share, of Flagstone. Unless otherwise indicated or as the context requires, all references in this proxy statement/prospectus to we, our and us refer to Validus and Flagstone collectively. Also, in this proxy statement/prospectus, \$ refers to U.S. dollars.

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**QUESTIONS AND ANSWERS ABOUT THE EXTRAORDINARY  
GENERAL MEETING OF FLAGSTONE SHAREHOLDERS**

The following are some questions that you, as a shareholder of Flagstone, may have regarding the proposals being considered at the extraordinary general meeting and the answers to those questions. Validus and Flagstone urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section does not provide all the information that might be important to you with respect to the proposals being considered at the extraordinary general meeting. Additional important information is also contained in the Annexes to, and the documents incorporated by reference into, this proxy statement/prospectus.

**Q: Why am I receiving this proxy statement/prospectus?**

A: Flagstone entered into a merger agreement with Validus, Merger Sub and Flagstone Bermuda, dated as of August 30, 2012. Pursuant to the merger agreement, Flagstone will first merge with and into Flagstone Bermuda with Flagstone Bermuda surviving, after which Flagstone Bermuda will merge with and into Merger Sub. As a result, immediately following the mergers, the successor-in-interest to Flagstone will be a wholly owned subsidiary of Validus.

In order to complete the mergers, among other things, Flagstone shareholders must approve the merger agreement (a copy of which is attached to this proxy statement/prospectus as Annex A), the first-step merger and the first-step statutory merger agreement (a copy of which is attached to this proxy statement/prospectus as Annex B).

Flagstone will hold an extraordinary general meeting of its shareholders to obtain this approval. This proxy statement/prospectus, including its Annexes, contains and incorporates by reference important information about Validus and Flagstone, the mergers and the extraordinary general meeting. You should read all the available information carefully and in its entirety.

**Q: When and where will the extraordinary general meeting be held?**

A: Flagstone's extraordinary general meeting of shareholders will be held on November 28, 2012, at 2:00 p.m. Central European Time at Hôtel Le Royal Luxembourg, 12 Boulevard Royal, Luxembourg L-2449, Grand Duchy of Luxembourg.

**Q: What are the proposals on which I am being asked to vote?**

A: At the extraordinary general meeting, you will be asked to consider and vote on the following proposals:

1. A proposal to approve the merger agreement (a copy of which is attached to this proxy statement/prospectus as Annex A), the first-step merger and the first-step statutory merger agreement (a copy of which is attached to this proxy statement/prospectus

as Annex B) (which we refer to as the merger proposal ).

2. A non-binding, advisory proposal required by the Dodd-Frank Wall Street Reform and Consumer Protection Act and Section 14A of the Exchange Act to approve the compensation that may be paid or become payable to Flagstone s named executive officers in connection with, or following the completion of, the mergers (this non-binding, advisory proposal relates only to compensation or other arrangements between Flagstone s named executive officers and Flagstone in existence prior to completion of the mergers that may result in a payment to Flagstone s named executive officers in connection with, or following, the completion of the mergers and does not relate to any new compensation or other arrangements between Flagstone s named executive officers and Validus or, following the mergers, the surviving company in the mergers and its

subsidiaries) (which  
we refer to as the  
non-binding  
compensation  
proposal ).

The approval of the merger proposal is required for completion of the mergers. The approval of the non-binding compensation proposal is not required for completion of the mergers.

**Q: What will happen in the mergers?**

A: In the first-step merger, Flagstone will merge with and into Flagstone Bermuda, with Flagstone Bermuda surviving the first-step merger as a Bermuda exempted company. Immediately following the first-step merger, Flagstone Bermuda, as the successor-in-interest to Flagstone, will merge with and into Merger Sub in the second-step merger, with Merger Sub surviving the second-step merger as a Bermuda exempted company. As a result, immediately following the mergers, the successor-in-interest to Flagstone will be a wholly owned subsidiary of Validus.

**Q: What will I receive in the mergers?**

A: Upon the completion of the mergers, each Flagstone shareholder will have the right to receive 0.1935 Validus common shares and \$2.00 in cash (less any applicable withholding taxes and without interest), plus cash in lieu of any fractional Validus common shares they would otherwise be entitled to receive (which we refer to as the merger consideration ) in consideration for each Flagstone share he, she or it holds immediately prior to the mergers. Because the exchange ratio is fixed at 0.1935 Validus common shares for each Flagstone share, the market value of the Validus common shares issued as a portion of the merger consideration will depend upon the market price of Validus common shares at the time the mergers are completed. That price will not be known at the time of the extraordinary general meeting. Based on the closing price of \$36.50 per Validus common share on the NYSE on October 22, 2012, the most recent practicable date prior to the date of this proxy statement/prospectus, the merger consideration per Flagstone share was valued at \$9.06 (consisting of \$2.00 in cash and \$7.06 in Validus common shares). We urge you to obtain current market quotations for Validus common shares and Flagstone shares before voting.

**Q: Will I be taxed on the merger consideration I receive?**

A: Flagstone and Validus intend for each of the first-step merger and the second-step merger to be treated as a reorganization for U.S. federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (which we refer to as the Code ), and completion of the mergers is conditioned on, among other things, Validus and Flagstone receiving tax opinions to this effect from their respective counsel, Skadden, Arps, Slate, Meagher & Flom LLP and Cravath, Swaine & Moore LLP. Assuming the mergers are so treated, for U.S. federal income tax purposes: (1) a U.S. holder of Flagstone shares, upon the exchange of its Flagstone shares for Flagstone Bermuda common shares in the first-step merger, generally will not recognize any gain or loss and (2) a U.S. holder of Flagstone Bermuda common shares, upon the exchange of its Flagstone Bermuda common shares for Validus common shares and cash in the second-step merger, generally will recognize gain (but not loss) in an amount equal to the lesser of (i) the amount of cash received by such U.S. holder in the second-step merger (excluding any cash received in lieu of a fractional Validus common share) and (ii) the excess, if any, of (a) the sum of the cash and the fair market value of the Validus common shares received by such U.S. holder (including the fair market value of any fractional Validus common share deemed received), over (b) the U.S. holder's tax basis in the Flagstone Bermuda common shares exchanged pursuant to the second-step merger. Subject to the passive foreign investment company rules or the potential application of Section 1248 of the Code, any gain recognized upon the exchange generally will be capital gain, unless the receipt of cash by a U.S. holder has the effect of the distribution of a dividend for U.S. federal income tax purposes. For more information, see the section of this proxy statement/prospectus titled *United States Federal Income Tax Consequences of the Mergers*.

**The tax consequences of the mergers to you will depend upon the facts of your particular circumstances. Because individual circumstances may differ, Validus urges you to consult your own tax advisor as to the specific tax consequences of the mergers to you, including the applicability of U.S. federal, state, local, non-U.S. and other tax laws.**



**Q: How does Flagstone's board of directors recommend that Flagstone shareholders vote?**

A: Flagstone's board of directors has unanimously (1) approved the merger agreement and the transactions contemplated by the merger agreement (including the mergers) and (2) determined that it is in the best interests of Flagstone and its shareholders that Flagstone enter into the merger agreement and that the mergers and the terms thereof, together with the other transactions contemplated by the merger agreement and the first-step statutory merger agreement, are fair to, and in the best interests of, Flagstone and its shareholders. **Accordingly, Flagstone's board of directors unanimously recommends that Flagstone shareholders vote FOR both the merger proposal and the non-binding compensation proposal.**

**Q: What percentage of the outstanding Validus common shares will the former Flagstone shareholders own, in the aggregate, after the mergers?**

A: Based on the number of outstanding Validus common shares and Flagstone shares as of October 22, 2012 and the exchange ratio of 0.1935 Validus common shares to be issued for each Flagstone share in the mergers, Validus estimates that former Flagstone shareholders will own, in the aggregate, approximately 12.0% of the issued and outstanding Validus common shares on a pro forma fully-diluted basis immediately following the completion of the mergers. Validus will issue approximately 14,290,388 Validus common shares in the second-step merger.

**Q: Is Validus' financial condition relevant to my decision to vote in favor of the merger proposal?**

A: Yes. Validus' financial condition is relevant to your decision to vote in favor of the merger proposal because the consideration you will receive upon completion of the mergers will consist, in part, of Validus common shares. You should therefore consider Validus' financial condition before you decide to become one of Validus shareholders through the mergers. You should also consider the likely effect that Validus' acquisition of Flagstone will have on Validus' financial condition. This proxy statement/prospectus contains financial information regarding Validus and Flagstone, as well as pro forma financial information (which does not reflect any of the synergies that the parties expect will result from the mergers) for the acquisition of all of the issued and outstanding Flagstone shares by Validus, all of which we encourage you to review carefully.

**Q: Does Validus have the financial resources to complete the mergers?**

A: Validus expects to have sufficient cash on hand to complete the transactions contemplated by the merger agreement, including any cash that may be required to pay fees, expenses and other related amounts. Completion of the mergers is not subject to any financing condition or contingency.

**Q: What constitutes a quorum at the extraordinary general meeting?**

A: Two or more Flagstone shareholders who together hold more than one-half of the total number of Flagstone shares (which includes Flagstone's outstanding and treasury shares) must be present in person or represented by proxy to establish a quorum for the extraordinary general meeting. Abstentions are counted for the purpose of determining the presence of a quorum. If you hold your shares in street name through a broker, bank, trustee or other nominee, broker non-votes (Flagstone shares for which proxies have been returned by a broker, bank, trustee or other nominee indicating that the broker, bank, trustee or other nominee has not received voting instructions from the beneficial owners of the shares and does not have discretionary authority to vote the shares) are not counted for the purpose of determining the presence of a quorum. As a result, whether you hold your shares in street name or directly in your name, failing to submit voting instructions or failing to vote will make it less likely that a quorum at the extraordinary general meeting will be established.

**Q: Who is entitled to vote at the extraordinary general meeting?**

A: Only holders of record of Flagstone shares as of the close of business on October 5, 2012, the record date fixed by Flagstone's board of directors (which we refer to as the record date), are entitled to notice of, and to vote at the extraordinary general meeting and at any adjournment, reconvening or postponement of the meeting.

**Q: What vote is required to approve each proposal?**

A: The approval of the merger proposal requires the affirmative vote of at least three-fourths of the shares present in person or represented by proxy at the extraordinary general meeting. The approval of the non-binding compensation proposal requires the affirmative vote of at least two-thirds of the shares present in person or represented by proxy at the extraordinary general meeting.

**Q: How do I vote?**

A: You may vote either in person at the extraordinary general meeting or by proxy. If your shares are held in street name through a broker, bank, trustee or other nominee, you may vote in person at the extraordinary general meeting only if you obtain a legal proxy from the broker, bank, trustee or other nominee that holds your shares. Whether you hold shares directly in your name or in street name through a broker, bank, trustee or other nominee, you may direct how your shares are voted without attending the extraordinary general meeting. If you hold your shares directly in your name as of the close of business on the record date, you may submit your proxy by promptly signing, dating and returning your proxy card in the enclosed postage-paid envelope or by personal delivery to the registered office of Flagstone. If your shares are held in street name through a broker, bank, trustee or other nominee as of the close of business on the record date, you should submit your voting instructions in accordance with the instructions on the voting instruction form provided to you. Whether you hold your shares in street name or directly in your name, failing to submit voting instructions or failing to vote will have no effect on the vote to approve the merger proposal or the non-binding compensation proposal (assuming a quorum is present).

**Q: Have any Flagstone shareholders already agreed to vote in favor of the merger proposal?**

A: Entities affiliated with Lightyear Capital (which we refer to as Lightyear) and entities affiliated with Trilantic Capital Partners (which we refer to as Trilantic) have entered into voting agreements (which we refer to as voting agreements) pursuant to which those shareholders have agreed to vote all of their respective Flagstone shares (subject to the limitations on voting rights set forth in Section 51A of Flagstone's articles of incorporation, to the extent applicable) in favor of, and to otherwise support, the merger proposal. These entities collectively owned 16,000,000 Flagstone shares, or approximately 22.5% of the Flagstone shares outstanding, as of the close of business on the record date.

**Q: If my shares are held in street name by my broker, bank, trustee or other nominee, will my broker, bank, trustee or other nominee automatically vote my shares for me?**

A: No. If you do not provide your broker, bank, trustee or other nominee through which you hold your shares with voting instructions before the extraordinary general meeting, your shares will be counted as broker non-votes, and will have no effect on the vote to approve the merger proposal or the non-binding compensation proposal (assuming a quorum is present).

**Q: What will happen if I abstain from voting or fail to vote?**

A: Abstaining from voting will have the same effect as voting AGAINST each of the merger proposal and the non-binding compensation proposal. Whether you hold your shares in street name or directly in your name, failing to submit voting instructions or failing to vote will have no effect on the vote to approve the merger proposal or the non-binding compensation proposal (assuming a quorum is present).

**Q: If I am a Flagstone shareholder, should I send in my Flagstone share certificates with my proxy card?**

A: No. Shortly after the mergers are completed, you will receive a letter of transmittal with instructions informing you how to send in your Flagstone share certificates to the exchange agent in order to receive your merger consideration. You should use the letter of transmittal to exchange your share certificates for the merger consideration to which you are entitled as a result of the mergers. **Please do not send in any share certificates with your proxy card.**

**Q: How many votes do I have?**

A: Holders of Flagstone shares are entitled to one vote for each Flagstone share that they own as of the close of business on the record date.

**Q: Can I change my vote after I have returned a proxy or voting instruction card?**

A: Yes. If your shares are held directly in your name, you may change your vote or revoke your proxy in one of the following three ways at any time before your proxy is voted at the extraordinary general meeting:

timely  
delivery of  
written  
notification to  
Flagstone's  
secretary that  
you are  
revoking your  
proxy at  
Flagstone  
Reinsurance  
Holdings,  
S.A., 65,  
Avenue de la  
Gare, 9th  
Floor, L-1611  
Luxembourg,  
Grand Duchy  
of  
Luxembourg;

timely  
submission of  
another proxy  
card with a  
later date; or

voting in  
person at the  
extraordinary  
general  
meeting.

If your shares are held in street name through a broker, bank, trustee or other nominee, you must follow the instructions on the voting instruction form provided to you to change or revoke your previously granted proxy.

**Q: When do you expect the mergers to be completed?**

A: We currently anticipate that the completion of the mergers will occur in the fourth quarter of 2012, following satisfaction or waiver of all conditions to the mergers, including approval of the merger proposal by Flagstone shareholders and the receipt of all regulatory approvals that are required to be obtained under the merger agreement. There can be no assurance, however, that the mergers will be completed on this timetable or at all.

**Q: What happens if the mergers are not completed?**

A: If the merger proposal is not approved by the required number of Flagstone shareholders or if the mergers are not completed for any other reason, Flagstone shareholders will not receive any merger consideration. Instead, Flagstone shareholders will continue to own their Flagstone shares, Flagstone will remain an independent public company and Flagstone shares will continue to be registered under the Exchange Act and traded on the NYSE. If the merger agreement is terminated, under specified circumstances, Flagstone will be required to pay Validus a termination fee of \$24.16 million or a fee in the amount of \$6 million, depending upon the specific reasons for termination, as described in the sections of this proxy statement/prospectus titled *The Merger Agreement Termination* and *The Merger Agreement Effect of Termination; Termination Fee*.

**Q: What happens if I sell my Flagstone shares before the extraordinary general meeting?**

A: The record date for the extraordinary general meeting is earlier than both the date of the extraordinary general meeting and the date that the mergers are expected to be completed. If you transfer your shares after the record date but before the extraordinary general meeting, you will retain your right to vote at the extraordinary general meeting but will have transferred the right to receive the merger consideration upon the completion of the mergers. In order to receive the merger consideration, you must hold your Flagstone shares through the completion of the mergers.

**Q: Are Flagstone shareholders entitled to appraisal rights or dissenters' rights?**

A: No. Flagstone shareholders are not entitled to any appraisal rights or dissenters' rights in connection with the mergers.

**Q: What will be the composition of the board of directors of Validus following the completion of the mergers?**

A: Upon the completion of the mergers, Validus' board of directors will not change and will consist of the directors serving on the board of directors of Validus immediately prior to the completion of the mergers.

**Q: How will Validus be managed after the mergers?**

A: Upon the completion of the mergers, the officers of Validus will be the officers serving Validus immediately prior to the completion of the mergers.

**Q: Why am I being asked to cast a non-binding advisory vote to approve compensation that certain Flagstone executive officers may receive in connection with the mergers?**

A: In accordance with the rules promulgated under Section 14A of the Exchange Act and the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Flagstone is providing its shareholders with the opportunity to cast a non-binding, advisory vote on the compensation that may be paid or become payable to its named executive officers in connection with, or following the completion of, the mergers as described in the table titled *Potential Change of Control Payments to Named Executive Officers* in the section of this proxy statement/prospectus titled *The Mergers Interests of Flagstone's Directors and Executive Officers in the Mergers Quantification of Payments and Benefits*. This non-binding, advisory proposal relates only to compensation or other arrangements between Flagstone's named executive officers and Flagstone in existence prior to completion of the mergers that may result in a payment to Flagstone's named executive officers in connection with, or following, the completion of the mergers and does not relate to any new compensation or other arrangements between Flagstone's named executive officers and Validus or, following the mergers, the surviving company in the mergers and its subsidiaries. Since the vote is advisory in nature only, it will not be binding on Flagstone.

**Q: What will happen if Flagstone shareholders do not approve the non-binding compensation proposal at the extraordinary general meeting?**

A: Because Flagstone is contractually obligated to pay the compensation (subject to the terms of grants thereunder), and because the vote to approve the non-binding compensation proposal is only advisory in nature, the compensation will be paid if the mergers are completed (subject to the terms of grants thereunder), regardless of the outcome of the advisory vote.

**Q: What do I need to do now?**

A: Flagstone urges you to read carefully this proxy statement/prospectus, including its Annexes and the documents incorporated by reference into this proxy statement/prospectus. You also may want to review the documents referenced in the section of this proxy statement/prospectus titled *Where You Can Find More Information* and consult with your accounting, legal and tax advisors. Once you have considered all relevant information, Flagstone encourages you to fill in and return the accompanying proxy card (if you are a shareholder of record) or the voting instruction form you receive from your broker, bank, trustee or other nominee (if you hold your shares in street name through a broker, bank, trustee or other nominee).

**Q: Who can help answer my questions?**

A: If you need assistance in submitting your proxy or voting your shares or need additional copies of this proxy statement/prospectus or the enclosed proxy card, you should contact Okapi Partners LLC at 437 Madison Avenue, 28th Floor, New York, NY 10022, call collect at (212) 297-0720 or call toll-free at (855) 208-8902. If your broker, bank, trustee or other nominee holds your shares, you can also call your broker, bank, trustee or other nominee for additional information.

**Q: Where can I find more information about Validus and Flagstone?**

A: You can find more information about Validus and Flagstone from various sources described in the section of this proxy statement/prospectus titled *Where You Can Find More Information*.

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## SUMMARY

This summary highlights the material information in this proxy statement/prospectus. To more fully understand the merger agreement, and for a more complete description of the terms of the mergers, you should read carefully this entire document, including the Annexes, exhibits and documents incorporated by reference herein, and the other documents referred to herein. For information on how to obtain the documents that are on file with the SEC, see the section of this proxy statement/prospectus titled *Where You Can Find More Information*.

### **The Companies (page 32)**

#### ***Validus Holdings, Ltd.***

Validus Holdings, Ltd. is a Bermuda exempted company with its principal executive offices located at 29 Richmond Road, Pembroke, Bermuda HM 08. The telephone number of Validus is (441) 278-9000. Validus is a provider of reinsurance and insurance, conducting its operations worldwide through two wholly owned subsidiaries, Validus Reinsurance Ltd. and Talbot Holdings Ltd. Validus Reinsurance Ltd. is a Bermuda based reinsurer focused on short-tail lines of reinsurance. Talbot Holdings Ltd. is the Bermuda parent of the specialty insurance group primarily operating within the Lloyd's insurance market through Syndicate 1183. At June 30, 2012, Validus had total shareholders' equity of approximately \$3.5 billion and total assets of approximately \$8.5 billion. Validus common shares are listed on the NYSE under the ticker symbol *VR* and, as of October 22, 2012, the most recent practicable date prior to the date of this proxy statement/prospectus, Validus had a market capitalization of approximately \$3.4 billion. Validus has approximately 490 employees.

#### ***Validus UPS, Ltd.***

Validus UPS, Ltd. was formed as a Bermuda exempted company on August 28, 2012. Merger Sub's principal executive offices are located at 29 Richmond Road, Pembroke, Bermuda HM 08. The telephone number of Merger Sub is (441) 278-9000. Merger Sub is a wholly owned subsidiary of Validus that was formed for the sole purpose of completing the second-step merger. Merger Sub has engaged in no business activities to date and it has no material assets or liabilities of any kind, other than those incident to its formation and those incurred in connection with the merger agreement and the second-step merger.

#### ***Flagstone Reinsurance Holdings, S.A.***

Flagstone Reinsurance Holdings, S.A., through its operating subsidiaries, is a global reinsurance company that employs a focused and technical approach to the property catastrophe, property, and specialty reinsurance businesses. Flagstone is traded on the NYSE under the symbol *FSR*. Flagstone's principal executive offices are located at 65, Avenue de la Gare, L-1611 Luxembourg, Grand Duchy of Luxembourg. The telephone number of Flagstone is +352 273 515 30.

#### ***Flagstone Reinsurance Holdings (Bermuda) Limited***

Flagstone Reinsurance Holdings (Bermuda) Limited is a Bermuda exempted company and a direct wholly owned subsidiary of Flagstone. Flagstone Bermuda was incorporated on May 10, 2012, solely for the purpose of effecting the mergers contemplated by the merger agreement. It has not carried on any activities other than in connection with the mergers. Flagstone Bermuda's principal executive offices are located at 2nd Floor, Wellesley House, 90 Pitts Bay Road, Pembroke, Bermuda HM 08. The telephone number of Flagstone Bermuda is (441) 278-4300.

**Risk Factors (page 22)**

You should carefully consider the risks described in the section of this proxy statement/prospectus titled *Risk Factors* before deciding whether to vote for approval of the merger proposal. These risks include:

risks  
relating to  
the  
mergers;

risks  
relating to  
Flagstone's  
business;

risks  
relating to  
Validus  
business;  
and

risks  
relating to  
Validus  
following  
the  
completion  
of the  
mergers.

**The Mergers (page 38)**

In the first-step merger, Flagstone will merge with and into Flagstone Bermuda, with Flagstone Bermuda surviving as a Bermuda exempted company and the successor-in-interest to Flagstone. Immediately following the first-step merger, Flagstone Bermuda will merge with and into Merger Sub in the second-step merger, with Merger Sub surviving the second-step merger as a Bermuda exempted company. As a result, immediately following the mergers, the successor-in-interest to Flagstone will be a wholly owned subsidiary of Validus.

**Merger Consideration (page 79)**

As a result of the mergers, in consideration for each Flagstone share they hold immediately prior to the mergers, Flagstone shareholders will have the right to receive 0.1935 Validus common shares and \$2.00 in cash (less any applicable withholding taxes and without interest), plus cash in lieu of any fractional Validus common shares they would otherwise be entitled to receive.

**The Merger Agreement (page 78)**

A copy of the merger agreement, which is incorporated by reference herein, is attached to this proxy statement/prospectus as Annex A. We encourage you to read carefully the merger agreement in its entirety. For more information on the merger agreement, see the section of this proxy statement/prospectus titled *The Merger Agreement*.

**The Extraordinary General Meeting (page 33)**

***Date, Time and Place of the Extraordinary General Meeting (page 33)***

The extraordinary general meeting of Flagstone shareholders will be held on November 28, 2012, at 2:00 p.m. Central European Time at Hôtel Le Royal Luxembourg, 12 Boulevard Royal, Luxembourg L-2449, Grand Duchy of Luxembourg.

***Purpose of the Extraordinary General Meeting (page 33)***

At the extraordinary general meeting, Flagstone shareholders will be asked to consider and vote on:

the merger  
proposal,  
which is a  
proposal to  
approve the  
merger  
agreement, the  
first-step  
merger and  
the first-step  
statutory  
merger  
agreement;  
and

the  
non-binding  
compensation  
proposal,  
which is a  
non-binding,  
advisory  
proposal to  
approve the  
compensation  
that may be  
paid or  
become  
payable to  
Flagstone's  
named  
executive  
officers in  
connection  
with, or  
following, the  
completion of  
the mergers.

The approval of the merger proposal is required for completion of the mergers. The approval of the non-binding compensation proposal is not required for completion of the mergers.

***Number of Shares Outstanding, Record Date and Voting Rights (page 34)***

Only holders of record of Flagstone shares as of the close of business on October 5, 2012, the record date for the extraordinary general meeting, are entitled to notice of, and to vote at, the extraordinary general meeting or any adjournment, reconvening or postponement thereof.

***Voting by Flagstone s Directors and Executive Officers (page 34)***

As of the close of business on the record date, approximately 71,058,922 Flagstone shares were issued and outstanding, approximately 25.4% of which were held and entitled to be voted by Flagstone s directors, executive officers and their affiliates. Entities affiliated with Lightyear and Trilantic have agreed to vote their combined holdings of Flagstone shares (subject to the limitations on voting rights set forth in Section 51A of Flagstone s articles of incorporation, to the extent applicable) (representing approximately 22.5% of the issued and outstanding Flagstone shares) in favor of the merger proposal. Flagstone currently expects that Flagstone s directors and executive officers will vote their shares in favor of each of the merger proposal and the non-binding compensation proposal.

***Voting Procedures (page 35)***

The approval of the merger proposal requires the affirmative vote of at least three-fourths of the Flagstone shares present or represented by proxy at the extraordinary general meeting. The approval of the non-binding compensation proposal requires the affirmative vote of at least two-thirds of the Flagstone shares present or represented by proxy at the extraordinary general meeting. If the required quorum of two or more Flagstone shareholders who together hold more than one-half of the total number of Flagstone shares (which includes Flagstone s outstanding and treasury shares) is not present at the extraordinary general meeting, the meeting will be dissolved and a second meeting may be called. In any case, Flagstone s board of directors may adjourn the extraordinary general meeting for four weeks, and must adjourn the meeting for four weeks if Flagstone shareholders representing 20% or more of the total issued and outstanding Flagstone shares direct Flagstone s board of directors to do so.

***Recommendation of Flagstone s Board of Directors (page 45)***

Flagstone s board of directors has unanimously (1) approved the merger agreement and the transactions contemplated by the merger agreement (including the mergers) and (2) determined that it is in the best interests of Flagstone and its shareholders that Flagstone enter into the merger agreement and that the mergers and the terms thereof, together with the other transactions contemplated by the merger agreement and the first-step statutory merger agreement, are fair to, and in the best interests of, Flagstone and its shareholders. **Accordingly, Flagstone s board of directors unanimously recommends that Flagstone shareholders vote FOR the merger proposal. Flagstone s board of directors also unanimously recommends that Flagstone shareholders vote FOR the non-binding compensation proposal.**

For more information regarding the factors considered by Flagstone s board of directors in reaching its decision to approve and authorize the merger agreement, see the section of this proxy statement/prospectus titled *The Mergers Flagstone s Reasons for the Mergers; Recommendation of Flagstone s Board of Directors*.

***Opinion of Flagstone s Financial Advisor (page 49)***

Flagstone s board of directors received an opinion, dated August 29, 2012, from Evercore Group, L.L.C. (which we refer to as Evercore ) to the effect that, as of that date and based upon and subject to assumptions made, matters considered and limitations on the scope of review undertaken by Evercore as set forth in its opinion, the merger consideration to be received by holders of Flagstone shares pursuant to the mergers was fair, from a financial point of view, to such holders. The full text of Evercore s written opinion, which sets forth, among other things, the



procedures followed, assumptions made, matters considered and qualifications and limitations on the scope of review undertaken in rendering its opinion, is attached to this proxy statement/prospectus as Annex C. Evercore's opinion was directed to Flagstone's board of directors and addresses only the fairness, from a financial point of view, of the consideration to be received by holders of Flagstone shares. The opinion does not address any other aspect of the proposed transaction and does not constitute a recommendation to Flagstone's board of directors or to any other persons in respect of the proposed transaction, including to any Flagstone shareholder as to how they should vote or act in respect of the proposed transaction.

**The Voting Agreements (page 99)**

As an inducement for Validus to enter into the merger agreement, Validus entered into voting agreements with entities affiliated with each of Lightyear and Trilantic. Pursuant to the voting agreements, each shareholder party thereto has agreed to vote all of its Flagstone shares (subject to the limitations on voting rights set forth in Section 51A of Flagstone's articles of incorporation, to the extent applicable):

in favor of  
approval of  
the merger  
proposal;

against any  
competing  
proposal for  
Flagstone;

against any  
amendment to  
Flagstone's  
articles of  
incorporation  
or other  
proposal or  
transaction  
involving  
Flagstone or  
any of its  
subsidiaries,  
in each case,  
that would  
reasonably be  
expected to  
materially  
impede,  
interfere with,  
delay,  
postpone or  
adversely  
affect in any  
manner the  
mergers or

change, in  
any manner,  
the voting  
rights of any  
class of  
Flagstone's  
share capital;  
and

at Validus  
request,  
subject to  
certain  
limitations, in  
favor of any  
proposal that  
Flagstone's  
board of  
directors has  
determined is  
reasonably  
necessary to  
facilitate the  
acquisition of  
Flagstone by  
Validus in  
accordance  
with the terms  
of the merger  
agreement.

In addition, each shareholder party to the voting agreements has agreed to vote against any competing proposal for Flagstone for a tail period of 90 days following termination of the merger agreement under certain circumstances. As of the close of business on October 5, 2012, the record date for the extraordinary general meeting, the shareholders party to the voting agreements owned or controlled in the aggregate 16,000,000 Flagstone shares, which represented approximately 22.5% of the outstanding Flagstone shares at that time.

For a more detailed description of the voting agreements, see the section of this proxy statement/prospectus titled *The Voting Agreements*. Copies of the voting agreements are also attached to this proxy statement/prospectus as Annexes D and E, respectively. We encourage you to read carefully the voting agreements in their entirety.

### **Conditions to the Completion of the Mergers (page 93)**

Completion of the mergers is subject to certain customary conditions, including, without limitation:

approval of  
the merger  
proposal by  
Flagstone's  
shareholders;

the receipt of  
required  
approvals  
from  
insurance,  
antitrust and  
other  
regulatory  
authorities,  
including the  
Florida  
Office of  
Insurance  
Regulation,  
the Registrar  
of  
Short-Term  
Insurance in  
South Africa,  
the Bermuda  
Monetary  
Authority, the  
Swiss  
Financial  
Market  
Supervisory  
Authority  
(FINMA), the  
Financial  
Services  
Authority  
(FSA) in the  
United  
Kingdom and  
the  
competition  
authorities in  
Norway,  
South Africa  
and Turkey;

the absence  
of any law,  
regulation,  
order or  
injunction  
prohibiting  
the mergers;

the Validus  
shares to be

issued in the  
second-step  
merger  
having been  
approved for  
listing on the  
NYSE,  
subject to  
official notice  
of issuance;

the registration statement (of which this proxy statement/prospectus forms a part) having been declared effective by the SEC under the Securities Act;

the accuracy of the representations and warranties made by the parties in the merger agreement (subject to Material Adverse Effect and other standards, as applicable);

the performance or compliance in all material respects by the parties of their respective obligations under the merger agreement;

the absence of a Material Adverse Effect on Validus or Flagstone, as applicable;

if triggered by either party, that the other party's book value as of a specified measurement date following the satisfaction of certain conditions to the merger agreement being equal to or greater than 50% of its book value as of December 31, 2011, and on a percentage basis, the decline in such party's book

value between  
December 31, 2011  
and the measurement  
date (if any) being  
not more than 20%  
greater than the  
decline (if any) on a  
percentage basis  
during such period of  
the book value of the  
other party; and

the receipt by each  
company of legal  
opinions regarding  
the qualification of  
the mergers as a  
tax-free  
reorganization for  
United States income  
tax purposes.

Completion of the mergers is not subject to any financing condition or contingency.

At any time prior to the completion of the mergers, the parties may, to the extent legally permissible, waive compliance with any of the conditions contained in the merger agreement, as described in the section of this proxy statement/prospectus titled *The Merger Agreement Amendment or Supplement; Waiver*.

### **Regulatory Approvals (page 73)**

The mergers are subject to review by insurance, antitrust and other regulatory authorities in various jurisdictions. The insurance regulatory authorities pursuant to which Validus has made filings in connection with the mergers are:

the Florida  
Office of  
Insurance  
Regulation;

the Registrar  
of  
Short-Term  
Insurance in  
South  
Africa;

the Bermuda  
Monetary  
Authority;

the Swiss  
Financial

Market  
Supervisory  
Authority  
(FINMA);  
and

the  
Financial  
Services  
Authority  
(FSA) in the  
United  
Kingdom.

Validus has received the approvals from the Bermuda Monetary Authority, the Financial Services Authority (FSA) in the United Kingdom and the Registrar of Short-Term Insurance in South Africa necessary to complete the mergers.

In addition, Validus has made antitrust or competition law filings or notifications in Norway, South Africa and Turkey in connection with the mergers. The Turkish Competition Board has approved the mergers under the Act on the Protection of Competition. In addition, the mergers have been deemed to be automatically cleared under the Norwegian Competition Act of 2004 because the applicable waiting period expired without the Norwegian Competition Authority taking action in respect of the mergers.

For a more detailed description of the regulatory requirements for the mergers, see the section of this proxy statement/prospectus titled *The Mergers Regulatory Approvals*.

**Restrictions on Solicitation of Takeover Proposals by Flagstone; Requirement to Submit to Vote (page 87)**

Flagstone has agreed that neither it nor any of its subsidiaries nor any of the officers and directors of it or its subsidiaries will solicit, initiate or knowingly facilitate or encourage (including by providing non-public information) the submission of any inquiries or requests for non-public information regarding, or the making or consummation of any proposal or offer that constitutes, or

would reasonably be expected to lead to, a competing takeover proposal. Flagstone also has agreed to use reasonable best efforts to ensure that its and its subsidiaries' representatives and affiliates do not take any of these actions.

Flagstone's board of directors does not have the right to terminate the merger agreement to accept a superior proposal. Flagstone's board of directors may withhold or withdraw (or modify or qualify in a manner adverse to Validus) its recommendation that Flagstone shareholders approve the merger proposal under certain circumstances described in the merger agreement. Flagstone must, however, submit the merger proposal to a vote of Flagstone shareholders at the extraordinary general meeting, even if Flagstone's board of directors withholds or withdraws (or modifies or qualifies in a manner adverse to Validus) its recommendation.

For a more detailed description of the restrictions on solicitation of takeover proposals by Flagstone and the ability of Flagstone's board of directors to change its recommendation, see the section of this proxy statement/prospectus titled *The Merger Agreement - No Solicitation; Change in Recommendation*.

### **Termination of the Merger Agreement (page 96)**

Validus and Flagstone may mutually agree to terminate the merger agreement at any time before completing the mergers, even after Flagstone shareholders approve the merger proposal at the extraordinary general meeting.

In addition, either Validus or Flagstone may terminate the merger agreement if:

subject to certain restrictions, the mergers have not been completed on or before March 31, 2013 (which date, subject to extension as described in the section of this proxy statement/prospectus titled *The Merger Agreement Book Value Determination*, we refer to as the "walk-away date");

subject to certain restrictions, any law, regulation, order or injunction prohibiting the mergers is in effect and becomes final and nonappealable;

the approval by Flagstone shareholders of the merger proposal is

not obtained at the extraordinary general meeting;

subject to certain restrictions, the other party has breached any of its representations or warranties or failed to perform any of its covenants or agreements set forth in the merger agreement and such breach or failure is not cured within a prescribed time period; or

the other party's book value as of a specified measurement date following the satisfaction of certain conditions to the merger agreement is not equal to or greater than 50% of its book value as of December 31, 2011, or on a percentage basis, the decline in the other party's book value between December 31, 2011 and the measurement date (if any) is more than 20 percentage points greater than the decline (if any) on a percentage basis during such period of the book value of the other party.

In addition, Validus may terminate the merger agreement if, prior to approval by Flagstone shareholders of the merger proposal, Flagstone's board of directors withholds or withdraws (or modifies or qualifies in a manner adverse to Validus) its recommendation that Flagstone shareholders approve the merger proposal, or if Flagstone willfully and materially breaches its non-solicitation obligations or the obligation to convene the extraordinary general meeting to approve the merger proposal.

For a more detailed description of termination rights under the merger agreement, see the section of this proxy statement/prospectus titled *The Merger Agreement Termination*.

**Effect of Termination; Termination Fee (page 97)**

The merger agreement provides that Validus will be entitled to receive from Flagstone a termination fee of \$24.16 million (which we refer to as the termination fee ) if Validus terminates

the merger agreement due to Flagstone's board of directors having withheld or withdrawn (or modified or qualified in a manner adverse to Validus) its recommendation that Flagstone shareholders approve the merger proposal, or if Flagstone willfully and materially breaches its non-solicitation obligations or the obligation to convene the extraordinary general meeting to approve the merger proposal.

The termination fee is also payable to Validus if Validus or Flagstone terminates the merger agreement because either the required approval of the merger proposal by Flagstone's shareholders is not obtained or the mergers have not been completed on or prior to the walk-away date and both (1) on or following the date of the merger agreement and prior to the extraordinary general meeting (or prior to the termination of the merger agreement if there has been no extraordinary general meeting), a bona fide takeover proposal has been publicly made or proposed or otherwise communicated to Flagstone or any of its subsidiaries or any of their respective representatives and (2) Flagstone enters into a definitive agreement with respect to, or completes, a takeover proposal within twelve months after the termination of the merger agreement.

In addition, if the required approval of the merger proposal by Flagstone's shareholders is not obtained and Validus is not in willful and material breach of any of its representations, warranties, covenants or agreements under the merger agreement at the time Validus or Flagstone terminates the merger agreement, Flagstone will be required to pay to Validus an amount equal to \$6 million. Any subsequent termination fee payable by Flagstone would, however, be reduced by the amount of this payment. For a more detailed description of the effects of termination, see the section of this proxy statement/prospectus titled *The Merger Agreement Effect of Termination; Termination Fee*.

#### **Treatment of Flagstone Restricted Share Unit Awards and Performance Share Unit Awards (page 80)**

Each restricted share unit in respect of Flagstone shares (which we refer to as an RSU) and each performance share unit in respect of Flagstone shares (which we refer to as a PSU) that is outstanding immediately prior to the completion of the first-step merger (whether then vested or unvested) will be converted into a right to receive per share (determined based on the number of Flagstone shares subject to such award immediately prior to the completion of the first-step merger and calculated assuming, in the case of PSUs, attainment of all applicable performance goals at the maximum level for payout) (1) cash in an amount equal to the sum of \$2.00 in cash and the cumulative dividends declared by Flagstone in respect of the shares subject to such award from the beginning of the vesting or performance period for such award, as applicable, through immediately prior to the completion of the first-step merger and (2) a number of fully vested Validus common shares equal to the exchange ratio of 0.1935 multiplied by the number of Flagstone shares subject to such award, provided that the total number of Validus common shares that any holder will be entitled to receive (in respect of the aggregate outstanding awards held by such holder) will be rounded down to the nearest whole Validus common share, with such holder receiving cash in lieu of any fractional Validus common shares (we refer collectively to this consideration in clauses (1) and (2) as the share unit consideration). Upon completion of the mergers, each holder of a PSU that vests pursuant to its terms prior to the completion of the first-step merger will be entitled to receive any additional share unit consideration that such holder would have been entitled to receive had such PSU vested at the maximum level.

In addition, pursuant to the merger agreement, Flagstone has reserved the right, if the mergers have not been completed by December 31, 2012, to grant in the ordinary course up to an aggregate of 140,000 RSUs to its employees, which RSUs will not vest and will not be converted into the right to receive the share unit consideration, in connection with the completion of the mergers. Rather, such RSUs will convert automatically into Validus restricted stock units (which we refer to as Validus RSUs) (with generally the same terms and conditions as the original awards, except that these Validus RSUs will be immediately forfeited if the holder does not remain employed by Validus or any of its affiliates through the date that is 60 days following the completion of the mergers or is terminated pursuant to a notice of termination that is provided to such holder prior to

such date) based on the Flagstone RSU exchange ratio, which is generally (1) the reported closing price of Flagstone shares for the last trading day prior to the completion of the mergers divided by (2) the reported closing price of Validus common shares for the last trading day prior to the completion of the mergers.

**Flagstone Notes and Credit Facilities (page 74)**

Flagstone's obligations with respect to its Junior Subordinated Deferrable Interest Debentures due September 2036 (Dollar and Euro denominated), Junior Subordinated Deferrable Interest Notes due July 2037 and Junior Subordinated Deferrable Interest Notes due September 2037 (which we refer to collectively as the Flagstone Notes) will be assumed by the surviving company in the mergers and become its obligations. The aggregate principal amount outstanding under the Flagstone Notes as of October 22, 2012 was approximately \$250.5 million.

Flagstone also has agreed to use commercially reasonable efforts to cooperate with Validus in connection with any amendments to Flagstone's existing credit facilities that Validus determines are necessary or desirable.

**Interests of Flagstone's Directors and Executive Officers in the Mergers (page 61)**

Certain of Flagstone's directors and executive officers have financial interests in the mergers that are different from, or are in addition to, the interests of Flagstone's shareholders generally. Flagstone's board of directors was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the mergers, and in recommending to Flagstone shareholders that they approve the merger proposal.

The interests of Flagstone's non-employee directors include, among other things, the right to receive the share unit consideration with respect to the directors' RSUs.

The interests of Flagstone's executive officers include the rights to:

accelerated vesting and receipt of the share unit consideration with respect to the executive officers' PSUs, calculated assuming attainment of all applicable performance goals at the maximum level;

with respect to Flagstone's executive officers other

than William Fawcett, General Counsel and Secretary of Flagstone, and Brenton Slade, Chief Marketing Officer of Flagstone, certain contractual severance payments in the event of a qualifying termination of employment following the mergers;

with respect to Messrs. Brown, Fawcett, Slade and David Flitman, Executive Director of Global Property Underwriting of Flagstone and Guy Swayne, Executive Vice President - Flagstone Bermuda, certain statutory severance payments in the event of a termination of employment following the mergers;

continued employment during a specified notice period following termination of employment or, with respect to Flagstone's executive officers other than Patrick Boisvert, Chief Financial Officer of Flagstone, and Frédéric Traimond, Chief Operating Officer of Flagstone, payment of base salary in lieu of such notice;

accelerated payment of the executive officer's guaranteed minimum 2012 bonus in the event of a qualifying termination of employment following the mergers and prior to December 31, 2012; and

solely with respect to Mr. Brown, the

Flagstone  
share  
purchase  
warrant  
(which we  
refer to as the  
Leyton  
Limited  
Warrant ) held  
by Leyton  
Limited, an  
affiliate of  
Mr. Brown,  
for 630,194  
Flagstone  
shares, which,  
pursuant to  
the merger  
agreement,  
will be  
amended at  
the effective  
time of the  
second-step  
merger such  
that, upon  
payment  
during the  
exercise  
period (which  
runs from  
December 1,  
2013 to  
December 31,  
2013) of the  
exercise price  
as of the  
completion of  
the mergers,  
subject to  
adjustments  
(if any)  
pursuant to  
the terms of  
the Leyton  
Limited  
Warrant, the  
Leyton  
Limited  
Warrant will  
be converted

into the right  
to

receive the \$2.00 in cash and 0.1935 Validus common shares, on a per share basis for each of the Flagstone shares subject to the Leyton Limited Warrant (the Leyton Limited Warrant will have value during the exercise period only if the value of the merger consideration during the exercise period is greater than the Leyton Limited Warrant's exercise price, which, as of the date of this proxy statement/prospectus, is \$13.96 per Flagstone share).

Flagstone's board of directors and executive officers also have the right to indemnification and insurance coverage that will survive the completion of the mergers.

In addition, Validus has agreed to the terms of separation agreements to be effective upon completion of the mergers with each of Messrs. Boisvert and Traimond, pursuant to which each executive will remain employed by Flagstone Réassurance Suisse SA through July 31, 2013. Upon termination from Flagstone Réassurance Suisse SA on or prior to July 31, 2013, Messrs. Boisvert and Traimond will be entitled to certain payments in addition to those provided for under their existing employment agreements with Flagstone Réassurance Suisse SA.

See the section of this proxy statement/prospectus titled *The Mergers Interests of Flagstone's Directors and Executive Officers in the Mergers* for additional information about these interests.

### **Dividends and Distributions (page 75)**

Each of Validus and Flagstone has historically paid a quarterly cash dividend or distribution to their respective shareholders (\$0.25 per common share in the case of Validus and \$0.04 per share in the case of Flagstone). Under the terms of the merger agreement, prior to the completion of the mergers, Validus and Flagstone are permitted to continue to declare and pay ordinary course quarterly dividends or distributions at no more than the amounts specified above and, in the case of Flagstone, with record and payment dates consistent with past practice as agreed between Flagstone and Validus.

### **Accounting Treatment (page 71)**

Validus will account for the acquisition of Flagstone shares pursuant to the mergers under the acquisition method of accounting in accordance with Accounting Standards Codification Topic 805, Business Combinations, (which we refer to as ASC 805), under which the total consideration paid in the second-step merger will be allocated among acquired assets and assumed liabilities based on the fair values of the assets acquired and liabilities assumed. Validus anticipates that the acquisition will result in an excess of the fair values of the acquired assets and liabilities assumed

over the total consideration paid. In the event there is an excess of the total consideration paid in the second-step merger over the fair values of the assets acquired and liability assumed, the excess will be accounted for as goodwill.

Intangible assets with definite lives will be amortized over their estimated useful lives. Goodwill resulting from the second-step merger will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that the management of Validus determines that the value of goodwill has become impaired, an accounting charge will be taken in the fiscal quarter in which such determination is made. In the event there is an excess of the fair values of the assets acquired and liabilities assumed over the total consideration paid in the second-step merger, the excess will be accounted for as a gain to be recognized through the income statement at the close of the transaction, in accordance with ASC 805.

**United States Federal Income Tax Consequences of the Mergers (page 132)**

Flagstone and Validus intend for each of the first-step merger and the second-step merger to be treated as a reorganization for U.S. federal income tax purposes within the meaning of Section 368(a) of the Code, and completion of the mergers is conditioned on, among other things, Validus and Flagstone receiving tax opinions to this effect from their respective counsel, Skadden, Arps, Slate, Meagher & Flom LLP and Cravath, Swaine & Moore LLP. Assuming the mergers are so treated, for U.S. federal income tax purposes: (1) a U.S. holder of Flagstone shares, upon the

exchange of its Flagstone shares for Flagstone Bermuda common shares in the first-step merger, generally will not recognize any gain or loss and (2) a U.S. holder of Flagstone Bermuda common shares, upon the exchange of its Flagstone Bermuda common shares for Validus common shares and cash in the second-step merger, generally will recognize gain (but not loss) in an amount equal to the lesser of (i) the amount of cash received by such U.S. holder in the second-step merger (excluding any cash received in lieu of a fractional Validus common share) and (ii) the excess, if any, of (a) the sum of the cash and the fair market value of the Validus common shares received by such U.S. holder (including the fair market value of any fractional Validus common share deemed received), over (b) the U.S. holder's tax basis in the Flagstone Bermuda common shares exchanged pursuant to the second-step merger. Subject to the passive foreign investment company rules or the potential application of Section 1248 of the Code, any gain recognized upon the exchange generally will be capital gain, unless the receipt of cash by a U.S. holder has the effect of the distribution of a dividend for U.S. federal income tax purposes. For more information, see the section of this proxy statement/prospectus titled *United States Federal Income Tax Consequences of the Mergers*.

**The tax consequences of the mergers to you will depend upon the facts of your particular circumstances. Because individual circumstances may differ, Validus urges you to consult your own tax advisor as to the specific tax consequences of the mergers to you, including the applicability of U.S. federal, state, local, non-U.S. and other tax laws.**

#### **Listing of Validus Common Shares (page 74)**

Validus will submit the necessary applications to cause the Validus common shares to be issued as a portion of the merger consideration to be authorized for listing on the NYSE, subject to official notice of issuance. Approval of this listing is a condition to the completion of the mergers.

#### **Comparison of Shareholders' Rights (page 112)**

You will receive Validus common shares as a portion of the merger consideration. Because Validus is incorporated under Bermuda law and Flagstone is incorporated under Luxembourg law, there are a number of differences between the rights of a shareholder of Flagstone and the rights of a shareholder of Validus. We encourage you to review the discussion in the section of this proxy statement/prospectus titled *Comparison of Shareholders' Rights*.

#### **Appraisal Rights and Dissenters' Rights (page 37)**

Flagstone shareholders are not entitled to any appraisal rights or dissenters' rights in connection with the mergers.

**Selected Historical Consolidated Financial Data of Validus**

Set forth below is certain selected historical consolidated financial data relating to Validus. The financial data as of December 31, 2011 and 2010 and for the fiscal years ended December 31, 2011, 2010 and 2009 has been derived from Validus' audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011 incorporated by reference in this proxy statement/prospectus. The financial data as of June 30, 2012 and for the six months ended June 30, 2012 and 2011 has been derived from Validus' unaudited consolidated financial statements included in Validus' Quarterly Report on Form 10-Q for the six months ended June 30, 2012, incorporated by reference in this proxy statement/prospectus. The financial data as of December 31, 2009, 2008 and 2007, and as of June 30, 2011 and for the years ended December 31, 2008 and 2007 has been derived from financial data not included in the consolidated financial statements incorporated by reference in this proxy statement/prospectus. You should not take historical results as necessarily indicative of the results that may be expected for any future period.

You should read carefully the following summary consolidated financial information together with the other information contained in Validus' Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and Validus' Quarterly Report on Form 10-Q for the six months ended June 30, 2012, including Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes therein. See the section of this proxy statement/prospectus titled *Where You Can Find More Information*.

The following table sets forth summarized operational data for the periods ended December 31, 2011, 2010, 2009, 2008 and 2007 and June 30, 2012 and 2011:

|  | Six Months<br>Ended June 30,<br>unaudited |              | Year Ended December |              |              |
|--|---|--------------|---------------------|--------------|--------------|
|  | 2012                                      | 2011         | 2011                | 2010         | 2009         |
| (Dollars in thousands, except share and per share amounts) |   |              |                     |              |              |
| <b>Revenues</b>  |   |              |                     |              |              |
| Gross premiums written                                     | \$ 1,464,378                              | \$ 1,455,283 | \$ 2,124,691        | \$ 1,990,566 | \$ 1,621,241 |
| Reinsurance premiums ceded                                 | (226,104 )                                | (242,166 )   | (289,241 )          | (229,482 )   | (232,883 )   |
| Net premiums written                                       | 1,238,274                                 | 1,213,117    | 1,835,450           | 1,761,084    | 1,388,358    |
| Change in unearned premiums                                | (339,448 )                                | (357,944 )   | (33,307 )           | 39           | 61,219       |
| Net premiums earned  | 898,826                                   | 855,173      | 1,802,143           | 1,761,123    | 1,449,577    |
| Gain on bargain purchase, net                              |   |              |                     |              | 287,099      |

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|   |           |          |           |           |           |
|---|-----------|----------|-----------|-----------|-----------|
| of expenses <sup>(1)</sup>                                  |           |          |           |           |           |
| Net investment income                                       | 53,645    | 56,469   | 112,296   | 134,103   | 118,773   |
| Realized gain on repurchase of debentures                   |           |          |           |           | 4,444     |
| Net realized gains (losses) on investments                  | 13,686    | 17,931   | 28,532    | 32,498    | (11,543)  |
| Net unrealized (losses) gains on investments <sup>(2)</sup> | (32,903 ) | 5,698    | (19,991 ) | 45,952    | 84,796    |
| (Loss) from investment affiliate                            | (398 )    |          |           |           |           |
| Other income  | 14,885    | 2,201    | 5,718     | 5,219     | 4,634     |
| Foreign exchange (losses) gains                             | 2,514     | (2,458 ) | (22,124 ) | 1,351     | (674)     |
| <b>Total revenues</b>                                       | 950,255   | 935,014  | 1,906,574 | 1,980,246 | 1,937,106 |
| <b>Expenses</b>   |           |          |           |           |           |
| Losses and loss expenses                                    | 385,681   | 683,505  | 1,244,401 | 987,586   | 523,757   |
| Policy acquisition costs                                    | 154,261   | 155,526  | 314,184   | 292,899   | 262,966   |
| General and administrative expenses <sup>(3)</sup>          | 128,010   | 109,318  | 197,497   | 209,290   | 185,568   |
| Share compensation expenses                                 | 12,238    | 19,677   | 34,296    | 28,911    | 27,037    |
| Finance expenses  | 29,985    | 30,362   | 54,817    | 55,870    | 44,130    |
| Fair value of warrants issued                               |           |          |           |           |           |
| Transaction expenses <sup>(4)</sup>                         |           |          | 17,433    |           |           |
| <b>Total expenses</b>                                       | 710,175   | 998,388  | 1,862,628 | 1,574,556 | 1,043,458 |



|  | Six Months<br>Ended June 30,<br>unaudited               |              | Year      |            |
|--|---|--------------|-----------|------------|
|  | 2012  | 2011         | 2011      | 2010       |
|  | (Dollars in thousands, except share and per share data) |              |           |            |
| <b>Net income (loss) before taxes and income from operating affiliates</b> | \$ 240,080  | \$ (63,374 ) | \$ 43,946 | \$ 405,690 |
| Tax (expense) benefit  | (543 )  | 1,488        | (824 )    | (3,126 )   |
| Income from operating affiliates   | 6,959   |              |           |            |
| <b>Net income (loss)</b>   | \$ 246,496  | \$ (61,886 ) | \$ 43,122 | \$ 402,564 |
| Net income (loss) available (attributable) to noncontrolling interest      | 45,360  | (594 )       | (21,793 ) |            |
| <b>Net income (loss) available (attributable) to Validus</b>               | \$ 291,856  | \$ (62,480 ) | \$ 21,329 | \$ 402,564 |
| <b>Other comprehensive income (loss)</b>                                   |   |              |           |            |
| Foreign currency translation adjustments                                   | 636   | 936          | (1,146 )  | (604 )     |
| <b>Other comprehensive income (loss)</b>                                   | 636   | 936          | (1,146 )  | (604 )     |
| <b>Comprehensive income (loss) available</b>                               | \$ 292,492  | \$ (61,544 ) | \$ 20,183 | \$ 401,960 |

**(attributable)  
to Validus****Earnings per  
share<sup>(5)</sup>**Weighted  
average number  
of common  
shares and  
common share  
equivalents  
outstanding

|         |             |            |             |             |
|---------|-------------|------------|-------------|-------------|
| Basic   | 98,839,663  | 98,165,132 | 98,607,439  | 116,018,364 |
| Diluted | 104,382,030 | 98,165,132 | 100,928,284 | 120,630,945 |

Basic earnings  
(loss) per share  
available  
(attributable) to  
common  
shareholders

|    |      |    |         |    |      |    |      |
|----|------|----|---------|----|------|----|------|
| \$ | 2.92 | \$ | (0.68 ) | \$ | 0.14 | \$ | 3.41 |
|----|------|----|---------|----|------|----|------|

Diluted earnings  
(loss) per share  
available  
(attributable) to  
common  
shareholders

|    |      |    |         |    |      |    |      |
|----|------|----|---------|----|------|----|------|
| \$ | 2.80 | \$ | (0.68 ) | \$ | 0.14 | \$ | 3.34 |
|----|------|----|---------|----|------|----|------|

Cash dividends  
declared per  
share

|    |      |    |      |    |      |    |      |
|----|------|----|------|----|------|----|------|
| \$ | 0.50 | \$ | 0.50 | \$ | 1.00 | \$ | 0.88 |
|----|------|----|------|----|------|----|------|

**Selected  
financial ratios**Losses and loss  
expenses ratio<sup>(6)</sup>

|        |        |        |        |
|--------|--------|--------|--------|
| 42.9 % | 79.9 % | 69.1 % | 56.1 % |
|--------|--------|--------|--------|

Policy  
acquisition costs  
ratio<sup>(7)</sup>

|        |        |        |        |
|--------|--------|--------|--------|
| 17.2 % | 18.2 % | 17.4 % | 16.6 % |
|--------|--------|--------|--------|

General and  
administrative  
expenses ratio<sup>(8)</sup>

|        |        |        |        |
|--------|--------|--------|--------|
| 15.6 % | 15.1 % | 12.9 % | 13.5 % |
|--------|--------|--------|--------|

Expense ratio<sup>(9)</sup>

|        |        |        |        |
|--------|--------|--------|--------|
| 32.8 % | 33.3 % | 30.3 % | 30.1 % |
|--------|--------|--------|--------|

Combined  
ratio<sup>(10)</sup>

|        |         |        |        |
|--------|---------|--------|--------|
| 75.7 % | 113.2 % | 99.4 % | 86.2 % |
|--------|---------|--------|--------|

Annualized  
return on  
average  
equity<sup>(11)</sup>

16.7 %

(3.7 )%

0.6 %

10.8 %

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The following table sets forth summarized balance sheet data as of December 31, 2011, 2010, 2009, 2008 and 2007 and June 30, 2012 and 2011:

|  | As of June 30,<br>unaudited |              | As of December 31, |              |              |              |
|--|-----------------------------|--------------|--------------------|--------------|--------------|--------------|
|  | 2012                        | 2011         | 2011               | 2010         | 2009         | 2008         |
| (Dollars in thousands, except share and per share amounts) |                             |              |                    |              |              |              |
| <b>Summary Balance Sheet Data:</b>                         |                             |              |                    |              |              |              |
| Investments at fair value                                  | \$ 5,546,620                | \$ 5,347,538 | \$ 5,191,123       | \$ 5,118,859 | \$ 5,388,759 | \$ 2,900,000 |
| Cash and cash equivalents                                  | 903,310                     | 815,921      | 832,844            | 620,740      | 387,585      | 4,000,000    |
| Total assets   | 8,499,568                   | 8,259,788    | 7,618,471          | 7,060,878    | 7,019,140    | 4,300,000    |
| Reserve for losses and loss expenses                       | 2,591,299                   | 2,620,360    | 2,631,143          | 2,035,973    | 1,622,134    | 1,500,000    |
| Unearned premiums  | 1,196,836                   | 1,192,772    | 772,382            | 728,516      | 724,104      | 500,000      |
| Senior notes payable                                       | 247,036                     | 246,928      | 246,982            | 246,874      |              |              |
| Debentures payable   | 289,800                     | 289,800      | 289,800            | 289,800      | 289,800      | 300,000      |
| Total liabilities  | 4,616,994                   | 4,716,576    | 4,170,046          | 3,556,047    | 2,988,020    | 2,300,000    |
| Total shareholders equity                                  | 3,477,834                   | 3,408,317    | 3,448,425          | 3,504,831    | 4,031,120    | 1,900,000    |
| Book value per common share <sup>(12)</sup>                | 37.23                       | 34.51        | 34.67              | 35.76        | 31.38        |              |
| Diluted book value per common share <sup>(13)</sup>        | 34.43                       | 31.91        | 32.28              | 32.98        | 29.68        |              |

(1) The gain on bargain purchase, net of expenses, arises from the

acquisition of IPC Holdings, Ltd. on September 4, 2009 and is net of transaction related expenses.

- (2) During the first quarter of 2007, Validus adopted authoritative guidance on Fair Value Measurements and Disclosures and Financial Instruments and elected the fair value option on all securities previously accounted for as available-for-sale. Unrealized gains and losses on available-for-sale investments at December 31, 2006 of \$875,000, previously included in accumulated other comprehensive income, were treated as a cumulative-effect adjustment as of January 1, 2007. The cumulative-effect adjustment transferred the balance of unrealized gains and losses from accumulated other comprehensive income to retained earnings and has no impact on the results of

operations for the annual or interim periods beginning January 1, 2007.

Validus investments were accounted for as trading for the annual or interim periods beginning January 1, 2007 and as such all unrealized gains and losses are included in net income.

- (3) General and administrative expenses for the year ended December 31, 2007 include \$4,000,000 related to our advisory agreement with Aquiline Capital Partners, LLC (which, together with its related companies, we refer to as Aquiline ). Our advisory agreement with Aquiline terminated upon completion of our initial public offering, in connection with which Validus recorded general and administrative expense of \$3,000,000 in the third quarter of the year ended December 31, 2007.

- (4) The transaction expenses relate to cost incurred in connection with Validus terminated acquisition proposal to acquire Transatlantic Holdings, Inc. Transaction expenses are primarily comprised of legal, financial advisory and audit related services.
- (5) U.S. GAAP fair value recognition provisions for *Stock Compensation* require that any unrecognized stock based compensation expense that will be recorded in future periods be included as proceeds for purposes of treasury stock repurchases, which is applied against the unvested restricted shares balance. On March 1, 2007, we effected a 1.75 for one reverse stock split of outstanding Validus common shares. The stock split does not affect our financial statements other

than to the extent it decreases the number of outstanding shares and correspondingly increases per share information for all periods presented. The share consolidation has been reflected retroactively in this financial data.

- (6) The losses and loss expense ratio is calculated by dividing losses and loss expenses by net premiums earned.
- (7) The policy acquisition cost ratio is calculated by dividing policy acquisition costs by net premiums earned.
- (8) The general and administrative expense ratio is calculated by dividing the sum of general and administrative expenses and share compensation expenses by net premiums earned. The general

and administrative expense ratio for the year ended December 31, 2007 is calculated by dividing the total of general and administrative expenses plus share compensation expenses less the \$3,000,000 termination fee payable to Aquiline by net premiums earned.

- (9) The expense ratio is calculated by combining the policy acquisition cost ratio and the general and administrative expense ratio.
- (10) The combined ratio is calculated by combining the losses and loss expense ratio, the policy acquisition cost ratio and the general and administrative expense ratio.
- (11) Return on average equity is calculated by dividing the net income for the period by the average shareholders equity during the period. Quarterly average shareholders equity is the average of the beginning and ending shareholders equity balances. Annual average shareholders equity

is the average of the beginning, ending and intervening quarter-end shareholders' equity balances.

(12) Book value per common share is defined as total shareholders' equity available to Validus divided by the number of common shares outstanding as at the end of the period, giving no effect to dilutive securities.

(13) Diluted book value per common share is calculated based on total shareholders' equity available to Validus plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of Validus common shares, unvested restricted shares, options and warrants outstanding (assuming their exercise). Diluted book value per common share is a non-GAAP financial measure as described under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Measures, in Validus' Annual

Report on Form  
10-K for the year  
ended December 31,  
2011.

**Selected Historical Consolidated Financial Data of Flagstone**

The selected statement of operations data for the years ended December 31, 2011, 2010 and 2009 and the selected balance sheet data as of December 31, 2011 and 2010 have been derived from the audited consolidated financial statements of Flagstone contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which are incorporated into this proxy statement/prospectus by reference. The selected statement of operations data for the years ended December 31, 2008 and 2007 and balance sheet data as of December 31, 2009, 2008 and 2007 have been derived from Flagstone's audited consolidated financial statements for such periods, which have not been incorporated into this proxy statement/prospectus by reference and have been prepared in accordance with U.S. generally accepted accounting principles.

The selected statement of operations data for the six months ended June 30, 2012 and 2011, and the selected balance sheet data as of June 30, 2012, have been derived from Flagstone's unaudited interim consolidated financial statements contained in its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, which are incorporated into this proxy statement/prospectus by reference. The selected balance sheet data as of June 30, 2011 has been derived from Flagstone's unaudited consolidated financial statements for such period, which have not been incorporated into this proxy statement/prospectus by reference. These financial statements are unaudited, but, in the opinion of Flagstone's management, contain all adjustments necessary to present fairly Flagstone's financial position and results of operations for the periods indicated.

You should not take historical results as necessarily indicative of the results that may be expected for any future period. You should read this selected historical consolidated financial data together with the financial statements that are incorporated by reference into this proxy statement/prospectus and their accompanying notes and management's discussion and analysis of financial condition and results of operations of Flagstone contained in such reports. See the section of this proxy statement/prospectus titled *Where You Can Find More Information*.

The following table sets forth summarized financial data for the periods ended December 31, 2011, 2010, 2009, 2008 and 2007 and June 30, 2012 and 2011:

|  | Six Months<br>Ended June 30, |              | Years Ended December 31, |            |            |    |
|--|------------------------------|--------------|--------------------------|------------|------------|----|
|  | 2012                         | 2011         | 2011                     | 2010       | 2009       |    |
| (All amounts are expressed in thousands of U.S. dollars, except share amounts and per share amounts) |                              |              |                          |            |            |    |
| <b>Summary Statement of Operations Data<sup>(1)</sup>:</b>   |                              |              |                          |            |            |    |
| Net premiums written   | \$ 250,194                   | \$ 453,644   | \$ 558,432               | \$ 668,729 | \$ 617,513 | \$ |
| Net (loss) income attributable to Flagstone  | \$ 52,675                    | \$ (181,430) | \$ (326,133)             | \$ 97,084  | \$ 242,192 | \$ |
| Net (loss) income per share outstanding Basic  | \$ 0.74                      | \$ (2.60)    | \$ (4.65)                | \$ 1.23    | \$ 2.87    | \$ |
| Distributions declared per   | \$ 0.08                      | \$ 0.08      | \$ 0.16                  | \$ 0.16    | \$ 0.16    | \$ |

share<sup>(2)</sup>

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|  | As at June 30, |                     |              |              | As at December 31, |              |              |
|--|----------------|---------------------|--------------|--------------|--------------------|--------------|--------------|
|  | 2012           | 2011 <sup>(3)</sup> | 2011         | 2010         | 2009               | 2008         | 2007         |
| <b>Summary Balance Sheet Data<sup>(1)</sup>:</b>                 |                |                     |              |              |                    |              |              |
| Total investments, cash and cash equivalents and restricted cash | \$ 1,377,090   | \$ 1,642,617        | \$ 1,541,547 | \$ 1,824,778 | \$ 1,841,342       | \$ 1,841,342 | \$ 1,841,342 |
| Total assets   | \$ 2,574,026   | \$ 3,296,073        | \$ 2,778,496 | \$ 2,770,277 | \$ 2,614,173       | \$ 2,614,173 | \$ 2,614,173 |
| Loss and loss adjustment expense reserves                        | \$ 682,329     | \$ 877,090          | \$ 897,368   | \$ 583,267   | \$ 436,192         | \$ 436,192   | \$ 436,192   |
| Long term debt   | \$ 250,202     | \$ 252,602          | \$ 250,575   | \$ 251,122   | \$ 252,402         | \$ 252,402   | \$ 252,402   |
| Shareholders equity  | \$ 836,660     | \$ 946,904          | \$ 789,048   | \$ 1,134,733 | \$ 1,211,018       | \$ 1,211,018 | \$ 1,211,018 |

(1) As described in Flagstone's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, Flagstone announced on October 24, 2011 its plan to undertake a number of strategic initiatives to realign its strategy and core capabilities. As a result of this realignment,

Flagstone commenced a formal process to divest its ownership positions in its Lloyd's and Island Heritage operations. Flagstone has classified the assets and liabilities associated with these operations as held for sale. Except for each of net (loss) income attributable to Flagstone and net (loss) income per share outstanding Basic, the financial results of these operations have been presented in Flagstone's consolidated financial statements as discontinued operations for all periods presented, and have therefore not been included in the selected historical consolidated financial data of Flagstone, which relate only to Flagstone's continuing operations. The Island Heritage transaction was completed on April 5, 2012 and resulted in a gain on disposal of

approximately \$4.5 million, which was reflected in the net income attributable to Flagstone for the six months ended June 30, 2012. The Lloyd's transaction was completed on August 20, 2012 and Flagstone expects to record a small gain on disposal in its financial results during the three month period ending September 30, 2012.

- (2) Distributions declared per share are in the form of a non-dividend return of capital. Prior to Flagstone's redomestication to Luxembourg on May 17, 2010, such distributions were in the form of dividends.
- (3) As indicated in note (1) above, unless otherwise noted, the prior periods, including the summarized balance sheet data as of June 30, 2011, have been reclassified to include only Flagstone's continuing

operations. This information was included as part of Flagstone's Investor Financial Supplement relating to its financial results for the quarter ended June 30, 2012, which was attached as Exhibit 99.2 to the Current Report on Form 8-K furnished by Flagstone to the SEC on August 7, 2012.

### Selected Unaudited Condensed Consolidated Pro Forma Financial Information

The following tables set forth selected unaudited condensed consolidated pro forma financial information for the six months ended June 30, 2012 and the year ended December 31, 2011 to provide you with information about how the proposed transactions might have affected the historical financial statements of Validus if they had been completed at those times. The following selected unaudited condensed consolidated pro forma financial information does not necessarily reflect the financial position or results of operations that actually would have resulted had the proposed transactions occurred as of the dates indicated, nor should it be taken as necessarily indicative of the future financial position or results of operations of Validus. The adjustments and assumptions reflected in the pro forma financial information are discussed in the section of this proxy statement/prospectus titled *Unaudited Condensed Consolidated Pro Forma Financial Information*.

The selected unaudited condensed consolidated pro forma financial information is for illustrative purposes only, has been prepared by Validus management, after discussion with Flagstone's management, and is based on the historical consolidated financial statements of both Validus and Flagstone. The following should be read in conjunction with the section of this proxy statement/prospectus titled *Unaudited Condensed Consolidated Pro Forma Financial Information*, and with other information included in or incorporated by reference into this proxy statement/prospectus and filed with the SEC, including Validus Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, Validus Annual Report on Form 10-K for the year ended December 31, 2011, Flagstone's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and Flagstone's Annual Report on Form 10-K for the year ended December 31, 2011, each of which are filed with the SEC and incorporated by reference herein.

The pro forma purchase adjustments reflected in the selected unaudited condensed consolidated pro forma financial information are based on certain estimates and assumptions made as of the date of the unaudited condensed consolidated pro forma financial information. The actual adjustments will depend on a number of factors, including further review of Flagstone's books and records, and changes in the estimated fair value of net balance sheet assets and operating results of Flagstone between June 30, 2012 and the date of the completion of the mergers. Validus expects to make these adjustments upon the completion of the mergers. These adjustments are likely to be different from the adjustments made to prepare the unaudited condensed consolidated pro forma financial information and these differences may be material.

This pro forma information is subject to risks and uncertainties, including those discussed in the sections of this proxy statement/prospectus titled *Risk Factors* and *Special Note Concerning Forward-Looking Statements*.

The following table sets forth summarized pro forma statement of operations data for the six months ended June 30, 2012 and the year ended December 31, 2011:

|                             | <b>Six Months<br/>Ended June 30,<br/>2012</b>                         | <b>Year Ended<br/>December 31, 2011</b> |
|-----------------------------|---|---|
|                             | <b>(Dollars in thousands, except share and<br/>per share amounts)</b> |   |
| <b>Revenues</b>             |   |   |
| Gross premiums written      | \$ 1,805,756  | \$ 2,914,388                            |
| Reinsurance premiums ceded  | (317,288 )  | (520,506 )                              |
| Net premiums written        | 1,488,468   | 2,393,882                               |
| Change in unearned premiums | (373,398 )  | (20,261 )                               |

|   |                  |                  |
|---|------------------|------------------|
| Net premiums earned                     | 1,115,070        | 2,373,621        |
| Net investment income                   | 61,136           | 143,450          |
| Net realized gains on investments       | 37,154           | 7,762            |
| Net unrealized losses on investments    | (32,903 )        | (19,991 )        |
| Net realized and unrealized gains other | 1,393            | 2,494            |
| Loss from investment affiliate          | (398 )           |                  |
| Other income                            | 19,242           | 11,152           |
| Foreign exchange gains (losses)         | 1,637            | (26,605 )        |
| <b>Total revenues</b>                   | <b>1,203,331</b> | <b>2,491,883</b> |

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|  | <b>Six Months<br/>Ended June 30, 2012</b> | <b>Year Ended<br/>December 31, 2011</b> |
|--|---|---|
|--|---|---|

(Dollars in thousands, except share and per share amounts)

| <b>Expenses</b>   |                |                   |
|---|----------------|-------------------|
| Losses and loss expenses  | \$ 507,613     | \$ 1,920,936      |
| Policy acquisition costs  | 199,027        | 429,509           |
| General and administrative expenses   | 166,453        | 282,183           |
| Share compensation expenses   | 14,477         | 35,427            |
| Transaction expenses  |                | 17,433            |
| Finance expenses  | 35,908         | 66,485            |
| <b>Total expenses</b>   | <b>923,478</b> | <b>2,751,973</b>  |
| <b>Net income (loss) before taxes</b>   | <b>278,853</b> | <b>(260,090 )</b> |
| Tax benefit (expense)   | (856 )         | (773 )            |
| Income (loss) from operating affiliates   | 7,247          | (922 )            |
| <b>Net income (loss) from continuing operations</b>                               | <b>285,244</b> | <b>(261,785 )</b> |
| Net income (loss) from discontinued operations                                    | 13,620         | (21,662 )         |
| <b>Net income (loss)</b>  | <b>298,864</b> | <b>(283,447 )</b> |
| Net income (loss) available (attributable) to noncontrolling interest             | 44,225         | (24,515 )         |
| Net income (loss) available (attributable) to Validus                             | \$ 343,089     | \$ (307,962 )     |
| <b>Comprehensive (loss) income</b>  |                |                   |
| Foreign currency translation adjustments, net of tax                              | 5,173          | (7,988 )          |
| Change in defined benefit pension plan obligation                                 | (208 )         | 436               |
| Comprehensive income (loss) available (attributable) to Validus                   | \$ 348,054     | \$ (315,514 )     |
| <b>Earnings per share</b>   |                |                   |
| Weighted average number of common shares and common share equivalents outstanding |                |                   |
| Basic   | 113,141,681    | 112,230,004       |
| Diluted   | 119,796,882    | 112,230,004       |
| Basic earnings (loss) per share available (attributable) to common shareholders   | \$ 3.00        | \$ (2.81 )        |

|   |    |      |    |         |
|---|----|------|----|---------|
| Diluted earnings (loss) per share available (attributable) to common shareholders | \$ | 2.86 | \$ | (2.81 ) |
|---|----|------|----|---------|

**Selected financial ratios**

|   |  |        |  |         |
|---|--|--------|--|---------|
| Losses and loss expenses ratio            |  | 45.5 % |  | 80.9 %  |
| Policy acquisition costs ratio            |  | 17.8 % |  | 18.1 %  |
| General and administrative expenses ratio |  | 16.3 % |  | 13.4 %  |
| Expense ratio                             |  | 34.1 % |  | 31.5 %  |
| Combined ratio                            |  | 79.6 % |  | 112.4 % |

The following table sets forth summarized pro forma balance sheet data as of June 30, 2012:

**As of  
June 30, 2012  
(Dollars in  
thousands,  
except per share  
amounts)**

**Summary Balance Sheet Data:**

|                                      |    |            |
|--------------------------------------|----|------------|
| Investments at fair value            | \$ | 6,719,636  |
| Cash and cash equivalents            |    | 971,418    |
| Total assets                         |    | 10,489,991 |
| Reserve for losses and loss expenses |    | 3,349,928  |
| Unearned premiums                    |    | 1,488,945  |
| Senior notes payable                 |    | 247,036    |
| Debentures payable                   |    | 540,002    |
| Total liabilities                    |    | 6,073,796  |
| Total shareholders equity            | \$ | 4,416,195  |
| Book value per common share          | \$ | 37.41      |
| Diluted book value per common share  | \$ | 34.78      |

**Comparative Historical and Pro Forma Per Share Data**

The historical earnings per share, dividends and book values of Validus and Flagstone shown in the table below are derived from their respective audited consolidated financial statements as of and for the year ended December 31, 2011 and unaudited consolidated financial statements as of and for the six months ended June 30, 2012. The unaudited pro forma comparative basic and diluted earnings per share data give effect to the mergers using the acquisition method of accounting as if the mergers had been completed on January 1, 2011. The unaudited pro forma book value and diluted book value per share information was computed as if the mergers had been completed on December 31, 2011 and June 30, 2012.

You should read this information in conjunction with the historical financial information of Validus and of Flagstone included or incorporated elsewhere in this proxy statement/prospectus, including Validus and Flagstone's respective financial statements and related notes thereto. The unaudited pro forma per share data is not necessarily indicative of actual results had the mergers occurred as of the dates or during the periods indicated. The unaudited pro forma data is not necessarily indicative of future operations of Validus or Flagstone.

This pro forma per share financial data does not give consideration to the impact of possible revenue enhancements, expense efficiencies, synergies, strategy modifications, asset dispositions or other actions. This pro forma per share data is subject to risks and uncertainties, including those discussed in the sections of this proxy statement/prospectus titled *Risk Factors* and *Special Note Concerning Forward-Looking Statements*.

Per share data for the year ended December 31, 2011:

|  | Historical<br>Validus <sup>(1)</sup> | Historical<br>Flagstone | Validus<br>Pro Forma<br>Combined | Equivalent per Flagstone<br>share with \$2.00 cash<br>consideration <sup>(1)</sup> |           |  |
|--|--------------------------------------|-------------------------|----------------------------------|--|-----------|--|
|  |                                      |                         |                                  | Excluded   | Included  |  |
| <b>(For the year ended December 31, 2011)</b>                            |                                      |                         |                                  |  |           |  |
| Basic earnings (loss) per<br>common share                                | \$ 0.14                              | \$ (4.65)               | \$ (2.81)                        | \$ (0.54)  | \$ (0.54) |  |
| Diluted earnings (loss) per<br>common share                              | \$ 0.14                              | \$ (4.65)               | \$ (2.81)                        | \$ (0.54)  | \$ (0.54) |  |
| Diluted operating earnings<br>(loss) per common share <sup>(2)</sup>     | \$ 0.44                              | \$ (4.00)               | \$ (2.13)                        | \$ (0.41)  | \$ (0.41) |  |
| Cash dividends declared<br>per common share                              | \$ 1.00                              | \$ 0.16                 | \$ 1.00                          | \$ 0.19  | \$ 0.19   |  |
| Book value per common<br>share (at period end) <sup>(3)</sup>            | \$ 34.67                             | \$ 11.21                | \$ 34.94                         | \$ 6.76  | \$ 8.76   |  |
| Diluted book value per<br>common share (at period<br>end) <sup>(3)</sup> | \$ 32.28                             | \$ 10.90                | \$ 32.66                         | \$ 6.32  | \$ 8.32   |  |

Per share data for the period ended June 30, 2012:

|  | Historical<br>Validus | Historical<br>Flagstone | Validus<br>Pro Forma<br>Combined | Equivalent per Flagstone<br>share with \$2.00 cash<br>consideration <sup>(1)</sup> |
|--|-----------------------|-------------------------|----------------------------------|--|
|--|-----------------------|-------------------------|----------------------------------|--|

|   |                                    |          |          | Excluded | Included |
|---|------------------------------------|----------|----------|----------|----------|
|   | (For the year ended June 30, 2012) |          |          |          |          |
| Basic earnings per common share                     | \$ 2.92                            | \$ 0.74  | \$ 3.00  | \$ 0.58  | \$ 0.58  |
| Diluted earnings per common share                   | \$ 2.80                            | \$ 0.74  | \$ 2.86  | \$ 0.55  | \$ 0.55  |
| Diluted operating earnings per share <sup>(2)</sup> | \$ 2.53                            | \$ 0.23  | \$ 2.33  | \$ 0.45  | \$ 0.45  |
| Cash dividends declared per common share            | \$ 0.50                            | \$ 0.08  | \$ 0.50  | \$ 0.10  | \$ 0.10  |
| Book value per common share (at period end)         | \$ 37.23                           | \$ 11.73 | \$ 37.41 | \$ 7.24  | \$ 9.24  |
| Diluted book value per common share (at period end) | \$ 34.43                           | \$ 11.52 | \$ 34.78 | \$ 6.73  | \$ 8.73  |

(1) Equivalent per share amounts are calculated by multiplying Validus pro forma per share amounts by the exchange ratio of 0.1935.

(2) Net operating income (loss), a non-GAAP financial measure, is defined by Validus as net income (loss) excluding net realized and unrealized gains (losses) on investments,

foreign  
exchange  
gains

(losses) and non-recurring items. This measure focuses on the underlying fundamentals of operations without the influence of gains (losses) from the sale of investments, translation of non-U.S. \$ currencies and non-recurring items. Gains (losses) from the sale of investments are driven by the timing of the disposition of investments, not by operating performance. Gains (losses) arising from translation of non-U.S. \$ denominated balances are unrelated to underlying business. A reconciliation of net operating income to net income, the most comparable U.S. GAAP financial measure, for the six months ended June

30, 2012 and the year ended December 31, 2011, is presented in the table below.

- (3) Validus Pro Forma Combined book value per common share and diluted book value per common share at December 31, 2011 include the pro forma purchase adjustments outlined in notes 3(e), 3(f) and 3(g) to the Unaudited Condensed Consolidated Pro Forma Financial Information.

Six Months Ended June 30, 2012

|   | Historical<br>Validus | Historical<br>Flagstone | Validus<br>Pro Forma<br>Combined |
|---|-----------------------|-------------------------|----------------------------------|
| <b>Net income available to the Company</b>                | \$ 291,856            | \$ 52,675               | \$ 343,090                       |
| Adjustments for:  |                       |                         |                                  |
| Net realized (gains) on investments                       | (13,686 )             | (23,468 )               | (37,154 )                        |
| Net realized gains other                                  |                       | (1,393 )                | (1,393 )                         |
| Net unrealized losses on investments                      | 32,903                |                         | 32,903                           |
| Loss from investment affiliate                            | 398                   |                         | 398                              |
| Foreign exchange (gains) losses                           | (2,514 )              | 877                     | (1,637 )                         |
| Net income from discontinued operations, net of tax       |                       | (13,620 )               | (13,620 )                        |
| Net income (loss) attributable to noncontrolling interest | (44,881 )             | 1,135                   | (43,746 )                        |

Net operating income available to the Company                   \$   264,076           \$    16,206           \$   278,841

**Year Ended December 31, 2011**

|   | <b>Historical<br/>Validus</b> | <b>Historical<br/>Flagstone</b> | <b>Validus<br/>Pro Forma<br/>Combined</b> |
|---|-------------------------------|---------------------------------|---|
| <b>Net income (loss) available (attributable) to the Company</b>        | \$   21,329                   | \$   (326,133 )                 | \$   (307,962 )                           |
| Adjustments for:  |                               |                                 |   |
| Net realized (gains) losses on investments                              | (28,532 )                     | 20,770                          | (7,762 )                                  |
| Net realized gains other  |                               | (2,494 )                        | (2,494 )                                  |
| Net unrealized losses on investments                                    | 19,991                        |                                 | 19,991                                    |
| Foreign exchange losses   | 22,124                        | 4,481                           | 26,605                                    |
| Transaction expenses  | 17,433                        |                                 | 17,433                                    |
| Interest in earnings of equity investments                              |                               | 922                             | 922                                       |
| Net loss from discontinued operations, net of tax                       |                               | 21,662                          | 21,662                                    |
| <br>Net operating income (loss) available (attributable) to the Company | <br>\$   52,345               | <br>\$   (280,792 )             | <br>\$   (231,605 )                       |

**Comparative Market Value and Dividends**

Validus common shares are listed on the NYSE under the ticker symbol VR. Flagstone shares are listed on the NYSE under the ticker symbol FSR. The following table sets forth the high and low reported per share sales prices of Validus common shares and Flagstone shares for the periods indicated as reported on the NYSE Consolidated Transactions Tape, and cash dividends per share, as reported in the Validus Annual Report on Form 10-K and Flagstone's Annual Report on 10-K for the fiscal years ended December 31, 2010 and 2011, and thereafter as reported in publicly available sources.

|   | Validus  |          |          | Flagstone |          |          |
|---|----------|----------|----------|-----------|----------|----------|
|   | High     | Low      | Dividend | High      | Low      | Dividend |
| <b>Year Ended December 31, 2012</b>       |          |          |          |           |          |          |
| Fourth Quarter (through October 22, 2012) | \$ 37.21 | \$ 33.79 | \$       | \$ 9.26   | \$ 8.57  | \$       |
| Third Quarter                             | \$ 34.91 | \$ 31.62 | \$ 0.25  | \$ 8.90   | \$ 6.58  | \$ 0.04  |
| Second Quarter                            | \$ 33.25 | \$ 30.41 | \$ 0.25  | \$ 8.26   | \$ 7.16  | \$ 0.04  |
| First Quarter                             | \$ 32.51 | \$ 29.97 | \$ 0.25  | \$ 9.53   | \$ 7.61  | \$ 0.04  |
| <b>Year Ended December 31, 2011</b>       |          |          |          |           |          |          |
| Fourth Quarter                            | \$ 31.77 | \$ 23.87 | \$ 0.25  | \$ 9.07   | \$ 7.02  | \$ 0.04  |
| Third Quarter                             | \$ 31.35 | \$ 23.24 | \$ 0.25  | \$ 9.05   | \$ 6.41  | \$ 0.04  |
| Second Quarter                            | \$ 34.95 | \$ 29.44 | \$ 0.25  | \$ 9.32   | \$ 7.72  | \$ 0.04  |
| First Quarter                             | \$ 33.72 | \$ 28.86 | \$ 0.25  | \$ 12.82  | \$ 8.06  | \$ 0.04  |
| <b>Year Ended December 31, 2010</b>       |          |          |          |           |          |          |
| Fourth Quarter                            | \$ 30.83 | \$ 26.13 | \$ 0.22  | \$ 13.14  | \$ 9.67  | \$ 0.04  |
| Third Quarter                             | \$ 26.94 | \$ 24.31 | \$ 0.22  | \$ 11.46  | \$ 9.49  | \$ 0.04  |
| Second Quarter                            | \$ 27.64 | \$ 23.14 | \$ 0.22  | \$ 12.29  | \$ 10.10 | \$ 0.04  |
| First Quarter                             | \$ 28.25 | \$ 25.62 | \$ 0.22  | \$ 11.66  | \$ 10.23 | \$ 0.04  |

For further discussion on dividends see the section of this proxy statement/prospectus titled *The Mergers Dividends and Distributions*.

The following table presents the closing prices of Validus common shares and Flagstone shares on the NYSE on August 29, 2012, the last trading day before public announcement of the mergers, and October 22, 2012, the most recent practicable date prior to the date of this proxy statement/prospectus.

|                  | <b>Validus<br/>Share Close</b> | <b>Flagstone<br/>Share Close</b> | <b>Equivalent<br/>Validus Per<br/>Share Amount</b> | <b>Equivalent<br/>Validus Per<br/>Share Amount<br/>Plus Cash<br/>Consideration</b> |
|------------------|--------------------------------|----------------------------------|--|--|
| August 29, 2012  | \$ 33.24                       | \$ 7.06                          | \$ 6.43  | \$ 8.43  |
| October 22, 2012 | \$ 36.50                       | \$ 9.08                          | \$ 7.06  | \$ 9.06  |

Equivalent per share amounts are calculated by multiplying Validus per share amounts by the exchange ratio of 0.1935, and, where applicable, by separately adding \$2.00 in cash to this amount.

**The value of the merger consideration will change as the market price of Validus common shares fluctuates prior to the completion of the mergers, and may therefore be different from the amounts set forth above and at the time you receive the merger consideration. See the section of this proxy statement/prospectus titled *Risk Factors*. Flagstone shareholders are urged to obtain current market quotations for Validus common shares and Flagstone shares before deciding whether to vote in favor of the merger proposal.**

See also the sections of this proxy statement/prospectus titled *The Mergers Listing of Validus Common Shares* for a discussion of the listing of Validus common shares and *The Mergers Delisting of Flagstone Shares* for a discussion of the delisting of Flagstone shares.

## RISK FACTORS

In addition to the other information included or incorporated by reference into this proxy statement/prospectus, including the matters addressed in the section of this proxy statement/prospectus titled *Special Note Concerning Forward-Looking Statements*, you should carefully consider the following risks before deciding whether to vote in favor of the merger proposal. In addition, you should read and consider carefully the risks associated with the businesses of Validus and Flagstone because these risks will also affect Validus following completion of the mergers. These risks can be found in the Annual Reports on Form 10-K for the fiscal year ended December 31, 2011, and any amendments thereto, for each of Validus and Flagstone, as such risks may be updated or supplemented in each company's subsequently filed Quarterly Reports on Form 10-Q or Current Reports on Form 8-K, which are incorporated by reference into this proxy statement/prospectus. You should also read and consider carefully the other information in this proxy statement/prospectus and the other documents incorporated by reference into this proxy statement/prospectus. See the section of this proxy statement/prospectus titled *Where You Can Find More Information* for information on how you can view Validus' and Flagstone's incorporated documents.

### Risk Factors Relating to the Mergers

***As a result of the fixed exchange ratio and changes in the price of Validus common shares, Flagstone shareholders cannot be sure of the value of the merger consideration they will receive in the mergers.***

Upon completion of the mergers, Flagstone shareholders will be entitled to receive 0.1935 Validus common shares, \$2.00 in cash (less any applicable withholding taxes and without interest), plus cash in lieu of any fractional Validus common shares they would otherwise be entitled to receive, for each share of Flagstone owned by them immediately prior to the mergers. Because the exchange ratio is fixed at 0.1935 Validus common shares for each Flagstone share, the market value of the Validus common shares issued in consideration for Flagstone shares will depend upon the market price of Validus common shares. If the market price of Validus common shares declines, Flagstone shareholders would receive less value for their shares upon the completion of the mergers than the value calculated pursuant to the exchange ratio on the date the mergers were announced or as of the date of this proxy statement/prospectus or as of the date of the extraordinary general meeting. Neither Validus nor Flagstone is permitted to terminate the merger agreement or resolicit the vote of Flagstone shareholders solely because of changes in the market price of Validus common shares. Share price changes may result from a variety of factors that are beyond the companies' control, including general market conditions, changes in business prospects, catastrophic events, both natural and man-made, and regulatory conditions.

Because the mergers will not be completed until certain conditions have been satisfied or waived (see the section of this proxy statement/prospectus titled *The Merger Agreement Conditions to the Completion of the Mergers*), a period of time, which may be significant, may pass between the date of this proxy statement/prospectus and the date of the extraordinary general meeting and/or the completion of the mergers. Therefore, at the time when you are asked to approve the merger proposal at the extraordinary general meeting, you will not know the exact market value of the Validus common shares that will be issued if the mergers are completed. Flagstone shareholders are urged to obtain market quotations for Validus common shares and Flagstone shares when they consider whether to vote in favor of the merger proposal at the extraordinary general meeting. See the section of this proxy statement/prospectus titled *Summary Comparative Market Value and Dividends*.

In connection with the mergers, Validus estimates that it will need to issue approximately 14,290,388 Validus common shares. The increase in the number of outstanding Validus common shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, Validus common shares.

***Validus and Flagstone must obtain insurance, antitrust and other regulatory approvals to complete the mergers, which, if delayed or not granted, may jeopardize or delay the mergers, result in***



***additional expenditures of money and resources and/or reduce the anticipated benefits of the combination contemplated by the mergers.***

The mergers are conditioned on the receipt or completion of all required authorizations, consents, orders and approvals of, or declarations or filings with, and the expiration of waiting periods required by, applicable governmental authorities, including without limitation, approvals not yet obtained from:

the Florida Office of Insurance Regulation;

the Swiss Financial Market Supervisory Authority (FINMA); and

governmental  
authorities in  
South Africa  
with respect  
to applicable  
antitrust or  
competition  
laws.

If Validus and Flagstone do not receive these consents and approvals, then Validus and Flagstone will not be obligated to complete the mergers. The insurance, antitrust and other regulatory agencies from which Validus will seek these approvals generally have broad discretion in administering the applicable governing regulations. As a condition to their approval of the transactions contemplated by this proxy statement/prospectus, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of Validus' business following the completion of the mergers. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the completion of the mergers or may reduce the anticipated benefits of the combination contemplated by the merger agreement. Further, no assurance can be given that the required consents and approvals will be obtained or that the required conditions to the mergers will be satisfied, and, if all required consents and approvals are obtained and the conditions to the completion of the mergers are satisfied, no assurance can be given as to the terms, conditions and timing of the consents and approvals. If Validus agrees to any material requirements, limitations, costs, divestitures or restrictions in order to obtain any consents or approvals required to complete the mergers, these requirements, limitations, additional costs or restrictions could adversely affect Validus' ability to integrate the operations of Flagstone into Validus or reduce the anticipated benefits of the mergers contemplated by the merger agreement. This could have a material adverse effect on the business, financial condition and results of operations of Validus and the market value of Validus common shares after the completion of the mergers. In addition, a third party could attempt to intervene in any insurance, antitrust or other regulatory filings made by Validus or otherwise object to the granting to Validus of any such insurance, antitrust or other regulatory authorizations, consents, orders or approvals, which may cause a delay in obtaining, or the imposition of material requirements, limitations, costs, divestitures or restrictions on, or the failure to obtain, any such authorizations, consents, orders or approvals. See the section of this proxy statement/prospectus titled *The Merger Agreement - Conditions to the Completion of the Mergers* for a discussion of the conditions to the mergers and the section titled *The Mergers - Regulatory Approvals* for a description of the insurance, antitrust or other regulatory consents or approvals necessary in connection with the mergers.

***The mergers are subject to other conditions that Validus and Flagstone cannot control. Failure to complete the mergers could negatively impact the share price of Validus and Flagstone and the future business and financial results of Validus and Flagstone.***

The merger agreement contains a number of conditions precedent that must be satisfied or waived prior to the completion of the mergers. There are no assurances that all of the conditions to the mergers will be so satisfied or

waived. If the conditions to the mergers are not satisfied or waived, then Validus and Flagstone may be unable to complete the mergers. See the section of this proxy statement/prospectus titled *The Merger Agreement Conditions to the Completion of the Mergers* for a discussion of the conditions to the mergers.

In addition, the merger agreement may be terminated under certain circumstances, including if the conditions to the completion of the mergers are not satisfied or waived prior to the March 31, 2013 walk-away date. If the mergers are not completed, the ongoing business of Validus and Flagstone may be adversely affected as follows:

the attention of management of Validus and Flagstone will have been diverted to the mergers instead of being directed solely to each company's own operations and the pursuit of other opportunities that could have been beneficial to such company;

Validus and/or Flagstone will have to pay certain costs relating to the mergers, which may include, as applicable, legal, accounting, financial advisory, filing and printing fees;

the potential decline in the market price of Validus or Flagstone shares;

the manner in which brokers, insurers, cedants and other third parties perceive Validus or

Flagstone may be negatively impacted, which in turn could affect the ability of Validus or Flagstone to compete for or to write new business or obtain renewals in the marketplace;

the loss of time and resources; and

Flagstone may be required, in certain circumstances, to pay a termination fee of \$24.16 million, or a fee in the amount of \$6 million, as provided in the merger agreement.

See the sections of this proxy statement/prospectus titled *The Merger Agreement Termination* and *The Merger Agreement Effect of Termination; Termination Fee*.

***Flagstone and Validus may waive certain of the conditions to the completion of the mergers without resoliciting or seeking Flagstone shareholder approval.***

Each of the conditions to Flagstone's or Validus's obligations to complete the mergers may be waived, to the extent legally permissible, in whole or in part by Validus or Flagstone, as applicable. Flagstone's board of directors will evaluate the materiality of any such waiver to determine whether resolicitation of proxies is necessary or, if Flagstone shareholders have approved the merger proposal, whether further shareholder approval is necessary. In the event that any such waiver is not determined to be significant enough to require resolicitation or additional approval of shareholders, the mergers may be completed without seeking any further shareholder approval. Notwithstanding the foregoing, Flagstone and Validus will recirculate and resolicit votes on the approval of the merger proposal in the event that, after the merger proposal is approved by Flagstone shareholders, either Validus or Flagstone waives the condition that each company will have received a tax opinion from its respective counsel that each of the mergers will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and the change in tax consequences is material. If either Flagstone or Validus waives this tax opinion condition before the merger proposal is approved by Flagstone shareholders but after the registration statement (of which this proxy

statement/prospectus forms a part) is declared effective by the SEC, Flagstone and Validus will publicly disclose this waiver to Flagstone shareholders.

***Uncertainties associated with the mergers may cause a loss of management personnel and other key employees, which could adversely affect the future business, operations and financial results of Validus following the mergers.***

Uncertainty about the effect of the proposed mergers on Flagstone's employees and customers may have an adverse effect on Flagstone's business. These uncertainties may impair Flagstone's ability to attract, retain and motivate key personnel until the proposed mergers are completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with Flagstone to seek to change existing business relationships with Flagstone. Employee retention may be particularly challenging during the pendency of the proposed mergers, as employees may experience uncertainty about their future roles with Validus following the completion of the mergers. If, despite Flagstone's retention efforts, key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Validus, Flagstone's business could be seriously harmed.

***The merger agreement contains provisions that could discourage potential acquirors from making a competing proposal to acquire Flagstone.***

The merger agreement contains detailed provisions that could discourage potential acquirors from making a competing proposal to acquire Flagstone, including (1) the restrictions on Flagstone's

and each of its subsidiaries' ability to solicit, initiate or knowingly facilitate or encourage (including by providing non-public information) any effort or attempt to make or implement a competing proposal to acquire Flagstone, (2) the requirement that if the merger agreement is terminated under certain circumstances, Flagstone would be required to pay Validus a termination fee of either \$24.16 million or a fee in the amount of \$6 million depending upon the specific reason for termination and the surrounding circumstances, (3) the requirement that the merger proposal be submitted to a vote of Flagstone shareholders even if Flagstone's board of directors withholds or withdraws (or modifies or qualifies in a manner adverse to Validus) its recommendation that Flagstone shareholders vote to approve the merger proposal and (4) the inability of Flagstone to terminate the merger agreement to enter into a superior proposal. As a result of these limitations, Flagstone may lose opportunities to enter into a more favorable transaction than the mergers. See the section of this proxy statement/prospectus titled *The Merger Agreement - No Solicitation; Change in Recommendation* for a discussion of the restrictions on Flagstone's ability to pursue alternative transactions.

***The voting agreements may limit Flagstone's ability to pursue alternatives to the mergers.***

Certain shareholders of Flagstone have signed voting agreements committing them to vote any shares held by them, of record or beneficially, (1) in favor of approval of the merger proposal, (2) against any competing proposals, (3) against any amendments to Flagstone's articles of incorporation that may materially impede, interfere with, delay, postpone or adversely affect in any manner the mergers or change in any manner the voting rights of any class of Flagstone's share capital and (4) at Validus' request and subject to certain limitations, in favor of any proposal that Flagstone's board of directors has determined is reasonably necessary to facilitate the acquisition of Flagstone by Validus in accordance with the terms of the merger agreement. In addition, each shareholder party to the voting agreements has agreed to vote against any competing proposal for Flagstone for a tail period of 90 days following termination of the merger agreement under certain circumstances. Because signatories to the voting agreements have agreed to vote in favor of approval of the merger proposal and against any competing proposals, the voting agreements may have the effect of discouraging any takeover proposal for Flagstone. As of the close of business on October 5, 2012, the record date for the extraordinary general meeting, the shareholders party to the voting agreements owned or controlled, in the aggregate, 16,000,000 Flagstone shares, which represented approximately 22.5% of the outstanding Flagstone shares at that time. See the section of this proxy statement/prospectus titled *The Voting Agreements* for a discussion of the terms of the voting agreements.

***Flagstone will be subject to business uncertainties and contractual restrictions while the proposed mergers are pending, which could adversely affect Flagstone's business.***

The merger agreement requires Flagstone to act in the ordinary course of business and restricts Flagstone, without the consent of Validus, from taking specified actions until the proposed mergers occur or the merger agreement terminates. See the section of this proxy statement/prospectus titled *The Merger Agreement - Conduct of Business* for a more detailed description of the restrictions on Flagstone's conduct of business. The restrictions may prevent Flagstone from pursuing otherwise attractive business opportunities and making other changes to its business that may arise before completion of the proposed mergers or, if the proposed mergers are abandoned, termination of the merger agreement.

***The fairness opinion delivered by Evercore will not reflect changes in circumstances between signing the merger agreement and the completion of the mergers.***

Flagstone's board of directors has not obtained an updated fairness opinion as of the date of this proxy statement/prospectus from Evercore, Flagstone's financial advisor. Changes in the operations and prospects of Validus or Flagstone, general market and economic conditions and other factors that may be beyond their control, and on which the fairness opinion was based, may alter the value of Validus or Flagstone or the prices of Validus common shares or Flagstone shares by the time the mergers are completed. The Evercore opinion does not speak as of the time the mergers will be completed or as of any date other than the date of the opinion. Because Flagstone does not



anticipate asking Evercore to update its opinion, this opinion only addresses the fairness of the consideration for the mergers, from a financial point of view, at the time the merger agreement was executed. The opinion is attached to this proxy statement/prospectus as Annex C. For a description of the opinion and a summary of the material financial analyses performed in connection with rendering the opinion, see the section of this proxy statement/prospectus titled *The Mergers Opinion of Flagstone's Financial Advisor*.

***The financial analyses and forecasts considered by Evercore and Flagstone's board of directors may not be realized, which may adversely affect the market price of the Validus common shares following the mergers.***

In performing its financial analysis and rendering its opinion that the merger consideration is fair, from a financial point of view, to Flagstone shareholders, Evercore reviewed, among other things, projected non-public financial statements and other projected non-public financial data prepared and furnished to it by Flagstone management. See the section of this proxy statement/prospectus titled *The Mergers Certain Financial Projections*. These projected non-public financial statements and other projected non-public financial data were prepared by the management of Flagstone and were also considered by Flagstone's board of directors. None of the projected non-public financial statements and other projected non-public financial data was prepared with a view toward public disclosure or compliance with the published guidelines of the SEC or the American Institute of Certified Public Accountants regarding projections and forecasts. These projections are inherently based on various estimates and assumptions that are subject to the judgment of those preparing them. These projections are also subject to significant economic, competitive, industry and other uncertainties and contingencies, all of which are difficult or impossible to predict and many of which are beyond the control of Validus and Flagstone. Accordingly, there can be no assurance that Flagstone's financial condition or results of operations will not be significantly worse than those set forth in such projected non-public financial statements and other projected non-public financial data. Significantly worse financial results could have a material adverse effect on the market price of Flagstone shares prior to the completion of the mergers or the Validus common shares following the completion of the mergers.

***Flagstone's counterparties may acquire certain rights in connection with the completion of the mergers, which could negatively affect Validus following the mergers.***

Flagstone is party to numerous contracts, treaties, agreements, licenses, permits, authorizations and other arrangements that contain provisions giving counterparties certain rights (including, in some cases, termination rights) in the event of a change in control of Flagstone or its subsidiaries. The definition of change in control varies from contract to contract, ranging from a narrow to a broad definition, and, in some cases, the change in control provisions may be implicated by the mergers. If a change in control occurs, a ceding company may be permitted to cancel contracts on a cut-off or run-off basis, and Flagstone may be required to provide collateral to secure premium and reserve balances or may be required to cancel and commute a contract, subject to an agreement between the parties that may be settled in arbitration. If a contract is cancelled on a cut-off basis, Flagstone may be required to return unearned premiums, net of commissions. In addition, contracts may provide a ceding company with multiple options, such as collateralization or commutation, that would be triggered by a change in control. Collateral requirements may take the form of trust agreements or be funded by securities held or letters of credit. Upon commutation, the amount to be paid to settle the liability for gross loss reserves typically would be considered a discount to the financial statement loss reserve value, reflecting the time value of money resident in the ultimate settlement of such loss reserves. In certain instances, contracts contain dual triggers, such as a change in control and a ratings downgrade, both of which must be satisfied for the contractual right to be exercisable.

Whether a ceding company would have cancellation rights in connection with the mergers depends upon the language of its agreement with Flagstone. Whether a ceding company exercises any cancellation rights it has would depend on, among other factors, such ceding company's views with respect to the financial strength and business reputation of Validus following the mergers, the extent to which such ceding company currently has reinsurance coverage with Validus affiliates, the



prevailing market conditions, the pricing and availability of replacement reinsurance coverage and Validus ratings following the mergers. Neither Validus nor Flagstone can presently predict the effects, if any, if the mergers are deemed to constitute a change in control under certain of its contracts and other arrangements, including the extent to which cancellation rights would be exercised, if at all, or the effect on Validus financial condition, results of operations, or cash flows following the mergers, but such effect could be material.

***Some of Flagstone's executive officers and directors have financial interests in the completion of the mergers that are different from, or in addition to, those of other Flagstone shareholders. Therefore, some of Flagstone's directors may have a conflict of interest in recommending the proposals being voted on at the extraordinary general meeting.***

Certain of Flagstone's directors and executive officers have financial interests in the mergers that are different from, or are in addition to, the interests of Flagstone shareholders generally. Flagstone's board of directors was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the mergers, and in approving and recommending to Flagstone shareholders that they approve the merger proposal.

The interests of Flagstone's non-employee directors include the right to receive the share unit consideration with respect to the directors' RSUs.

The interests of Flagstone's executive officers include the rights to:

- accelerated vesting and receipt of the share unit consideration with respect to the executive officers' PSUs, calculated assuming attainment of all applicable performance goals at the maximum level;

- with respect to Flagstone's executive officers other than Messrs. Slade and Fawcett, certain contractual severance payments in the event of a qualifying termination of employment following the mergers;

- with respect to Messrs. Brown, Flitman, Swayne, Fawcett and Slade,

certain statutory severance payments in the event of a termination of employment following the mergers;

continued employment during a specified notice period following termination of employment or, with respect to Flagstone's executive officers other than Messrs. Boisvert and Traimond, payment of base salary in lieu of such notice;

accelerated payment of the executive officers' guaranteed minimum 2012 bonus in the event of a qualifying termination of employment following the mergers and prior to December 31, 2012; and

solely with respect to Mr. Brown, the Leyton Limited Warrant to acquire 630,194 Flagstone shares, which, pursuant to the merger agreement, will be amended at the effective time of the second-step merger such that, upon payment during the exercise period (which runs from December 1, 2013 to December 31, 2013)

of the exercise price as of the completion of the mergers, subject to adjustments (if any) pursuant to the terms of the Leyton Limited Warrant, the Leyton Limited Warrant will be converted into the right to receive the \$2.00 in cash and 0.1935 Validus common shares, on a per share basis for each of the Flagstone shares subject to the Leyton Limited Warrant (the Leyton Limited Warrant will have value during the exercise period only if the value of the merger consideration during the exercise period is greater than the Leyton Limited Warrant's exercise price, which, as of the date of this proxy statement/prospectus, is \$13.96 per Flagstone share).

Flagstone's board of directors and executive officers also have the right to indemnification and insurance coverage that will survive the completion of the mergers.

In addition, Validus has agreed to the terms of separation agreements to be effective upon completion of the mergers with each of Messrs. Boisvert and Traimond, pursuant to which each executive will remain employed by Flagstone Réassurance Suisse SA through July 31, 2013. Upon termination from Flagstone Réassurance Suisse SA on or prior to July 31, 2013, Messrs.

Boisvert and Traimond will be entitled to certain payments in addition to those provided for under their existing employment agreements with Flagstone Réassurance Suisse SA.

See the section of this proxy statement/prospectus titled *The Mergers Interests of Flagstone's Directors and Executive Officers in the Mergers* for additional information about these interests.

***Flagstone shareholders will have reduced ownership and voting interests after the mergers and will exercise less influence over the management of Validus than they currently exercise over the management of Flagstone.***

After the completion of the mergers, Flagstone shareholders will own in the aggregate a significantly smaller percentage of Validus than they currently own of Flagstone. Following completion of the mergers, Flagstone shareholders are expected to own approximately 12.0% of the outstanding Validus common shares on a pro forma fully-diluted basis. Consequently, Flagstone shareholders as a group will have less influence over the management and policies of Validus than they currently exercise over the management and policies of Flagstone.

***The Validus common shares to be received by Flagstone shareholders as a result of the mergers will have different rights from Flagstone shares.***

Following completion of the mergers, Flagstone shareholders will no longer be shareholders of Flagstone, a Luxembourg joint stock corporation (*société anonyme*), but will instead be shareholders of Validus, a Bermuda exempted company. There will be important differences between your current rights as a Flagstone shareholder and the rights to which you will be entitled as a shareholder of Validus, in part because the laws of Bermuda differ from the laws of Luxembourg. See the section of this proxy statement/prospectus titled *Comparison of Shareholders Rights* for additional information about the different rights associated with Validus common shares.

***Each of Validus and Flagstone will be exposed to underwriting and other business risks during the period that each party's business continues to be operated independently from the other.***

Until the completion of the mergers, each of Validus and Flagstone will operate independently from the other in accordance with such party's distinct underwriting guidelines, investment policies, referral processes, authority levels and risk management policies and practices. As a result, during this period, Flagstone may assume risks that Validus would not have assumed for itself, accept premiums that, in Validus' judgment, do not adequately compensate it for the risks assumed, make investment decisions that would not adhere to Validus' investment policies or otherwise make business decisions or take on exposure that, while consistent with Flagstone's general business approach and practices, are not the same as those of Validus. Significant delays in completing the mergers will materially increase the risk that Flagstone will operate its business in a manner that differs from how the business would have been conducted by Validus.

### **Risk Factors Relating to Flagstone's Business**

You should read and consider carefully other risk factors specific to Flagstone's businesses that will also affect Validus after the mergers, described in Part I, Item 1A of Flagstone's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and other documents that have been filed by Flagstone with the SEC and which are incorporated by reference into this proxy statement/prospectus.

### **Risk Factors Relating to Validus' Business**

You should read and consider carefully other risk factors specific to Validus' businesses that will also affect Validus after the mergers, described in Part I, Item 1A of Validus' Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and other documents that have been filed by Validus with the SEC and which are incorporated by reference into this proxy statement/prospectus.



**Risk Factors Relating to Validus Following the Mergers**

*Future results of Validus may differ materially from the Unaudited Condensed Consolidated Pro Forma Combined Financial Information of Validus presented in this proxy statement/prospectus.*

The future results of Validus following the completion of the mergers may be materially different from those shown in the Unaudited Condensed Consolidated Pro Forma Combined Financial Information presented in this proxy statement/prospectus, which show only a combination of Validus and Flagstone's historical results after giving effect to the mergers. Validus has estimated that it will record approximately \$20 million in transaction expenses, as described in the notes to the Unaudited Condensed Consolidated Pro Forma Combined Financial Information included in this proxy statement/prospectus. In addition, the mergers and post-merger integration process may give rise to unexpected liabilities and costs, including costs associated with the defense and resolution of possible litigation or other claims. Unexpected delays in completing the mergers or in connection with the post-merger integration process may significantly increase the related costs and expenses incurred by Validus and Flagstone.

## SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus, including information contained or incorporated by reference into this proxy statement/prospectus, may include forward-looking statements, both with respect to Validus and Flagstone and their industries, that reflect their current views with respect to future events and financial performance. Statements that include the words expect, intend, plan, believe, project, anticipate, will, may, would and similar statements or forward-looking nature identify forward-looking statements. All forward-looking statements address matters that involve risks and uncertainties, many of which are beyond Validus and Flagstone's control. Accordingly, there are or will be important risks and uncertainties that could cause actual results to differ materially from those indicated in such statements and, therefore, you should not place undue reliance on any such statements. Validus and Flagstone believe that these risks and uncertainties include, but are not limited to, the following: (1) unpredictability and severity of catastrophic events; (2) issues relating to claims and coverage that may emerge from changing industry practices or changing legal, judicial, social or other environmental conditions; (3) rating agency actions; (4) adequacy of Validus and Flagstone's risk management and loss limitation methods; (5) competition in the insurance and reinsurance markets; (6) cyclical nature of demand and pricing in the insurance and reinsurance markets; (7) adequacy of Validus and Flagstone's respective loss reserves; (8) the estimates and judgments that Validus and Flagstone use in preparing their respective financial statements, which are more difficult to make than if Validus and Flagstone were mature companies; (9) retention of key personnel; (10) potential conflicts of interest with Validus and Flagstone's respective officers and directors; (11) continued availability of capital and financing; (12) potential loss of business from one or more major insurance or reinsurance brokers; (13) the credit risk that each of Validus and Flagstone assumes through their dealings with their respective insurance and reinsurance brokers; (14) Validus and Flagstone's respective ability to implement, successfully and on a timely basis, complex infrastructure, distribution capabilities, systems, procedures and internal controls, and to develop accurate actuarial data to support the business and regulatory and reporting requirements; (15) the risk that Validus and Flagstone could be bound to policies that contravene their respective underwriting guidelines by managing general agents and other third parties who support certain of their businesses; (16) availability of reinsurance and retrocessional coverage; (17) the effect on Validus and Flagstone's investment portfolios of changing financial market conditions, including inflation, interest rates, liquidity and other factors; (18) the impact of currency fluctuations on Validus and Flagstone's operating results; (19) the impact of heightened European sovereign debt risk on Validus and Flagstone's fixed income portfolios; (20) the integration of Flagstone or other businesses Validus may acquire or new business ventures Validus may start; (21) the legal, regulatory and tax regimes under which Validus and Flagstone operate; and (22) acts of terrorism or outbreak of war, as well as Validus and Flagstone's management's response to any of the aforementioned factors.

Additionally, the mergers are subject to risks and uncertainties, including: (A) that Validus and Flagstone may be unable to complete the mergers because, among other reasons, conditions to the completion of the mergers may not be satisfied or waived; (B) uncertainty as to the timing of completion of the mergers, (C) uncertainty as to the actual premium (if any) that will be realized by Flagstone shareholders in connection with the mergers; (D) uncertainty as to the long-term value of Validus common shares; (E) failure to realize the anticipated benefits of the mergers, including as a result of failure or delay in integrating Flagstone's businesses into Validus; and (F) the outcome of any legal proceedings to the extent initiated against Validus, Flagstone and others following the announcement of the mergers, as well as Validus and Flagstone's management's response to any of the aforementioned factors.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein and elsewhere, including the risk factors set forth in the section of this proxy statement/prospectus titled *Risk Factors* and those included in Validus' most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q and the risk factors included in Flagstone's most recent reports on Form 10-K and Form 10-Q and other documents of Validus and Flagstone on file with the SEC. Any forward-looking statements made or referenced in this proxy statement/prospectus are qualified by these

cautionary statements, and there can be no assurance that the actual results or developments anticipated by Validus or Flagstone will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Validus or Flagstone or their respective businesses or operations. Each forward-looking statement speaks only as of the date of the particular statement and, except as may be required by applicable law, Validus and Flagstone undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## THE COMPANIES

### **Validus Holdings, Ltd.**

Validus Holdings, Ltd. is a Bermuda exempted company with its principal executive offices located at 29 Richmond Road, Pembroke, Bermuda HM 08. The telephone number of Validus is (441) 278-9000. Validus is a provider of reinsurance and insurance, conducting its operations worldwide through two wholly owned subsidiaries, Validus Reinsurance Ltd. and Talbot Holdings Ltd. Validus Reinsurance Ltd. is a Bermuda based reinsurer focused on short-tail lines of reinsurance. Talbot Holdings Ltd. is the Bermuda parent of the specialty insurance group primarily operating within the Lloyd's insurance market through Syndicate 1183. At June 30, 2012, Validus had total shareholders' equity of approximately \$3.5 billion and total assets of approximately \$8.5 billion. Validus common shares are listed on the NYSE under the ticker symbol "VR" and, as of October 22, 2012, the most recent practicable date prior to the date of this proxy statement/prospectus, Validus had a market capitalization of approximately \$3.4 billion. Validus has approximately 490 employees.

### **Validus UPS, Ltd.**

Validus UPS, Ltd. was formed as a Bermuda exempted company on August 28, 2012. Merger Sub's principal executive offices are located at 29 Richmond Road, Pembroke, Bermuda HM 08. The telephone number of Merger Sub is (441) 278-9000. Merger Sub is a wholly owned subsidiary of Validus that was formed for the sole purpose of completing the second-step merger. Merger Sub has engaged in no business activities to date and it has no material assets or liabilities of any kind, other than those incident to its formation and those incurred in connection with the merger agreement and the second-step merger.

### **Flagstone Reinsurance Holdings, S.A.**

Flagstone Reinsurance Holdings, S.A., through its operating subsidiaries, is a global reinsurance company that employs a focused and technical approach to the property catastrophe, property, and specialty reinsurance businesses. Flagstone is traded on the NYSE under the symbol "FSR". Flagstone's principal executive offices are located at 65, Avenue de la Gare, L-1611 Luxembourg, Grand Duchy of Luxembourg. The telephone number of Flagstone is +352 273 515 30.

### **Flagstone Reinsurance Holdings (Bermuda) Limited**

Flagstone Reinsurance Holdings (Bermuda) Limited is a Bermuda exempted company and a direct wholly owned subsidiary of Flagstone. Flagstone Bermuda was incorporated on May 10, 2012, solely for the purpose of effecting the mergers contemplated by the merger agreement. It has not carried on any activities other than in connection with the mergers. Flagstone Bermuda's principal executive offices are located at 2nd Floor, Wellesley House, 90 Pitts Bay Road, Pembroke, Bermuda HM 08. The telephone number of Flagstone Bermuda is (441) 278-4300.

## THE EXTRAORDINARY GENERAL MEETING

This proxy statement/prospectus is being provided to Flagstone shareholders as part of a solicitation of proxies by Flagstone's board of directors for use at the extraordinary general meeting of shareholders to be held at the time and place specified below, and at any properly convened meeting following an adjournment, reconvenement or postponement thereof. This proxy statement/prospectus provides Flagstone shareholders with important information they need to know to be able to vote, or instruct their brokers, banks, trustees or other nominees to vote, at the extraordinary general meeting or any adjournment, reconvening or postponement thereof.

### **Date, Time and Place of the Extraordinary General Meeting**

The extraordinary general meeting will be held on November 28, 2012, at 2:00 p.m. Central European Time at Hôtel Le Royal Luxembourg, 12 Boulevard Royal, Luxembourg L-2449, Grand Duchy of Luxembourg.

### **Purpose of the Extraordinary General Meeting**

At the meeting, Flagstone's board of directors will ask Flagstone's shareholders to consider and vote on:

#### **Extraordinary Business**

1. The merger proposal, which is a proposal to approve the merger agreement (a copy of which is attached to this proxy statement/prospectus as Annex A), the first-step merger and the first-step statutory merger agreement (a copy of which is attached to this proxy statement/prospectus as Annex B), upon hearing (1) the special merger report of the board of directors of Flagstone pursuant to Article 265 of the Luxembourg law of August 10, 1915 on commercial companies, as amended (which we refer to as the Luxembourg Corporate Law ) and

(2) the report of the independent expert (*réviseur d'entreprise agréé*) pursuant to Article 266 of the Luxembourg Corporate Law.

**Special Business**

2. The non-binding compensation proposal, which is a non-binding, advisory proposal required under the Dodd-Frank Wall Street Reform and Consumer Protection Act and Section 14A of the Exchange Act to approve the compensation that may be paid or become payable to Flagstone's named executive officers in connection with, or following the completion of, the mergers (this non-binding, advisory proposal relates only to compensation or other arrangements between Flagstone's named executive officers and Flagstone in existence prior to completion of the mergers that may result in a payment to Flagstone's named executive officers in connection with, or following the completion of, the mergers and does not

relate to any new compensation or other arrangements between Flagstone's named executive officers and Validus or, following the mergers, the surviving company in the mergers and its subsidiaries) (see the section of this proxy statement/prospectus titled *The Mergers Interests of Flagstone's Directors and Executive Officers in the Mergers Advisory Vote on Golden Parachutes* ).

The special merger report of the board of directors of Flagstone, pursuant to Article 265 of the Luxembourg Corporate Law, and the report of the independent expert (*réviseur d'entreprise agréé*), pursuant to Article 266 of the Luxembourg Corporate Law, are and will be available for inspection for at least one month prior to the extraordinary general meeting at Flagstone's registered offices in Bermuda and Luxembourg and will also be available for inspection at the extraordinary general meeting.

Flagstone will transact no other business at the extraordinary general meeting except such business as may properly be brought before the extraordinary general meeting or any adjournment, reconvening or postponement thereof.

The approval of the merger proposal is required for completion of the mergers. The approval of the non-binding compensation proposal is not required for completion of the mergers.

### **Recommendation of Flagstone's Board of Directors**

Flagstone's board of directors has unanimously (1) approved the merger agreement and the transactions contemplated by the merger agreement (including the mergers) and (2) determined that it is in the best interests of Flagstone and its shareholders that Flagstone enter into the merger agreement and that the mergers and the terms thereof, together with the other transactions contemplated by the merger agreement and the first-step statutory merger agreement, are fair to, and in the best interests of, Flagstone and its shareholders. **Accordingly, Flagstone's board of directors unanimously recommends that Flagstone shareholders vote FOR the merger proposal. Flagstone's board of directors also unanimously recommends that Flagstone shareholders vote FOR the non-binding compensation proposal.**

### **Number of Shares Outstanding, Record Date and Voting Rights**

Only holders of record of Flagstone shares as of the close of business on October 5, 2012, the record date, will be entitled to notice of, and to vote at, the extraordinary general meeting or any adjournment, reconvening or postponement thereof. As of the close of business on the record date, approximately 71,058,922 Flagstone shares were issued and outstanding and entitled to notice of, and to vote at, the extraordinary general meeting. Flagstone shareholders have one vote for each share held by them (subject to the limitations on voting rights set forth in Section 51A of the Flagstone articles of incorporation, to the extent applicable, see the section of this proxy statement/prospectus titled *Voting Cutback Under Flagstone's Articles of Incorporation* ).

### **Voting by Flagstone's Directors and Executive Officers**

As of the close of business on the record date, Flagstone's directors, executive officers and their affiliates owned or controlled approximately 18,073,812 Flagstone shares, or approximately 25.4% of the Flagstone shares outstanding as of that date.

Entities affiliated with Lightyear, with which Mr. Stewart Gross (a Flagstone director) is affiliated, and entities affiliated with Trilantic, with which Mr. E. Daniel James (a Flagstone director) is affiliated, have entered into the voting agreements pursuant to which these affiliates have agreed to vote all of their respective Flagstone shares (subject to the limitations on voting rights set forth in Section 51A of the Flagstone articles of incorporation, to the extent applicable) in favor of, and to otherwise support, the merger proposal. As of the close of business on the record date, these shareholders owned or controlled 16,000,000 Flagstone shares, or approximately 22.5% of the Flagstone shares outstanding on that date. See the section of this proxy statement/prospectus titled *The Voting Agreements*.

Excluding the Flagstone shares subject to the voting agreements described above, as of the close of business on the record date, Flagstone's directors, executive officers and their affiliates owned or controlled approximately 2,073,812 Flagstone shares, or approximately 2.9% of the Flagstone shares outstanding as of that date. Flagstone currently expects that Flagstone's directors and executive officers will vote their Flagstone shares in favor of each of the proposals to be considered at the extraordinary general meeting.

In considering the recommendation of Flagstone's board of directors that Flagstone's shareholders vote to approve the merger proposal, you should be aware that certain of Flagstone's directors and executive officers have financial interests in the mergers that are different from, or are in addition to, the interests of Flagstone's shareholders generally. See the section of this proxy statement/prospectus titled *The Mergers Interests of Flagstone's Directors and Executive Officers in the Mergers* for additional information about these interests.

## **Voting Agreements**

See the section of this proxy statement/prospectus titled *The Voting Agreements*.

## **Voting Cutback Under Flagstone's Articles of Incorporation**

There are provisions in Flagstone's articles of incorporation that may reduce or increase the voting rights of the holders of Flagstone shares. In general, and except as provided below, shareholders have one vote for each Flagstone share held by them and are entitled to vote at all meetings of Flagstone's shareholders. However, if, and so long as, the shares of a Flagstone shareholder are treated as controlled shares (as generally determined under Section 958 of the Code and the Treasury Regulations promulgated thereunder and under Section 957 of the Code) of any U.S. Person (as defined in Section 7701(a)(30) of the Code) and the controlled shares constitute 9.9% or more of the votes conferred by Flagstone's issued shares, the voting rights with respect to the controlled shares of the U.S. Person (which we refer to as a 9.9% U.S. Shareholder) will be limited, in the aggregate, to a voting power of less than 9.9% under a formula specified in Flagstone's articles of incorporation. The reduction in votes is generally to be applied proportionately among all the controlled shares of the 9.9% U.S. Shareholder. The formula is applied repeatedly until the voting power of each 9.9% U.S. Shareholder has been reduced below 9.9%. Controlled shares include all Flagstone shares that a U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of Section 958 of the Code). The amount of any reduction of votes that occurs by operation of the above limitations will generally be reallocated proportionately among all other Flagstone shareholders so long as the reallocation does not cause any U.S. shareholder to become a 9.9% U.S. Shareholder.

Under these provisions, certain Flagstone shareholders may have their voting rights limited to less than one vote per Flagstone share, while other Flagstone shareholders may have voting rights increased to in excess of one vote per Flagstone share. Moreover, these provisions could have the effect of reducing the votes of certain Flagstone shareholders who would not otherwise be subject to the 9.9% limitation by virtue of their direct ownership of Flagstone shares.

The foregoing summary is qualified in its entirety by reference to the relevant provisions in Flagstone's articles of incorporation.

## **Voting Procedures**

### ***Quorum; Adjournment***

Two or more Flagstone shareholders who together hold more than one-half of the total number of Flagstone shares (which includes Flagstone's outstanding and treasury shares) must be present in person or represented by proxy to establish a quorum for the conduct of all business at the extraordinary general meeting. As of the close of business on the record date, 13,405,337 Flagstone shares were held by Flagstone directly or by Flagstone subsidiaries. Abstentions (Flagstone shares for which proxies have been received but for which the holders have abstained from voting) are counted for the purpose of determining the presence of a quorum. If you hold your shares in street name through a broker, bank, trustee or other nominee, broker non-votes (Flagstone shares for which proxies have been returned by a broker, bank, trustee or other nominee indicating that the broker, bank, trustee or other nominee has not received voting instructions from the beneficial owners of the shares and does not have discretionary authority to vote the shares) are not counted for the purpose of determining the presence of a quorum. As a result, whether you hold your shares in street name or directly in your name, failing to submit voting instructions or failing to vote will make it less likely that a quorum at the extraordinary general meeting will be established.

If a quorum is not present, or if during the meeting a quorum ceases to be present, the extraordinary general meeting will be dissolved. A second meeting may subsequently be convened in accordance with the Flagstone articles of incorporation, at which meeting the presence, in person or represented by proxy, of one shareholder shall be a quorum.



Subject to applicable law, the board of directors (1) may adjourn the extraordinary general meeting for four weeks and (2) must adjourn the extraordinary general meeting for four weeks if directed by shareholders representing 20% or more of the total issued and outstanding Flagstone shares. Only business that could properly have been transacted at the meeting had the adjournment not taken place may be transacted at any adjourned meeting.

### ***Vote Required for Approval; Abstentions and Broker Non-Votes***

The approval of the merger proposal requires the affirmative vote of at least three-fourths of the Flagstone shares present, in person or represented by proxy, at the extraordinary general meeting. Abstentions are considered to be shares present, and thus will have the same effect as a vote AGAINST the merger proposal. If your shares are held in street name as of the close of business on the record date, broker non-votes are not considered to be present. Thus, whether you hold your shares in street name or directly in your name, failing to submit voting instructions or failing to vote will have no effect on the vote to approve the merger proposal (assuming a quorum is present). Entities affiliated with Lightyear, with which Mr. Stewart Gross (a Flagstone director) is affiliated, and entities affiliated with Trilantic, with which Mr. E. Daniel James (a Flagstone director) is affiliated, have entered into voting agreements pursuant to which these affiliates have agreed to vote all of their respective Flagstone shares (subject to the limitations on voting rights set forth in Section 51A of the Flagstone articles of incorporation, to the extent applicable) in favor of, and to otherwise support, the merger proposal (see the section of this proxy statement/prospectus titled *The Voting Agreements* ). As of the close of business on the record date, these shareholders held 16,000,000 Flagstone shares, or approximately 22.5% of the Flagstone shares outstanding on that date.

The approval of the non-binding compensation proposal requires the affirmative vote of at least two-thirds of the Flagstone shares present, in person or represented by proxy, at the extraordinary general meeting. Abstentions are considered to be shares present, and thus will have the same effect as a vote AGAINST the non-binding compensation proposal. If your shares are held in street name through a broker, bank, trustee or other nominee as of the close of business on the record date, broker non-votes are not considered to be present. Thus, whether you hold your shares in street name or directly in your name, failing to submit voting instructions or failing to vote will have no effect on the vote to approve the non-binding compensation proposal (assuming a quorum is present).

The approval of the merger proposal is required for completion of the mergers. The approval of the non-binding compensation proposal is not required for completion of the mergers.

### **Voting in Person**

If you hold your shares directly in your name, you may vote in person at the extraordinary general meeting. If your shares are held in street name through a broker, bank, trustee or other nominee, you may vote in person at the extraordinary general meeting only if you obtain a legal proxy from the broker, bank, trustee or other nominee that holds your shares. Even if you plan to attend the extraordinary general meeting, Flagstone recommends that you also submit your proxy or voting instruction card as described below to ensure that your vote will be counted.

If you hold your shares directly in your name and intend to vote in person at the extraordinary general meeting, please be prepared to provide proper identification, such as a driver's license or passport. If your shares are held in street name through a broker, bank, trustee or other nominee, you will need to provide proof of ownership, such as a recent account statement or letter from your broker, bank, trustee or other nominee, along with proper identification.

### **Submitting Your Proxy**

Whether you hold Flagstone shares directly in your name or in street name through a broker, bank, trustee or other nominee, you may direct how your shares are voted without attending the extraordinary general meeting. If you hold your shares directly in your name, you may submit your proxy by signing, dating and returning your proxy card in the enclosed postage-paid envelope or by personal delivery to the registered office of Flagstone. If your shares are held in

street name

through a broker, bank, trustee or other nominee as of the close of business on the record date, you should submit your voting instructions in accordance with the instructions on the voting instruction form provided to you.

You may abstain on any of the proposals by marking **ABSTAIN** with respect to any proposal.

**If you do not appoint a proxy and you do not vote at the extraordinary general meeting, you will still be bound by the outcome. You therefore are strongly urged to submit your proxy or voting instruction card as soon as possible.**

**For additional questions about the mergers, assistance in submitting proxies or voting your shares, or to request additional copies of this proxy statement/prospectus or the enclosed proxy card, please contact:**

Okapi Partners LLC  
437 Madison Avenue  
28th Floor  
New York, New York 10022  
Toll-Free: (855) 208-8902  
Collect: (212) 297-0720

#### **Revocability of Proxy**

If your shares are held directly in your name, you may change your vote in one of the following three ways at any time before it is exercised:

timely  
delivery of  
written  
notification to  
Flagstone's  
registered  
office that  
you are  
revoking your  
proxy at  
Flagstone  
Reinsurance  
Holdings,  
S.A., 65,  
Avenue de la  
Gare, 9th  
Floor, L-1611  
Luxembourg,  
Grand Duchy  
of  
Luxembourg;

timely  
submission of  
another proxy  
card with a

later date; or

voting in  
person at the  
extraordinary  
general  
meeting.

Your presence without voting at the extraordinary general meeting will not automatically revoke your proxy, and any revocation during the meeting will not affect votes previously taken. If your shares are held in street name through a broker, bank, trustee or other nominee, you must follow the instructions on the voting instruction form provided to you in revoking your previously granted proxy.

### **Appraisal Rights and Dissenters' Rights**

Flagstone shareholders are not entitled to any appraisal rights or dissenters' rights in connection with the mergers.

### **Persons Making the Solicitation**

Proxies in the form enclosed are being solicited by Flagstone's board of directors. The persons named in the accompanying proxy card have been designated as proxies by Flagstone's board of directors. These persons designated as proxies serve as officers of Flagstone.

The expense of soliciting proxies with this proxy statement/prospectus will be borne by Flagstone. Flagstone has engaged Okapi Partners LLC as the proxy solicitor for the extraordinary general meeting for an estimated fee of \$40,000, plus reimbursement of out-of-pocket expenses. In addition to the use of the mails and the Internet, certain of Flagstone's directors, officers or employees may solicit proxies by telephone or personal contact. Upon request, Flagstone will reimburse brokers, banks, trustees or other nominees for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of Flagstone shares.

### **Assistance**

If you need assistance in completing your proxy card or have questions regarding the extraordinary general meeting, please contact Okapi Partners LLC at 437 Madison Avenue, 28th Floor, New York, New York 10022, call collect at (212) 297-0720 or call toll-free at (855) 208-8902.

## THE MERGERS

### General

On August 30, 2012, Validus, Flagstone, Merger Sub and Flagstone Bermuda entered into the merger agreement. The merger agreement provides for (1) the merger of Flagstone with and into Flagstone Bermuda pursuant to which Flagstone Bermuda will survive as a Bermuda exempted company and as successor-in-interest to Flagstone, and (2) immediately following the first-step merger, the merger of Flagstone Bermuda with and into Merger Sub pursuant to which Merger Sub will, as a Bermuda exempted company, be the surviving company. As a result, immediately following the mergers, the successor-in-interest to Flagstone will be a wholly owned subsidiary of Validus.

### Background of the Mergers

Flagstone commenced operations in December 2005. On March 30, 2007, Flagstone's common shares began trading on the NYSE. In 2010, Flagstone completed a redomestication to change its jurisdiction of incorporation from Bermuda to Luxembourg and it has existed as a joint stock corporation (*société anonyme*) under the laws of Luxembourg since May 17, 2010.

The board of directors and senior management of Flagstone regularly review and evaluate Flagstone's long-term strategic plans with the goal of maximizing shareholder value. As part of this ongoing process, Flagstone's board of directors and senior management from time to time consider a variety of potential options with respect to Flagstone and its businesses, including possible acquisitions, divestitures and business combination transactions.

In the summer of 2011, another company in the reinsurance industry approached Flagstone in connection with a potential business combination, and Flagstone and this company engaged in preliminary discussions but no transaction was finalized. In connection with these discussions and Flagstone's ongoing consideration of possible options, Flagstone engaged Goldman, Sachs & Co. (which we refer to as Goldman Sachs) to serve as its financial advisor.

On October 24, 2011, Flagstone announced a strategic decision to divest its ownership positions in its Lloyd's and Island Heritage reporting segments in order to address changing business conditions, refocus its underwriting strategy on its property catastrophe reinsurance business and reduce its focus on reporting segments that absorb capital and produce lower returns. In addition to the proposed divestitures, Flagstone undertook significant cost cutting measures, which were intended to improve Flagstone's competitive position, including closing offices in Dubai and Puerto Rico and pursuing the downsizing of Flagstone's global operations through reduction in workforce in India and South Africa and additional streamlining of its global back office, support, analytical and other operations to one location in Halifax, Canada.

From late 2011 through January 2012, several parties approached Mr. David Brown, Flagstone's Chief Executive Officer, on an unsolicited basis to inquire as to whether Flagstone would be interested in discussing a business combination transaction. Mr. Brown discussed these approaches with members of the finance committee of Flagstone's board of directors (which we refer to as the finance committee) who indicated a consensus to discuss the matter with Flagstone's board of directors promptly. Messrs. David Brown, Stewart Gross, E. Daniel James, Jan Spiering and Wray Thorn (Chairman) are the members of Flagstone's finance committee.

On February 14, 2012, at a meeting of Flagstone's board of directors, the directors discussed, among other things, the unsolicited inbound calls Mr. Brown had received over the past several months as well as the current status of Flagstone's business and industry. During this meeting, representatives of Cravath, Swaine & Moore LLP (which we refer to as Cravath), Flagstone's outside legal counsel, discussed the fiduciary duties of Flagstone's board of directors under applicable law as well as topics specific to a potential business combination transaction. In addition, a representative of Goldman Sachs reviewed Goldman Sachs' preliminary financial analyses of selected potential strategic options available to Flagstone. After discussion, Flagstone's board of directors determined that a potential

business combination transaction with a third party could be an attractive option for Flagstone shareholders and that Flagstone should begin an organized process to review strategic options rather than responding individually to inbound inquiries. After discussion

among the members of Flagstone's board of directors and a representative of Goldman Sachs, Flagstone's board of directors determined to contact seven potential acquirors (including Validus) selected based on, among other things, the likelihood that these acquirors would have interest in a potential transaction and their ability to complete a transaction. Flagstone's board of directors also delegated authority to the finance committee to lead the process to consider a potential business combination transaction.

Following the meeting of Flagstone's board of directors on February 14, 2012, representatives of Goldman Sachs contacted the potentially interested parties as directed by Flagstone's board of directors. In addition to these outbound contacts, Mr. Brown and representatives of Goldman Sachs also received various inbound calls from other interested parties. Mr. Brown and representatives of Goldman Sachs periodically briefed the finance committee on the status of the review. The finance committee decided that Flagstone's board of directors should decide at the regularly scheduled meeting of the board on March 8, 2012 whether any of the parties that had made inbound calls should be invited to participate in the process.

On March 7, 2012, at Flagstone's request, Validus executed a confidentiality agreement with Flagstone in order to facilitate the disclosure of confidential information relating to Flagstone.

On March 8, 2012, at a regularly scheduled meeting of Flagstone's board of directors, a representative of Goldman Sachs updated the directors on the status of the review process and made a preliminary financial analysis of Flagstone. Flagstone's board of directors then discussed whether to expand the process to include other parties that had made inbound calls. Following discussion, Flagstone's board of directors instructed Goldman Sachs to invite the parties that had made inbound calls to Flagstone to participate in the process. During this meeting, a representative of Goldman Sachs informed Flagstone's board of directors that a fund managed by an affiliate of Goldman Sachs had an investment representing approximately 20% of the economic interests in one of the parties that had made an inbound call to Flagstone. After discussion with Cravath, Flagstone's board of directors determined that the finance committee would discuss this topic at its forthcoming meetings.

On March 14, 2012, Mr. Jeff Consolino, the President and Chief Financial Officer of Validus, informed a representative of Goldman Sachs that Validus was not interested in pursuing a transaction with Flagstone at that time.

Between March 12, 2012 and March 19, 2012, the finance committee met several times and, with advice from representatives of Cravath, determined to engage Evercore Group L.L.C. (which we refer to as Evercore) as a financial advisor in light of the participation of a party in which a fund managed by an affiliate of Goldman Sachs had an investment representing approximately 20% of the economic interests of such party. The engagement of Evercore was based on Evercore's qualifications and existing familiarity with Flagstone and its businesses. At the time, Evercore was working for Flagstone in connection with its divestiture of its Lloyd's business; see *Opinion of Flagstone's Financial Advisor* for additional information. On March 19, 2012, Goldman Sachs notified Flagstone that Goldman Sachs believed that it should no longer serve as a financial advisor to Flagstone in connection with the consideration of potential strategic options and on March 20, 2012, Flagstone and Goldman Sachs mutually agreed to terminate Goldman Sachs' engagement (including Goldman Sachs waiving any fees payable by Flagstone in connection with its engagement).

Between March 8, 2012 and April 6, 2012, Mr. Brown and Flagstone's representatives held preliminary discussions with the parties that had shown interest in pursuing a transaction with Flagstone and provided regular updates on these discussions to the finance committee and an update to Flagstone's board of directors on March 28, 2012. On March 30, 2012, at a meeting of the finance committee, the finance committee directed Evercore to open a virtual data room to parties that had signed confidentiality agreements to facilitate the submission of proposals from these parties. Between March 30, 2012 and April 13, 2012, several of these parties provided preliminary indications of interest to Flagstone.

On April 13, 2012, at a meeting of the finance committee, representatives of Evercore provided a summary of the initial indications of interest that Flagstone had received to date in connection with Flagstone's review process and an

update on the discussions with the interested parties. The

finance committee authorized representatives of Evercore to send to each of the parties that continued to show interest in a possible transaction a process letter requesting the submission of each party's proposal to acquire 100% of the shares of Flagstone. These letters, which Evercore sent to seven interested parties in the days following April 13, 2012, indicated that the deadline for submitting a bid was May 4, 2012, and requested that the parties return a markup of a form of merger agreement to be provided by Cravath.

Between April 13, 2012 and May 4, 2012, members of Flagstone's senior management and representatives of Evercore held due diligence sessions, including management presentations, with several of the interested parties and responded to due diligence requests.

On May 4, 2012, Flagstone received written proposals from five interested parties (including markups of the draft merger agreement).

On May 7, 2012, at a meeting of the finance committee, representatives of Evercore and Cravath reviewed for the finance committee the proposals that Flagstone had received, including the contingencies associated with each proposal. After discussion, the members of the finance committee determined to recommend to Flagstone's board of directors that Flagstone continue to work with two parties (which we refer to as Party A and Party B) that had submitted the most favorable of the proposals thus far in order to determine whether a transaction could be finalized on attractive terms. Party A's proposal offered a mix of cash and publicly-traded stock, and Party B's proposal offered all cash. On May 8, 2012, Flagstone's board of directors met to review the five proposals that had been submitted and, after discussion, determined to follow the finance committee's recommendation. On May 17, 2012, at a regularly scheduled meeting, Flagstone's board of directors received updates from Flagstone's senior management and representatives of Evercore and Cravath and instructed them to continue discussions with Party A and Party B.

In late May 2012, discussions with Party A were terminated due to, among other reasons, a disagreement between Flagstone and Party A with respect to the value of Party A's proposal, concerns regarding the feasibility and complexity of the proposed transaction and possible regulatory obstacles to consummating the proposed transaction. In early June 2012, Party B withdrew from the process as it was unable to secure financing for a transaction. At meetings of the finance committee on June 1, 2012 and June 13, 2012, Mr. Brown and representatives of Evercore and Cravath provided updates on the status of the review process reflecting these developments.

On June 19, 2012, at a meeting of Flagstone's board of directors, representatives of Evercore reviewed the status of the process in light of the termination of discussions with Party A and Party B. Mr. Brown and other members of Flagstone's senior management also reviewed the strategic and operating options available to Flagstone, including continuing to pursue a standalone strategy, continuing the business with a scaled-down management team and business plan and pursuing a self-administered or externally-assisted runoff. After discussion, Flagstone's board of directors determined that a party that had submitted a proposal on May 4, 2012 (which we refer to as Party C) should be re-approached to determine whether a sale transaction on attractive terms was possible with Party C. Following Flagstone's board of directors' meeting on June 19, 2012, representatives of Evercore re-approached Party C as directed by Flagstone's board of directors.

After being re-approached by representatives of Evercore, Party C indicated continued interest in pursuing an acquisition of Flagstone. On July 3, 2012, Party C provided a preliminary non-binding all-cash indication of interest of \$8.50 per share of Flagstone, which was subject to due diligence, confirmation of Party C's assumptions and the availability of financing. Shortly thereafter, Party C's access to the data room was renewed.

As discussions were proceeding in 2012, Flagstone continued to implement the strategic initiatives it announced in October 2011 to realign its strategy and core capabilities. By June 2012, Flagstone had:

continued its efforts to refocus on core capabilities in property and property catastrophe lines of business and significantly reduced its underwriting leverage with net premiums written from continuing operations for the six months ended June 30, 2012 of \$250.2 million compared to \$453.6 million for the six months ended June 30, 2011;

announced  
or  
completed  
divestitures  
of its Island  
Heritage  
and Lloyd's  
segments,  
releasing  
capital  
previously  
supporting  
these  
business  
segments  
(the sale of  
Island  
Heritage  
was  
completed  
on April 5,  
2012 to  
BF&M  
Limited,  
and the sale  
of its  
Lloyd's  
operation to  
a wholly  
owned  
subsidiary  
of ANV  
Holdings  
BV, which  
was  
announced  
on April 3,  
2012 and  
completed  
on August  
20, 2012);  
and

continued  
its expense  
reduction  
initiatives.

In late June 2012, Mr. Gross met with Mr. Alok Singh, a member of Validus' board of directors. Although the initial purpose of the meeting was to discuss topics other than a potential business combination between Flagstone and Validus, following the meeting Mr. Singh arranged for Mr. Consolino and Mr. Ed Noonan, the Chairman and Chief

Executive Officer of Validus, to meet with Mr. Gross. After this meeting, Validus on July 2, 2012 expressed renewed interest in a possible transaction with Flagstone.

Between July 2, 2012 and July 6, 2012, after receiving the approval of the members of the finance committee, Mr. Brown spoke with Mr. Consolino a number of times on a preliminary basis about a potential transaction and valuation and agreed to provide Validus with access to Flagstone's data room.

On July 9, 2012, Validus submitted a non-binding indication of interest valued at \$8.40 per share of Flagstone (consisting of \$2.00 in cash and the balance in shares of Validus), which indicated that the definitive agreement (if discussions advanced to that stage) would provide Flagstone with a reasonable degree of closing certainty.

On July 10, 2012 and July 13, 2012, at meetings of the finance committee, Mr. Brown and representatives of Evercore updated the finance committee on the status of discussions with Party C and Validus. During these updates, Mr. Brown told the other members of the finance committee that Party C had requested an exclusivity period so that it could continue with its due diligence process and submit a revised proposal. After discussion, the finance committee determined not to grant Party C an exclusivity period, as Party C had already been provided with a lengthy period to conduct due diligence, arrange definitive financing plans and submit a revised proposal and Flagstone was also in discussions with Validus.

On July 12, 2012, after Flagstone had executed a confidentiality agreement, Validus provided Flagstone with access to certain due diligence materials relating to Validus. Between July 10, 2012 and July 25, 2012, representatives of Validus and Flagstone engaged in numerous due diligence meetings and discussions, during which representatives of Flagstone's senior management worked with representatives of Validus to encourage Validus to increase the value of its indication of interest. During this same period, Party C continued its due diligence process and made limited contact with Flagstone and its representatives.

On July 25, 2012, at the direction of the finance committee, Mr. Brown sent a draft merger agreement to Mr. Consolino so that Validus and its advisors could begin to consider the structure of a potential transaction. Also on July 25, 2012, Mr. Consolino spoke with Mr. Brown and informed him that, based on Validus's due diligence analysis of Flagstone, Validus was not able to increase its price from its indication of interest submitted on July 9, 2012. At a meeting on July 27, 2012, the finance committee determined that Evercore and Flagstone's senior management should continue to work with Validus to try to improve Validus's proposed valuation of Flagstone and should continue to respond to due diligence inquiries from Party C (to the extent Party C submitted them).

On August 9, 2012, Flagstone's board of directors held a regularly scheduled meeting. Members of Flagstone's senior management as well as representatives of Evercore and Cravath attended portions of the meeting. At this meeting, Mr. Brown updated the other directors on the status of discussions with Party C and Validus. A representative of Cravath then reviewed Flagstone's process to date from the perspective of the directors' fiduciary duties under applicable law. The directors then asked Mr. Brown and representatives of Evercore and Cravath questions relating to the relative merits and risks, including business, completion and financing risks, of pursuing a transaction with Party C as compared to Validus, and a discussion ensued. Members of Flagstone's senior management (other than Mr. Brown) and representatives of Evercore then left the meeting, and

Flagstone's board of directors met in executive session with Mr. Brown and representatives of Cravath present. During the executive session, the directors discussed the options available to Flagstone to maximize shareholder value, including continuing with Flagstone's current standalone plan, pursuing a scaled-down business plan and pursuing other strategic and operating options, including a sale transaction and a self-administered or externally-assisted runoff. After the directors asked Mr. Brown numerous questions about these possible options, Mr. Brown left the meeting. The directors then engaged in a discussion about the various risks and uncertainties associated with the possible options available to Flagstone and the importance of concluding the review process soon irrespective whether the process ultimately resulted in a sale transaction. After Mr. Brown rejoined the meeting, the board of directors directed the finance committee to determine whether a sale transaction could be achieved on attractive terms in a short time frame.

On August 10, 2012, a representative of Evercore, at the direction of the finance committee, contacted Mr. Consolino and requested a firm and final indication of interest so that the finance committee and Flagstone's board of directors could consider and evaluate Validus' best offer.

On August 13, 2012, Mr. Edward Noonan, the Chief Executive Officer of Validus, and Mr. Consolino spoke with representatives of Evercore and indicated that Validus would be including a price range of \$8.00 to \$8.50 in its revised indication of interest. Representatives of Evercore requested that instead of including a price range, Validus include the best possible bid it was willing to submit so as to allow Flagstone's board of directors and finance committee to definitively evaluate Validus' bid and determine whether it was in the best interests of Flagstone shareholders to pursue a potential transaction with Validus.

On August 14, 2012, Messrs. Noonan and Consolino told representatives of Evercore via telephone that Validus would be reducing the value of its bid due to the risks and complexities involved in Flagstone's business. Later that day, Validus provided a revised indication of interest valued at \$8.15 per Flagstone share (consisting of \$2.00 in cash and the balance in shares of Validus). The other terms of Validus' submission were substantially similar to the terms contained in Validus' indication of interest submitted on July 9, 2012.

On August 15, 2012, at a meeting of the finance committee, the members of the finance committee discussed the appropriate response to Validus' revised offer and the likelihood that Validus would increase its offer. The members of the finance committee also discussed the value that pursuing Flagstone's standalone plan or other strategic and operating options might deliver to Flagstone shareholders as compared to accepting an attractive proposal from Validus, taking into account the execution risk of pursuing Flagstone's standalone or modified standalone business plan. After discussion, the members of the finance committee instructed Mr. Gross to contact Mr. Singh and indicate that the finance committee would not recommend Validus' revised offer to Flagstone's board of directors and to encourage Validus to submit its best and final offer at a higher price.

From August 17, 2012 through August 20, 2012, a series of calls between Mr. Gross and Messrs. Consolino, Noonan and Singh took place in which Mr. Gross, with input from Mr. Brown, addressed some of Validus' concerns regarding specific risks in Flagstone's business and encouraged Validus to increase the price of its offer. In response, the representatives of Validus indicated to Mr. Gross that they would be willing to submit a revised bid of \$8.40 per share.

On August 20, 2012, a meeting of the finance committee was held to determine the appropriate response to Validus' latest offer. At the request of the other members of the finance committee, Mr. Brown provided his views on the relative merits and risks of a potential transaction with Validus. Mr. Brown noted that after the combination of the two companies, Flagstone shareholders would have the benefit of owning more liquid shares of a larger, more diversified, company in a similar line of business as Flagstone. Mr. Brown also compared Flagstone's current market valuation (based on its multiple to book value) to that of its industry peers, Validus and the combined company following a merger. Mr. Brown also discussed Flagstone's prospects as a standalone business in light of Flagstone's small size relative to its peers and the timing and execution risks associated with a scaling down of Flagstone's business. After discussion, the members of the finance committee determined that, considering the value that was being offered by

Validus and the execution risks of the other strategic and operating options available to Flagstone, it was appropriate and in the best

interests of Flagstone shareholders to continue to pursue a transaction with Validus. The finance committee concluded that Validus would likely be willing to improve its offer further, and instructed the representatives of Evercore to inform Validus that the members of the finance committee would be willing to recommend a bid of \$8.50 per share (consisting of \$2.00 in cash and the balance in shares of Validus) to Flagstone's board of directors for consideration. Later in the evening of August 20, 2012, representatives of Evercore delivered this message to Mr. Consolino, and Mr. Consolino indicated that Validus would submit a revised written offer for \$8.50 per share the following day, and that this would represent Validus' best and final offer.

On August 21, 2012, Validus submitted a revised written offer of \$2.00 in cash and 0.1935 Validus shares per share of Flagstone (or \$8.50 per share of Flagstone based on the closing price of Validus common shares on August 20, 2012). The other terms of Validus' offer were substantially similar to the terms contained in Validus' indications of interest submitted on July 9, 2012 and August 14, 2012.

On August 22, 2012, Flagstone's board of directors held a meeting to consider the revised proposal received from Validus. The members of the finance committee indicated that, after deliberation, the finance committee had resolved to recommend Validus' offer to the board. Representatives of Evercore reviewed the key terms and presented various financial analyses of Validus' revised proposal. Representatives of Evercore also discussed Flagstone's other available options, including proceeding on a standalone basis and pursuing a possible transaction with Party C, and highlighted the significant risks associated with these options. With respect to a possible transaction with Party C, the representatives of Evercore noted that Flagstone had not received a formal proposal from Party C confirming its preliminary non-binding all-cash indication of interest submitted on July 3, 2012, and that there were significant risks associated with Party C's proposal, including financing and execution risks and risks to Flagstone's business. The representatives of Evercore concluded that in their view the proposal from Validus was the most attractive option available to Flagstone. At the request of the other directors, Mr. Brown summarized the due diligence Flagstone and its advisors had performed on Validus. The directors then discussed Flagstone's review process as a whole and the large number of participants that Flagstone and its advisors had contacted regarding a sale transaction during the process. In addition, the directors reviewed and discussed the relative merits and risks of a transaction with Validus and determined that it was in the best interests of Flagstone shareholders to pursue a transaction with Validus considering the value and certainty that Validus' offer provided Flagstone shareholders as compared to the other available options. After additional discussion and deliberation, Flagstone's board of directors instructed the representatives of Evercore to inform Validus that the board of directors would support its offer in principle subject to prompt negotiation of an acceptable merger agreement. Flagstone's board of directors also instructed Mr. Brown to contact Mr. Consolino to establish a plan for the appropriate next steps, and the representatives of Cravath to contact Validus' outside legal counsel Skadden, Arps, Slate, Meagher & Flom LLP (which we refer to as Skadden) to coordinate negotiation of a definitive merger agreement.

On August 22, 2012 and August 23, 2012, Messrs. Brown and Consolino discussed the process and timing for negotiating and finalizing definitive documentation and established a goal of completing the negotiation of a definitive merger agreement by August 30, 2012. On August 23, 2012, Validus and Flagstone exchanged supplemental due diligence requests.

From August 24, 2012 through the announcement of the transaction, Validus and representatives of Skadden continued to perform due diligence on Flagstone, and Flagstone and representatives of Evercore and Cravath continued to perform due diligence on Validus.

In the early hours of August 26, 2012, Skadden delivered to Cravath a revised draft merger agreement.

On the morning of August 27, 2012, at a meeting of the finance committee, a representative of Cravath provided an overview of the comments to the merger agreement received from Skadden, with particular focus on the provisions relating to deal protection and closing certainty included in the revised draft. The representative of Cravath also informed the members of the finance committee that Validus had requested that entities affiliated with Lightyear and

Trilantic, both of

which are major shareholders of Flagstone with representatives on Flagstone's board of directors, enter into voting agreements with Validus. The representative of Cravath then reviewed the terms of the draft voting agreement delivered by Skadden earlier that day. After discussing these provisions and asking questions of the representative of Cravath, the members of the finance committee instructed Cravath as to how to approach certain key issues in negotiations with Skadden later in the day. On the afternoon of August 27, 2012, representatives of Skadden and Validus met with representatives of Cravath to discuss the terms and conditions of the merger agreement.

On the morning of August 28, 2012, at a meeting of the finance committee, a representative of Cravath provided an update on the status of the negotiations. The members of the finance committee and the representatives of Cravath discussed the remaining open issues (including the size of the termination fee, restrictions on Flagstone's ability to solicit competing proposals, restrictions on the ability of Flagstone's board of directors to change its recommendation and Validus' request that the voting agreements contain a tail period requiring Trilantic and Lightyear to vote against any competing proposals for six months after termination of the merger agreement) and the members of the finance committee provided direction to the representative of Cravath as to how to negotiate these issues. Later in the afternoon of August 28, 2012, Cravath delivered a revised draft merger agreement to Skadden reflecting the results of discussions and resolution of issues to that point in the day. Cravath also delivered a revised draft voting agreement to Skadden later in the evening of August 28, 2012. Later in the evening on August 28, 2012, Validus indicated that it would not enter into the transaction unless the voting agreements contained a form of tail provision, but proposed that the length of the tail be shortened to three months and would only be triggered under specified events.

In the early hours of August 29, 2012, Skadden delivered a revised draft merger agreement to Cravath that reflected the principal deal protection terms the parties had agreed upon, including providing for the ability of Flagstone to engage in discussions and negotiations with parties submitting competing proposals under certain circumstances, the ability of Flagstone's board of directors to change its recommendation under certain circumstances and a reduced termination fee as compared to Validus' original proposal. Drafts and revisions of the merger and voting agreements were subsequently exchanged between the two sides several times prior to the execution of the agreements. On the morning of August 29, 2012, the finance committee again met with a representative of Cravath and, after discussing the status of the negotiations, the finance committee determined that the proposed transaction should be submitted for consideration to Flagstone's board of directors.

On the morning of August 29, 2012, Validus' board of directors met. Prior to the meeting, Validus' directors had been provided with a set of meeting materials, including a draft of the substantially negotiated merger agreement, a copy of a proposed form of voting agreement to be executed by Trilantic and Lightyear and a set of draft board resolutions. At this meeting, Validus' board of directors discussed the terms of the proposed merger agreement. After discussion, Validus' board of directors determined, for the reasons described under *Validus' Reasons for the Mergers*, that it was advisable and in the best interests of Validus to enter into the merger agreement and approved the merger agreement.

On the afternoon of August 29, 2012, Flagstone's board of directors met. Prior to the meeting, Flagstone's directors had been provided with a set of meeting materials, including a draft of the substantially negotiated merger agreement, a copy of a proposed form of voting agreement to be executed by Trilantic and Lightyear, a summary of the board of directors' fiduciary duties under applicable law and the key terms and conditions of the proposed merger agreement prepared by Cravath, a financial analysis of the proposed transaction prepared by Evercore and a set of draft board resolutions. At this meeting, representatives of Cravath reviewed with the directors their fiduciary duties under applicable law, the final terms of the merger agreement and associated agreements that had been negotiated with Validus and Skadden and certain executive compensation matters, and answered the directors' questions. Representatives of Evercore then reviewed with the board their financial analysis of the offer made by Validus and answered the directors' questions. The board of directors then discussed the terms of the proposed merger agreement, as well as the prospects of a superior offer being submitted by Party C or other potential bidders, including a



bidder that had participated in the process and had recently submitted an informal offer that would provide Flagstone shareholders with a value at closing below the value of Validus' offer at the time and the possibility of additional value based on post-closing contingencies, and concluded that a proposal superior to Validus' was unlikely to be forthcoming and that the current proposed deal with Validus represented Flagstone's best option for maximizing shareholder value. Evercore then delivered to the board its oral opinion, subsequently confirmed in writing, to the effect that, as of August 29, 2012, and subject to the factors, assumptions, qualifications and limitations set forth therein, the consideration to be paid to the holders of the outstanding shares of Flagstone under the merger agreement was fair, from a financial point of view, to such holders. After further discussion, Flagstone's board of directors unanimously determined, for the reasons described under *Flagstone's Reasons for the Mergers; Recommendation of Flagstone's Board of Directors* below, that the mergers, on the terms and subject to the conditions set forth in the merger agreement, were fair to, and in the best interests of, Flagstone and its shareholders and approved the merger agreement and the transactions contemplated by the merger agreement, and resolved that the merger agreement, the first-step merger and the first-step statutory merger agreement be submitted to the shareholders of Flagstone for their consideration at a meeting of shareholders and to recommend that the shareholders of Flagstone vote their shares in favor of the approval of the merger agreement, the first-step merger and the first-step statutory merger agreement.

The merger agreement and the voting agreements were executed on the morning of August 30, 2012, and Flagstone and Validus announced the transaction through a joint press release issued that morning prior to the open of the U.S. financial markets.

#### **Flagstone's Reasons for the Mergers; Recommendation of Flagstone's Board of Directors**

Flagstone's board of directors has unanimously (1) approved the merger agreement and the transactions contemplated by the merger agreement (including the mergers) and (2) determined that it is in the best interests of Flagstone and its shareholders that Flagstone enter into the merger agreement and that the mergers and the terms thereof, together with the other transactions contemplated by the merger agreement and the first-step statutory merger agreement, are fair to, and in the best interests of, Flagstone and its shareholders. **Accordingly, Flagstone's board of directors unanimously recommends that Flagstone shareholders vote FOR the merger proposal.**

#### *Considerations and Factors Weighing in Favor of the Mergers*

In reaching its decision on August 29, 2012, to unanimously approve the merger agreement and the transactions contemplated by the merger agreement, Flagstone's board of directors consulted with members of Flagstone's management, as well as with Flagstone's legal and financial advisors, and considered a variety of factors weighing positively in favor of the mergers, including the following:

the value to be received by Flagstone shareholders in the proposed transaction, including the fact that the merger consideration represented a premium of 19.4% over

the closing share price of Flagstone shares on August 29, 2012, the last trading day prior to the execution of the merger agreement, and a 23.0% premium over the average closing price of Flagstone shares during the month prior to that date, in each case, based on the closing share price of Validus common shares on August 29, 2012;

the fact that Flagstone's board of directors conducted a thorough and intensive strategic review process that included proposals from and negotiations with multiple parties, but did not yield another potential sale transaction that was more attractive to

Flagstone  
shareholders  
than the  
proposed  
transaction  
with Validus  
(with due  
regard to  
closing  
certainty);

the  
determination  
by Flagstone's  
board of  
directors that  
Validus offer  
represented  
the best  
opportunity to  
maximize  
shareholder  
value  
available to  
Flagstone and  
that none of  
the other  
strategic and  
operating  
options  
available to  
Flagstone  
(including  
remaining  
independent  
and pursuing  
Flagstone's  
standalone  
plan or  
executing a  
scaled-down  
business plan)  
was likely to  
present an  
opportunity  
that is equal  
or superior to  
the proposed  
transaction  
with Validus  
or



to create value for Flagstone shareholders that is equal to or greater than the value created by the proposed transaction in the foreseeable future, after considering the risks, potential advantages, uncertainties and time required to execute these other strategic and operating options;

the financial analysis of Evercore, Flagstone's financial advisor in connection with the mergers, and the opinion of Evercore to Flagstone's board of directors, dated as of August 29, 2012, which stated that as of such date and based upon and subject to the assumptions made, factors considered and limitations on the scope of review of Evercore as set forth therein, the consideration to

be paid to the holders of Flagstone shares pursuant to the merger agreement was fair, from a financial point of view, to such holders, as more fully described in the section titled

*Opinion of Flagstone's Financial Advisor;*

the possibility that, if Flagstone did not enter into the merger agreement, (1) it could take a considerable period of time before the trading price of Flagstone's shares would return to and sustain \$8.43 per share (the per share value of Validus's offer at the time of announcement) as adjusted for present value, and (2) potential losses due to claims arising from catastrophic events could reduce earnings and shareholder value, in which case a comparable

transaction may  
no longer be  
available or a  
rating agency  
could  
downgrade  
Flagstone's  
rating;

the form of  
consideration to  
be received in  
the proposed  
transaction by  
Flagstone  
shareholders of  
a combination  
of cash and  
Validus  
common shares,  
which affords  
Flagstone  
shareholders  
both the  
opportunity to  
participate in  
the strong  
business  
performance,  
accelerated  
growth and  
other  
opportunities  
expected of  
Validus  
following the  
completion of  
the mergers  
through the  
share  
component and  
to receive some  
cash at closing  
for the value of  
their shares  
through the  
cash  
component;

Validus  
business, results

of operations,  
financial  
condition,  
earnings and  
return to  
shareholders on  
a historical and  
prospective  
basis,  
including, but  
not limited to,  
the increased  
potential for  
growth,  
development  
and profitability  
of Validus  
following the  
completion of  
the mergers  
(taking into  
account the  
results of  
Flagstone's due  
diligence  
review of  
Validus), in  
comparison to  
Flagstone's  
business, results  
of operations,  
financial  
condition,  
earnings and  
return to  
shareholders on  
a historical and  
prospective  
standalone  
basis;

the fact that  
Flagstone's  
management's  
due diligence  
analysis and  
assessment of  
Validus, based  
on Flagstone's  
management's  
understanding

of the  
reinsurance and  
insurance  
business,  
reflected  
favorably upon  
Validus  
business, results  
of operations,  
financial  
condition,  
earnings and  
return to  
shareholders on  
a historical and  
prospective  
basis;

the financial  
market  
conditions and  
historical  
market prices,  
volatility,  
liquidity and  
trading  
information  
with respect to  
the shares of  
each of  
Flagstone and  
Validus,  
including the  
historically  
higher market  
multiple on  
Validus  
common  
shares;

the strong  
balance sheet  
and cash flow  
of Validus and  
its historical  
pattern of  
returning  
capital to  
shareholders  
through  
dividends (the

rate of which currently paid by Validus on its common shares is higher than Flagstone's) and share repurchases and the expectation that the combined company would likely continue this pattern of returning capital to shareholders;

the opportunity for Flagstone shareholders to benefit from any increase in the trading price of Validus common shares between the announcement of the transaction and the completion of the mergers because the merger agreement provides for a fixed exchange ratio (and thus a fixed number of Validus common shares in the share component of the merger consideration); Flagstone's board of directors assessment, based on its

analysis and understanding of the financial performance, financial condition, earnings and future prospects of the combined company, that Validus, following the completion of the mergers, will have enhanced size and scope, with shareholders equity of approximately \$4.0 billion (as of June 30, 2012), which is expected to lead to improved financial strength and enable Validus to capture highly attractive opportunities in the global insurance and reinsurance markets, enabling Flagstone shareholders to participate in the upside of owning more liquid shares in a larger and better capitalized underwriting platform;

the belief of Flagstone's board of directors and management that Validus, following the completion of the mergers, would have more diversified underwriting risk in comparison to Flagstone, which should allow Validus to better weather cyclical conditions, reduce volatility of earnings and cash flows and deliver more stable results under a wider range of market conditions and economic environments while creating a foundation for future growth, based upon, among other things, the fact that Validus would have both a significant insurance and reinsurance business, and greater diversification with respect to premiums and reserves by lines of business, risk class and geography;

the fact that Flagstone shareholders would receive some liquidity through the cash portion of the merger consideration and the share portion of the merger consideration would provide enhanced liquidity as compared to Flagstone's shares;

the belief of Flagstone's board of directors and management that the property catastrophe exposure of Validus following the completion of the mergers would remain below Flagstone's stated tolerances, allowing for future growth;

the experience and prior success of Validus' management in integrating large acquisitions into Validus' existing business;

the anticipated positive stakeholder reactions to the proposed transaction with Validus and the fact that entities affiliated with Lightyear and entities affiliated with Trilantic, two of Flagstone's largest shareholders, had expressed support for the proposed transaction prior to the announcement of the transaction and entered into the voting agreements;

the expected qualification of the mergers as tax-free reorganizations under the Code, which generally allows Flagstone shareholders to defer

the recognition of any gain from the receipt of the stock portion of the merger consideration, as described in the section of this proxy statement/prospectus titled *United States Federal Income Tax Consequences of the Mergers*;

the risk that further prolonging Flagstone's sale process could have resulted in the loss of an opportunity to complete a transaction with Validus and distracted Flagstone's senior management from implementing Flagstone's business plan;

the belief of Flagstone's board of directors and management that, based on the terms of the merger agreement, the proposed transaction with Validus has a high degree of closing certainty;

the fact that the merger agreement permits Flagstone to continue to declare and pay regular quarterly cash dividends at historical levels;

the belief that the terms and conditions

of the merger agreement, including, but not limited to, the representations, warranties and covenants of the parties, the conditions to closing and the form and structure of the merger consideration, are reasonable;

the fact that the terms of the merger agreement provide that, under certain circumstances, Flagstone's board of directors is permitted to withhold or withdraw its recommendation that Flagstone shareholders vote to approve the merger proposal, subject to compliance with certain procedural requirements;

the fact that the termination fee of \$24.16 million is approximately equal to 3.9% of the equity value of the proposed transaction (based on the equity value at the time of announcement), which Flagstone's board of directors did not believe would preclude any other party from making a competing proposal for Flagstone;

Validus commitments in the

merger agreement to use its reasonable best efforts to complete the proposed transaction (subject to the terms and conditions of the merger agreement); and

the ability of the parties to complete the mergers, including the fact that Validus obligation to complete the mergers is not conditioned upon receipt of financing.

***Considerations and Factors Weighing Against the Mergers***

In the course of its deliberations, Flagstone's board of directors also identified and considered a variety of risks and countervailing factors weighing negatively against the mergers, including the following:

the possibility that the completion of the mergers may be delayed or not occur at all, and the adverse impact this would have on Flagstone and its business;

because the share portion of the merger consideration is a fixed number of Validus common shares, Flagstone shareholders could be adversely affected by a decrease in the trading price of Validus common shares following the announcement of the proposed transaction, and the merger agreement does not provide Flagstone or its shareholders with a price-based termination right or other similar protection, such as a collar, with respect to Validus share price;

the fact that, if the mergers are not completed, Flagstone will be required to pay its own expenses associated with the merger agreement, the mergers and the other transactions contemplated by the merger agreement, as

well as pay Validus a termination fee of \$24.16 million, in certain circumstances and subject to the terms and conditions of the merger agreement, or a fee in the amount of \$6 million, in the event that Flagstone shareholders do not approve the proposed transaction at the extraordinary general meeting or if Flagstone willfully and materially breaches its non-solicitation obligations or its obligation to convene the extraordinary general meeting to approve the merger proposal, and subject to the terms and conditions of the merger agreement (any subsequent termination fee payable by Flagstone would, however, be reduced by the amount of this payment), as more fully described in the section of this proxy statement/prospectus titled *The Merger Agreement Effect of Termination; Termination Fee*;

the possibility that the following factors, either individually or in combination, could discourage potential acquirors from making a

competing proposal to acquire Flagstone: (1) the restrictions on Flagstone's ability to solicit, initiate or knowingly facilitate or encourage a competing proposal to acquire Flagstone, (2) the requirement that, in certain circumstances and subject to the terms and conditions of the merger agreement, Flagstone is required to pay Validus a termination fee of \$24.16 million or a fee in the amount of \$6 million, (3) the requirement that the approval of the merger agreement be submitted to a vote of Flagstone shareholders even if Flagstone's board of directors withholds or withdraws (or modifies or qualifies in a manner adverse to Validus) its recommendation that Flagstone shareholders vote to approve the merger proposal, (4) the inability of Flagstone to terminate the merger agreement to enter into a superior proposal and (5) the requirement that entities affiliated with Trilantic and entities affiliated with Lightyear vote against competing proposals, under certain

circumstances, for three months following the termination of the merger agreement, each as more fully described in the section of this proxy statement/prospectus titled *The Merger Agreement* and the section of this proxy statement/prospectus titled *The Voting Agreements*;

the possible disruption to Flagstone's business that may result from the announcement of the proposed transaction, including the diversion of management and employee attention from the day-to-day operations of Flagstone's business, potential employee attrition and the potential adverse effect on Flagstone's customer, broker and other commercial relationships;

the restrictions on the conduct of Flagstone's business during the period between execution of the merger agreement and the completion of the mergers, which may delay or prevent Flagstone from undertaking business opportunities that may arise or any other action it would

otherwise take with respect to the operations of Flagstone during the term of the merger agreement;

that some of Flagstone's directors and executive officers have interests in the proposed transaction that are different from, or in addition to, the interests of Flagstone shareholders

generally, as described in the section of this proxy statement/prospectus titled *Interests of Flagstone's Directors and Executive Officers in the Mergers*;

the fact that the cash component of the consideration in the transaction would be taxable to Flagstone shareholders that are U.S. holders for U.S. federal income tax purposes, as described in the section of this proxy statement/prospectus titled *United States Federal Income Tax Consequences of the Mergers*;

the risk that governmental entities may not approve the proposed transaction or may impose conditions on Flagstone or Validus in order to gain approval for the proposed transaction that may adversely impact the combined company; and

the other potential risks described in the section of this proxy statement/prospectus titled *Risk Factors*.

***Additional Considerations and Factors***

In addition to considering the factors described above, in the course of its deliberations, Flagstone's board of directors also identified and considered a variety of other factors relevant to the mergers, including the following:

the assessment of Flagstone's board of directors, based on its analysis and understanding of Flagstone's business, results of operations, financial condition, earnings and return to shareholders, of the projected financial results of Flagstone as a standalone company and the ability of Flagstone to achieve strategic goals previously established by Flagstone's board of directors and the other strategic and operating options available to Flagstone; and

the fact that the terms of the merger agreement were determined through negotiations between Flagstone, with the

advice of its  
outside  
advisors, and  
Validus, with  
the advice of  
its outside  
advisors.

The above discussion of the information and factors considered by Flagstone's board of directors includes the material information and factors, both positive and negative, considered by Flagstone's board of directors, but is not intended to be exhaustive and may not include all of the information and factors considered by Flagstone's board of directors. The above factors are not presented in any order of priority. In view of the variety of factors considered in connection with its evaluation and the complexity of these matters, Flagstone's board of directors did not quantify, rank or otherwise assign relative or specific weights to the factors considered in reaching its conclusion that the merger agreement is in the best interests of Flagstone and its shareholders. Rather, Flagstone's board of directors views its position and recommendation as being based on the totality of the information presented to and considered by it. In addition, individual members of Flagstone's board of directors may have given different weights to different factors. This explanation of the reasoning of Flagstone's board of directors and certain information presented in this section is forward-looking in nature and should be read in light of the factors discussed in the section of this proxy statement/prospectus titled *Special Note Concerning Forward-Looking Statements*.

**After careful consideration, Flagstone's board of directors unanimously recommends that Flagstone's shareholders vote FOR the merger proposal.**

#### **Opinion of Flagstone's Financial Advisor**

On August 29, 2012, Evercore delivered its oral opinion to Flagstone's board of directors, which opinion was subsequently confirmed by delivery of a written opinion dated August 29, 2012, to the effect that, as of such date and based upon and subject to assumptions made, matters considered and limitations on the scope of review undertaken by Evercore as set forth in its opinion, the merger consideration to be received by holders of Flagstone shares pursuant to the mergers was fair, from a financial point of view, to such holders.

**The full text of the written opinion of Evercore, dated August 29, 2012, which sets forth, among other things, the procedures followed, assumptions made, matters considered and qualifications and limitations on the scope of review undertaken in rendering its opinion, is attached to this proxy**

**statement/prospectus as Annex C. You are urged to read Evercore's opinion carefully and in its entirety. Evercore's opinion was directed to Flagstone's board of directors and addresses only the fairness, from a financial point of view, of the consideration to be received by holders of Flagstone shares. The opinion does not address any other aspect of the proposed transaction and does not constitute a recommendation to Flagstone's board of directors or to any other persons in respect of the proposed transaction, including to any holder of Flagstone shares as to how any such holder should vote or act in respect of the proposed transaction. Evercore's opinion does not address the relative merits of the proposed transaction as compared to other business or financial strategies that might be available to Flagstone, nor does it address the underlying business decision of Flagstone to engage in the proposed transaction. The summary of the Evercore opinion set forth in this proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion attached to this proxy statement/prospectus as Annex C.**

In connection with rendering its opinion, Evercore has, among other things:

- (i) reviewed certain publicly available business and financial information relating to Flagstone that Evercore deemed to be relevant;
- (ii) reviewed certain projected non-public financial statements and other projected non-public financial data relating to Flagstone prepared and furnished to Evercore by management of Flagstone;
- (iii) reviewed certain non-public historical financial

statements  
and other  
non-public  
historical  
financial and  
operating  
data relating  
to Flagstone  
prepared and  
furnished to  
Evercore by  
management  
of Flagstone;

- (iv) discussed the past and current operations, financial projections and current financial condition of Flagstone with management of Flagstone (including their views on the risks and uncertainties of achieving such projections);
- (v) compared certain historical non-public management projections to actual Flagstone performance;
- (vi) reviewed the reported prices and the historical trading activity of the

common  
stock of  
Flagstone;

- (vii) compared the financial performance of Flagstone and its stock market trading multiples with those of certain other publicly traded companies that Evercore deemed to be relevant;
- (viii) compared the financial performance of Flagstone and the valuation multiples relating to the proposed transaction with those of certain other transactions that Evercore deemed to be relevant;
- (ix) reviewed certain publicly available business and financial information relating to Validus that Evercore deemed to be relevant;

- (x) reviewed Validus 2012 financial plan provided by Validus, which Validus confirmed in writing to be the only forecasts which it had prepared at that time;
- (xi) compared the financial performance of Validus and its stock market trading multiples with those of certain publicly traded companies that Evercore deemed to be relevant;
- (xii) compared the financial performance of Validus and its stock market trading multiples with those of certain other transactions that Evercore deemed to be relevant;
- (xiii) reviewed the financial terms, to the extent

publicly  
available, of  
certain  
business  
combination  
transactions  
that Evercore  
deemed to be  
relevant;

(xiv) considered  
the potential  
pro forma  
impact of the  
proposed  
transaction;

(xv) reviewed a  
draft dated  
August 28,  
2012 of the  
merger  
agreement;  
and

(xvi) performed  
such other  
analyses and  
examinations  
and  
considered  
such other  
factors that  
Evercore  
deemed to be  
appropriate.

For purposes of its analysis and opinion, Evercore assumed and relied upon, without undertaking any independent verification, the accuracy and completeness of all of the information

publicly available, and all of the information supplied or otherwise made available to, discussed with, or reviewed by Evercore, and Evercore assumed no liability therefor. With respect to the projected financial data relating to Flagstone and Validus referred to above, Evercore assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Flagstone or Validus, as appropriate, as to the future financial performance of Flagstone or Validus under the business assumptions reflected therein. Evercore expressed no view as to any projected financial data relating to Flagstone or the assumptions on which they are based. Evercore relied, at Flagstone's direction, without independent verification, upon the assessments of the management of Flagstone.

For purposes of rendering its opinion, Evercore assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the merger agreement are true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the merger agreement and that all conditions to the consummation of the proposed transaction will be satisfied without material waiver or modification thereof. Evercore further assumed that all governmental, regulatory or other consents, approvals or releases necessary for the consummation of the proposed transaction will be obtained without any material delay, limitation, restriction or condition that would have an adverse effect on Flagstone or the consummation of the proposed transaction or materially reduce the benefits of the proposed transaction to the holders of Flagstone shares.

Evercore did not make or assume any responsibility for making any independent valuation or appraisal of the assets or liabilities of Flagstone, nor was Evercore furnished with any such appraisals, nor did Evercore evaluate the solvency or fair value of Flagstone under any state or federal laws relating to bankruptcy, insolvency or similar matters. Evercore's opinion was necessarily based upon information made available to it as of the date of the opinion and financial, economic, market and other conditions as they existed and as could be evaluated on the date of the opinion. It should be understood that subsequent developments may affect Evercore's opinion and that Evercore does not have any obligation to update, revise or reaffirm its opinion.

Evercore was not asked to pass upon, and expressed no opinion with respect to, any matter other than the fairness to the holders of Flagstone shares, from a financial point of view, of the merger consideration as of the date of its opinion. Evercore did not express any view on, and its opinion did not address, the fairness of the proposed transaction to, or any consideration received in connection therewith by, the holders of any other securities, creditors or other constituencies of Flagstone, nor as to the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors or employees of Flagstone, or any class of such persons, whether relative to the merger consideration or otherwise. Evercore assumed that any modification to the structure of the proposed transaction would not vary in any respect material to its analysis. Evercore's opinion did not address the relative merits of the proposed transaction as compared to other business or financial strategies that might be available to Flagstone, nor did it address the underlying business decision of Flagstone to engage in the proposed transaction. Evercore's opinion did not constitute a recommendation to Flagstone's board of directors or to any other persons in respect of the proposed transaction, including as to how any holder of Flagstone shares should vote or act in respect of the proposed transaction. Evercore expressed no opinion as to the price at which shares of Flagstone or Validus will trade at any time. Evercore's opinion noted that it is not a legal, regulatory, accounting or tax expert and that Evercore assumed the accuracy and completeness of assessments by Flagstone and its advisors with respect to legal, regulatory, accounting and tax matters.

Except as described above, Flagstone's board of directors imposed no other instructions or limitations on Evercore with respect to the investigations made or the procedures followed by Evercore in rendering its opinion. Evercore's opinion was only one of many factors considered by Flagstone's board of directors in its evaluation of the proposed transaction and should not be viewed as determinative of the views of Flagstone's board of directors or Flagstone's management with respect to the proposed transaction or the merger consideration payable in the proposed transaction.

Set forth below is a summary of the material financial analyses reviewed by Evercore with Flagstone's board of directors on August 29, 2012 in connection with rendering its opinion. The following summary, however, does not purport to be a complete description of the analyses performed by Evercore. The order of the analyses described and the results of these analyses do not represent relative importance or weight given to these analyses by Evercore. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data that existed on or before August 27, 2012, the most recent practicable trading day before delivery of the opinion, and is not necessarily indicative of current market conditions.

**The following summary of financial analyses includes information presented in tabular format. These tables must be read together with the text of each summary in order to understand fully the financial analyses. The tables alone do not constitute a complete description of the financial analyses. Considering the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Evercore's financial analyses.**

***Flagstone Financial Analysis***

*Historical Trading Analysis and Implied Transaction Premiums.*

Evercore calculated the premium to be paid in the transaction relative to the closing price of Flagstone shares as of August 27, 2012. For purposes of this analysis, the \$8.44 assumed per share merger consideration is based on the per share price of Validus of \$33.27 as of August 27, 2012, multiplied by the exchange ratio of 0.1935, and adding the \$2.00 per share cash consideration. The analysis indicated the following:

|  |    |      |
|--|----|------|
| Assumed Per Share Merger Consideration | \$ | 8.44 |
|--|----|------|

| <b>Metric:</b>  | <b>Historical Closing Price of Flagstone Shares:</b> | <b>Implied Premium Based on Assumed Per Share Merger Consideration:</b> |
|-----------------|--|---|
| August 27, 2012 | \$ 6.93  | 21.8 %  |
| 1 Week Prior    | \$ 6.88  | 22.6 %  |
| 1 Month Average | \$ 6.84  | 23.4 %  |
| 3 Month Average | \$ 7.43  | 13.5 %  |

*Analysis of Multiples at Offer Price.*

Evercore calculated and compared the following financial multiples for Flagstone based on publicly available filings, publicly available research estimates published by independent equity research analysts associated with various Wall Street firms, the standalone forecasts (see the section titled *Certain Financial Projections*) and financial data provided by FactSet Research Systems Inc. as of August 27, 2012:

the assumed  
per share  
merger  
consideration  
payable in

respect of  
Flagstone  
shares to  
diluted  
tangible book  
value per  
share as at  
June 30,  
2012;

the assumed  
per share  
merger  
consideration  
payable in  
respect of  
Flagstone  
shares to  
diluted book  
value per  
share as at  
June 30,  
2012;

the assumed  
per share  
merger  
consideration  
payable in  
respect of  
Flagstone  
shares to  
management  
estimates per  
the  
standalone  
forecasts for  
2012 and  
2013 earnings  
per share; and

the assumed  
per share  
merger  
consideration  
payable in  
respect of  
Flagstone  
shares to Wall  
Street  
research

median  
estimates for  
2012 and  
2013 earnings  
per share of  
Flagstone.

The following table presents the results of this analysis:

|  |    |      |
|--|----|------|
| Assumed Per Share Merger Consideration | \$ | 8.44 |
|--|----|------|

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| <b>Metric:</b>                           |          | <b>Multiple:</b> |
|--|----------|------------------|
| Price / Tangible Book Value (06/30/12)   | \$ 11.52 | 0.73x            |
| Price / Book Value (06/30/12)            | \$ 11.52 | 0.73x            |
| Price / 2012E EPS (Standalone Forecasts) | \$ 1.10  | 7.6x             |
| Price / 2013E EPS (Standalone Forecasts) | \$ 0.97  | 8.7x             |
| Price / 2012E EPS (Wall Street Median)   | \$ 0.47  | 17.8x            |
| Price / 2013E EPS (Wall Street Median)   | \$ 0.65  | 13.0x            |

*Historical Exchange Ratio Analysis.*

Evercore reviewed the per share daily closing market price of Flagstone and Validus shares over the previous year and calculated the implied historical exchange ratios during this period by dividing the per share daily closing market prices of Flagstone shares by those of Validus shares. Evercore compared the maximum and minimum implied exchange ratio over the period to 0.2536x, the exchange ratio for a theoretical all-stock transaction with implied value equal to the value of the merger consideration per share, which was calculated as the price implied by Validus offer as of August 27, 2012 (\$8.44) divided by Validus share price as of the same date (\$33.27). The analysis resulted in a one-year historical low implied exchange ratio of 0.203x and a one-year historical high implied exchange ratio of 0.334x. Evercore then applied the selected range to Validus closing share price as of August 27, 2012 to calculate an implied range of equity values per share for Flagstone. This analysis resulted in a range of implied per share equity values for Flagstone of \$6.76 to \$11.11, as compared to the assumed merger consideration of \$8.44 per Flagstone share.

*Analysis of Select Publicly Traded Companies.*

Evercore reviewed and compared certain financial and operating information and measurements relating to Flagstone to corresponding information and measurements of a group of selected publicly traded companies in the insurance and reinsurance industry. Although none of the selected publicly traded companies is directly comparable to Flagstone, the companies were chosen because they may be deemed to have certain characteristics that are similar to those of Flagstone.

The companies that Evercore deemed to have certain characteristics similar to those of Flagstone were divided into two groups (1) Property Specialists and (2) Offshore Insurers / Reinsurers with public equity market capitalizations of less than \$3 billion. The companies were as follows:

| <b>Property Specialists</b> | <b>Offshore Insurers / Reinsurers<br/>(Market Cap Less Than \$3 Billion)</b> |
|-----------------------------|--|
| Montpelier Re Holdings Ltd. | Argo Group International Holdings, Ltd.                                      |
| RenaissanceRe Holdings Ltd. | Aspen Insurance Holdings Limited   |
| Validus Holdings, Ltd.      | Alterra Capital Holdings Limited   |
|                             | Allied World Assurance Company Holdings, AG                                  |
|                             | Endurance Specialty Holdings Ltd.  |
|                             | Greenlight Capital Re, Ltd.  |
|                             | Platinum Underwriters Holdings, Ltd.   |

As part of its analysis, Evercore calculated and analyzed various financial multiples of Flagstone and the selected companies as follows:

price to  
diluted  
book  
value per  
share as  
at June  
30, 2012;

price to  
diluted  
tangible  
book  
value per  
share as  
at June  
30, 2012;  
and

price to  
the Wall  
Street  
research  
median  
earnings  
per share  
estimates  
for  
calendar  
year  
2013.

The multiples for each of the selected companies were calculated using the closing price of the selected companies common stock on August 27, 2012 and were based on, and derived from, publicly available filings, publicly available research estimates published by independent equity research analysts associated with various Wall Street firms and financial data provided by FactSet

Research Systems Inc. The multiples for Flagstone were calculated using the closing price of the selected companies common stock on August 27, 2012 and were based on, and derived from, publicly available information, publicly available research estimates published by independent equity research analysts associated with various Wall Street firms and the standalone forecasts. The following table presents the results of this analysis:

| <b>Metric:</b>  | <b>Low</b> | <b>High</b> |
|---|------------|-------------|
| <i>Property Specialists</i>                                   |            |             |
| Price / Book Value  | 0.82x      | 1.22x       |
| Price / Tangible Book Value                                   | 0.82x      | 1.22x       |
| Price / 2013E Earnings (Wall Street Median)                   | 7.0x       | 8.5x        |
| <i>Offshore Insurers / Reinsurers (Market Cap Under \$3B)</i> |            |             |
| Price / Book Value  | 0.51x      | 1.09x       |
| Price / Tangible Book Value                                   | 0.61x      | 1.09x       |
| Price / 2013E Earnings (Wall Street Median)                   | 5.6.x      | 11.2x       |

| <b>Metric:</b> | <b>Price /<br/>Book Value</b> | <b>Price /<br/>Tangible<br/>Book<br/>Value</b> | <b>Price / 2013E<br/>Earnings<br/>(Wall Street<br/>Median)</b> |
|----------------|-------------------------------|--|--|
| Flagstone      | 0.60x                         | 0.60x  | 10.7x  |

Evercore then applied ranges of selected multiples of the financial and operating information and measurements, as set forth in the immediately preceding table, to the comparable data for Flagstone in order to derive a range of implied per share equity values. Evercore derived these ranges of selected multiples by using the lowest and highest multiples calculated for the selected comparables for each metric, respectively. This analysis resulted in a range of implied per share equity values for Flagstone, as compared to the assumed merger consideration of \$8.44 per Flagstone share, as summarized below:

|                              |    |      |
|------------------------------|----|------|
| Assumed Merger Consideration | \$ | 8.44 |
|------------------------------|----|------|

| <b>Metric:</b>  | <b>Implied<br/>Equity<br/>Value Per<br/>Share:</b> |             |
|---|--|-------------|
|   | <b>Low</b>   | <b>High</b> |
| <i>Property Specialists</i>                                   |  |             |
| Price / Book Value  | \$ 9.49  | \$ 14.02    |
| Price / Tangible Book Value                                   | \$ 9.49  | \$ 14.06    |
| Price / 2013E Earnings (Wall Street)                          | \$ 4.55  | \$ 5.49     |
| Price / 2013E Earnings (Standalone Forecasts)                 | \$ 6.81  | \$ 8.22     |
| <i>Offshore Insurers / Reinsurers (Market Cap Under \$3B)</i> |  |             |
| Price / Book Value  | \$ 5.85  | \$ 12.51    |
| Price / Tangible Book Value                                   | \$ 7.00  | \$ 12.51    |

|   |         |          |
|---|---------|----------|
| Price / 2013E Earnings (Wall Street)          | \$ 3.62 | \$ 7.26  |
| Price / 2013E Earnings (Standalone Forecasts) | \$ 5.43 | \$ 10.88 |

*Selected Precedent Transactions Analysis.*

Evercore performed an analysis of selected transactions to compare multiples paid in other transactions to the multiples implied in the transaction. Evercore analyzed a group of four merger and acquisition transactions that were announced between 2009 and 2011 involving the acquisition of reinsurance companies. The selected transactions are set forth below:

| <b>Date Announced</b> | <b>Acquiror</b>        | <b>Target</b>                |
|-----------------------|------------------------|------------------------------|
| 11/21/2011            | Alleghany Corporation  | Transatlantic Holdings, Inc. |
| 03/03/2010            | Max Capital Group Ltd. | Harbor Point Limited         |
| 07/09/2009            | Validus Holdings, Ltd. | IPC Holdings, Ltd.           |
| 07/04/2009            | PartnerRe Ltd.         | PARIS RE Holdings Limited    |

While none of the companies that participated in the selected transactions are directly comparable to Flagstone and none of the transactions in the selected transactions analysis is directly comparable to the proposed transaction, Evercore selected these transactions because each of the

target companies in the selected transactions was a reinsurance company and had operating characteristics and products that for purposes of analysis may be considered similar to certain of Flagstone's operating characteristics and products.

For each of the selected transactions, Evercore calculated and compared the implied transaction price per share as a multiple of the target's last reported diluted book value per share, last reported tangible book value per share and, where available, Wall Street research median earnings per share estimates for the following calendar year as at the time of announcement. The results of this analysis indicated a low book value multiple of 0.80x and a high book value multiple of 0.98x, a low tangible book value multiple of 0.87x and a high tangible book value multiple of 1.10x and a low earnings multiple of 6.0x and a high earnings multiple of 11.5x.

Evercore then applied the appropriate low and high multiples to Flagstone's book value per share, tangible book value per share, 2013 Wall Street research median earnings per share estimate and the 2013 earnings per share estimate based on the standalone forecasts, respectively, in order to derive an implied equity value per share range for Flagstone. Evercore then compared these implied per share equity value ranges against the assumed merger consideration of \$8.44.

The following table presents the results of this analysis:

Assumed Merger Consideration      \$      8.44

| <b>Metric:</b>                                | <b>Implied Equity Value Per Share:</b> |             |
|---|--|-------------|
|   | <b>Low</b>                             | <b>High</b> |
| Price / Book Value                            | \$ 9.27                                | \$ 11.25    |
| Price / Tangible Book Value                   | \$ 9.99                                | \$ 12.67    |
| Price / 2013E Earnings (Wall Street)          | \$ 3.90                                | \$ 7.49     |
| Price / 2013E Earnings (Standalone Forecasts) | \$ 5.85                                | \$ 11.22    |

*Analysis of Historical Premiums Paid.*

Evercore considered the premiums paid for the selected precedent reinsurance transactions. Premiums paid were calculated as the percentage by which the per share consideration paid in each such transaction exceeded (1) the closing market share prices of the target companies one day prior to the first announcement of a transaction, (2) the average closing price of the common shares of the target companies for the one month preceding the first announcement of a transaction, and (3) the average closing price of the common shares of the target companies for the three months preceding the first announcement of a transaction. This analysis indicated the following implied high and low premiums for the selected transactions:

| <b>Metric:</b>                       | <b>Low:</b> | <b>High:</b> |
|--------------------------------------|-------------|--------------|
| Premium to Prior Day Price           | 13.3 %      | 34.4 %       |
| Premium to One-Month Average Price   | 10.1 %      | 32.7 %       |
| Premium to Three-Month Average Price | 5.8 %       | 30.4 %       |

Based on the above analysis, Evercore then applied the low and high premiums derived from the selected transactions to the closing price of Flagstone shares on August 27, 2012 to calculate an implied equity value per share. Evercore then compared these implied per share equity value ranges against the assumed merger consideration of \$8.44.

The following table presents the results of this analysis:

|                              |    |      |
|------------------------------|----|------|
| Assumed Merger Consideration | \$ | 8.44 |
|------------------------------|----|------|

| <b>Metric:</b>                       | <b>Implied Equity Value Per Share:</b> |             |
|--------------------------------------|--|-------------|
|                                      | <b>Low</b>                             | <b>High</b> |
| Premium to Prior Day Price           | \$ 7.88                                | \$ 9.53     |
| Premium to One-Month Average Price   | \$ 7.53                                | \$ 9.07     |
| Premium to Three-Month Average Price | \$ 7.86                                | \$ 9.69     |

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*Discounted Cash Flow Analysis.*

*Standalone Analysis.* Evercore performed an illustrative discounted cash flow analysis with respect to the estimated future performance of Flagstone for the purpose of determining the fully diluted equity value per Flagstone share using the standalone forecasts as described in more detail in the section *Certain Financial Projections*. Evercore relied upon the cash flows available to Flagstone's shareholders, as provided by Flagstone and consisting of forecast dividends and excess capital available for share repurchases, based upon the standalone forecasts for the third and fourth quarters of 2012 and the calendar years 2013 through 2015. In determining the amount of excess capital that could be used annually to repurchase shares throughout the forecast period, Flagstone considered maintaining a stressed BCAR ratio well in excess of the minimum required and also considered maintaining a level of shareholders equity of approximately \$850 million. Evercore also calculated a range of terminal asset values of Flagstone at the end of fiscal year 2015 by applying a range of terminal tangible book value multiples of 0.60x to 0.80x (which was selected by Evercore based on its judgment and experience as informed by the historical trading range for Flagstone) to Flagstone's estimated tangible book value per share at December 31, 2015. The cash flows and range of terminal asset values were then discounted to present values using a discount rate range of 10.0% to 11.0%, which was chosen by Evercore based upon an analysis of the cost of equity of Flagstone calculated using the capital asset pricing model. Evercore then calculated a range of aggregate equity values of Flagstone by adding the present values of the cash flows to the present values of Flagstone's terminal asset value at December 31, 2015 for each tangible book value per share multiple and discount rate input within the chosen ranges. To calculate the illustrative range of implied equity values per share, Evercore divided the calculated equity value by the number of fully diluted shares of Flagstone as provided by Flagstone. This analysis resulted in a range of illustrative implied equity values per share of approximately \$7.52 to \$9.60, as compared to the assumed merger consideration of \$8.44 per Flagstone share.

*Runoff Analysis.* Evercore performed an illustrative discounted cash flow analysis with respect to the estimated future performance of Flagstone if it were to be placed in runoff for the purpose of determining the fully diluted equity value per Flagstone share using information provided to Evercore from Flagstone's management (which we refer to as the runoff information) (for more information about the risks and uncertainties relating to future financial information generally see the section titled *Certain Financial Projections*). Evercore relied upon estimated future distributions of excess capital to Flagstone's shareholders, the timing and amount of which were provided by Flagstone, based upon the runoff information for the third and fourth quarters of 2012 and the calendar years 2013 through 2015. Evercore also calculated a range of terminal asset values of Flagstone at the end of fiscal year 2015 by applying a range of terminal tangible book value multiples of 0.70x to 0.90x (which was selected by Evercore based on its judgment and experience to be reflective of a runoff portfolio with a greater or lesser risk profile) to Flagstone's estimated tangible book value per share at December 31, 2015. The cash flows and range of terminal asset values were then discounted to present values using a discount rate range of 10.0% to 11.0%, which was chosen by Evercore based upon an analysis of the cost of equity of Flagstone calculated using the capital asset pricing model. Evercore then calculated a range of aggregate equity values of Flagstone by adding the present values of the cash flows to the present values of Flagstone's terminal asset value at December 31, 2015 for each tangible book value per share multiple and discount rate input within the chosen ranges. To calculate the illustrative range of implied equity values per share, Evercore divided the calculated equity value by the number of fully diluted shares of Flagstone as provided by Flagstone. This analysis resulted in a range of illustrative implied equity values per share of approximately \$7.70 to \$7.96, as compared to the assumed merger consideration of \$8.44 per Flagstone share.

The following table presents the cash flows based on the runoff information:

| <b>Date:</b>                   | <b>Cash Flows</b>        |              |
|--------------------------------|--------------------------|--------------|
|                                | <b>(in \$ millions):</b> |              |
| 1/1/2013                       | \$                       | 150.0        |
| 12/31/2013                     | \$                       | 350.0        |
| 12/31/2014                     | \$                       | 100.0        |
| 12/31/2015                     | \$                       | 76.2         |
| <b>Total Estimated Payouts</b> | <b>\$</b>                | <b>676.2</b> |

While discounted cash flow is a widely accepted and practiced valuation methodology, it relies on a number of assumptions, including but not limited to terminal values and discount rates. The implied equity value per share ranges derived from the discounted cash flow analyses are not necessarily indicative of Flagstone's present or future value or results. In particular, Flagstone is a holding company that relies on its operating companies for dividends and distributions. One or more governmental authorities regulating the business and financial condition of the operating subsidiaries could determine to prohibit, suspend or otherwise limit such dividends and distributions.

### ***Validus Financial Analysis***

#### *Analysis of Select Publicly Traded Companies.*

Evercore reviewed and compared certain financial and operating information and measurements relating to Validus to corresponding information and measurements of a group of selected publicly traded companies in the insurance and reinsurance industry. Although none of the selected publicly traded companies is directly comparable to Validus, the companies were chosen because they may be deemed to have certain characteristics that are similar to those of Validus.

The companies that Evercore deemed to have certain characteristics similar to those of Validus were divided into two groups (1) Property Specialists and (2) Offshore Insurers / Reinsurance with public equity market capitalizations of less than \$3 billion. The companies were as follows:

| <b>Property Specialists</b>          | <b>Offshore Insurers / Reinsurers<br/>(Market Cap Less Than \$3 Billion)</b> |
|--------------------------------------|--|
| Flagstone Reinsurance Holdings, S.A. | Argo Group International Holdings, Ltd.                                      |
| Montpelier Re Holdings Ltd.          | Aspen Insurance Holdings Limited   |
| RenaissanceRe Holdings Ltd.          | Alterra Capital Holdings Limited   |
|                                      | Allied World Assurance Company Holdings, AG                                  |
|                                      | Endurance Specialty Holdings Ltd.  |
|                                      | Greenlight Capital Re, Ltd.  |
|                                      | Platinum Underwriters Holdings, Ltd.   |

As part of its analysis, Evercore calculated and analyzed various financial multiples of Validus and the selected companies as follows:

price to  
diluted  
book  
value per  
share as  
at June  
30, 2012;

price to  
diluted  
tangible  
book  
value per  
share as  
at June  
30, 2012;  
and

price to  
the Wall  
Street  
research  
median  
earnings  
per share  
estimates  
for  
calendar  
year  
2013.

The multiples for Validus and each of the selected companies were calculated using the closing price of the selected companies' common stock on August 27, 2012 and were based on, and derived from, publicly available filings, publicly available research estimates published by independent equity research analysts associated with various Wall Street firms and financial data provided by FactSet Research Systems Inc. The following table presents the results of this analysis:

| <b>Metric:</b>  | <b>Low</b> | <b>High</b> |
|---|------------|-------------|
| <i>Property Specialists</i>                                   |            |             |
| Price / Book Value  | 0.60x      | 1.22x       |
| Price / Tangible Book Value                                   | 0.60x      | 1.22x       |
| Price / 2013E Earnings (Wall Street Research)                 | 8.4x       | 10.7x       |
| <i>Offshore Insurers / Reinsurers (Market Cap Under \$3B)</i> |            |             |
| Price / Book Value  | 0.51x      | 1.09x       |
| Price / Tangible Book Value                                   | 0.61x      | 1.09x       |
| Price / 2013E Earnings (Wall Street Research)                 | 5.6x       | 11.2x       |

| <b>Metric:</b> | <b>Price / Book Value</b> | <b>Price / Tangible Book Value</b> | <b>Price / 2013E Earnings (Wall Street Research)</b> |
|----------------|---------------------------|------------------------------------|--|
| Validus        | 0.97                      | 1.01x                              | 7.0x   |

Evercore then applied ranges of selected multiples of the financial and operating information and measurements, as set forth in the immediately preceding table, to the comparable data for Validus in order to derive a range of implied per share equity values. Evercore derived these ranges of selected multiples by using the lowest and highest multiples calculated for the selected comparables for each metric, respectively. This analysis resulted in a range of implied per share equity values for Validus, as compared to the closing price of Validus common shares on August 27, 2012 of \$33.27 per share, as summarized below:

|   |          |
|---|----------|
| Closing Price of Validus Common Shares on August 27, 2012 | \$ 33.27 |
|---|----------|

| <b>Metric:</b>  | <b>Implied Equity Value Per Share</b> |             |
|---|---------------------------------------|-------------|
|   | <b>Low</b>                            | <b>High</b> |
| <i>Property Specialists</i>                                   |                                       |             |
| Price / Book Value  | \$ 20.63                              | \$ 41.73    |
| Price / Tangible Book Value                                   | \$ 19.84                              | \$ 40.24    |
| Price / 2013E Earnings (Wall Street)                          | \$ 40.12                              | \$ 50.72    |
| <i>Offshore Insurers / Reinsurers (Market Cap Under \$3B)</i> |                                       |             |
| Price / Book Value  | \$ 17.41                              | \$ 37.24    |
| Price / Tangible Book Value                                   | \$ 20.03                              | \$ 35.82    |
| Price / 2013E Earnings (Wall Street)                          | \$ 26.51                              | \$ 53.14    |

*Selected Precedent Transactions Analysis.*

Evercore performed an analysis of selected transactions to compare multiples paid in other transactions to the current trading multiples for Validus. Evercore analyzed a group of four merger and acquisition transactions that were announced between 2009 and 2011 involving the acquisition of reinsurance companies. The selected transactions are set forth below:

| <b>Date Announced</b> | <b>Acquiror</b>        | <b>Target</b>                |
|-----------------------|------------------------|------------------------------|
| 11/21/2011            | Alleghany Corporation  | Transatlantic Holdings, Inc. |
| 03/03/2010            | Max Capital Group Ltd. | Harbor Point Limited         |
| 07/09/2009            | Validus Holdings, Ltd. | IPC Holdings, Ltd.           |
| 07/04/2009            | PartnerRe Ltd.         | PARIS RE Holdings Limited    |

While none of the companies (other than in the case of Validus itself) that participated in the selected transactions are directly comparable to Validus and none of the transactions in the selected transactions analysis is directly comparable to the transaction, Evercore selected these transactions because each of the target companies in the selected transactions was a reinsurance company and had operating characteristics and products that for purposes of analysis may be considered similar to certain of Validus' operating characteristics and products.

For each of the selected transactions, Evercore calculated and compared the implied transaction price per share as a multiple of the target's last reported diluted book value per share, last reported tangible book value per share and Wall Street research median earnings per share estimates for the

following calendar year as at the time of announcement. The results of this analysis indicated a low book value multiple of 0.80x and a high book value multiple of 0.98x, a low tangible book value multiple of 0.87x and a high tangible book value multiple of 1.10x and a low earnings multiple of 6.0x and a high earnings multiple of 11.5x.

Evercore then applied the low and high multiples to Validus book value per share, tangible book value per share and 2013 Wall Street research median earnings per share estimates to derive an implied equity value per share range for Validus. Evercore then compared these implied per share equity value ranges against the closing price of Validus common shares on August 27, 2012 of \$33.27 per share.

The following table presents the results of this analysis:

|   |    |       |
|---|----|-------|
| Closing Price of Validus Common Shares on August 27, 2012 | \$ | 33.27 |
|---|----|-------|

**Implied Equity Value Per Share:**

| <b>Metric:</b>                       | <b>Low</b> | <b>High</b> |
|--------------------------------------|------------|-------------|
| Price / Book Value                   | \$ 27.60   | \$ 33.49    |
| Price / Tangible Book Value          | \$ 28.61   | \$ 36.26    |
| Price / 2013E Earnings (Wall Street) | \$ 28.58   | \$ 54.79    |

*Analysis of Historical Premiums Paid.*

Evercore considered the premiums paid for the selected precedent reinsurance transactions. Premiums paid were calculated as the percentage by which the per share consideration paid in each such transaction exceeded (1) the closing market share prices of the target companies one day prior to the first announcement of a transaction, (2) the average closing price of the common shares of the target companies for the one month preceding the first announcement of a transaction, and (3) the average closing price of the common shares of the target companies for the three months preceding the first announcement of a transaction. This analysis indicated the following implied low and high premiums for the selected transactions:

| <b>Metric:</b>                       | <b>Low</b> | <b>High</b> |
|--------------------------------------|------------|-------------|
| Premium to Prior Day Price           | 13.3 %     | 34.4 %      |
| Premium to One-Month Average Price   | 10.1 %     | 32.7 %      |
| Premium to Three-Month Average Price | 5.8 %      | 30.4 %      |

Based on the above analysis, Evercore then applied low and high premiums derived from the selected transactions to the closing price of Validus common shares on August 27, 2012 to calculate an implied equity value per share. Evercore then compared these implied per share equity value ranges against the closing price of Validus common shares on August 27, 2012 of \$33.27 per share.

The following table presents the results of this analysis:

|   |    |       |
|---|----|-------|
| Closing Price of Validus Common Shares on August 27, 2012 | \$ | 33.27 |
|---|----|-------|

**Implied Equity Value Per Share:**

**Metric:**

|                                      | <b>Low</b> | <b>High</b> |
|--------------------------------------|------------|-------------|
| Premium to Prior Day Price           | \$ 37.72   | \$ 44.75    |
| Premium to One-Month Average Price   | \$ 36.11   | \$ 43.50    |
| Premium to Three-Month Average Price | \$ 34.15   | \$ 42.07    |

*General.*

The foregoing summary of certain material financial analyses does not purport to be a complete description of the analyses or data presented by Evercore. In connection with the review of the proposed transaction by Flagstone's board of directors, Evercore performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary described above, without

considering the analyses as a whole, could create an incomplete view of the processes underlying Evercore's opinion. In arriving at its fairness determination, Evercore considered the results of all the analyses and did not draw, in isolation, conclusions from or with regard to any one analysis or factor considered by it for purposes of its opinion. Rather, Evercore made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all the analyses. In addition, Evercore may have considered various assumptions more or less probable than other assumptions, so that the range of valuations resulting from any particular analysis described above should therefore not be taken to be Evercore's view of the value of Flagstone. No company used in the above analyses as a comparison is directly comparable to Flagstone, and no transaction used is directly comparable to the proposed transaction. Further, Evercore's analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies or transactions used, including judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Flagstone and Validus or their respective advisors.

Evercore prepared these analyses for the purpose of providing an opinion to Flagstone's board of directors as to the fairness, from a financial point of view, of the merger consideration to be received by holders of Flagstone shares pursuant to the proposed transaction. These analyses do not purport to be appraisals or to necessarily reflect the prices at which the business or securities actually may be sold. Any estimates contained in these analyses are not necessarily indicative of actual future results, which may be significantly more or less favorable than those suggested by such estimates. Accordingly, estimates used in, and the results derived from, Evercore's analyses are inherently subject to substantial uncertainty, and Evercore assumes no responsibility if future results are materially different from those forecasted in such estimates. The merger consideration to be received by the holders of Flagstone shares pursuant to the proposed transaction was determined through arm's-length negotiations between Flagstone and Validus and was approved by Flagstone's board of directors. Evercore did not recommend any specific consideration to Flagstone or that any given consideration constituted the only appropriate consideration.

Under the terms of Evercore's engagement, Flagstone has agreed to pay Evercore a fee based upon a percentage of the aggregate value of the proposed transaction, which is payable promptly upon completion of the proposed transaction. Based upon an assumed merger consideration of \$8.44 per Flagstone share, upon completion of the proposed transaction, Evercore would receive a fee of approximately \$8.7 million, which fee includes the rendering of the opinion described herein. This fee is subject to change depending on the actual aggregate value of the proposed transaction at the completion of the second-step merger, which will depend on the value of the merger consideration at the completion of the second-step merger. In addition, Flagstone has agreed to reimburse Evercore for its reasonable, documented, out-of-pocket expenses (including reasonable and documented legal fees, expenses and disbursements), and to indemnify Evercore for certain liabilities arising out of its engagement. Prior to its engagement, Evercore and its affiliates provided financial advisory services to Flagstone, including financial advisory services in connection with the sale of Flagstone's Lloyd's business, and had received fees for the rendering of those services, including the reimbursement of expenses. During the two-year period prior to the date of its opinion, no material relationship existed between Evercore and its affiliates and Validus pursuant to which compensation was received by Evercore or its affiliates as a result of such a relationship. Evercore may provide financial or other services to Flagstone or Validus or their respective affiliates in the future and in connection with any such services Evercore may receive compensation.

In the ordinary course of business, Evercore or its affiliates may actively trade the securities, or related derivative securities, or financial instruments of Flagstone, Validus and their respective affiliates, for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities or instruments.

Flagstone engaged Evercore to act as a financial advisor based on its qualifications, experience and reputation. Evercore is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses in connection with mergers and acquisitions, leveraged buyouts, competitive biddings, private placements

and valuations for corporate and other purposes.

## Interests of Flagstone's Directors and Executive Officers in the Mergers

Details of the beneficial ownership of Flagstone's directors and executive officers of Flagstone's shares are set out in the section titled "Security Ownership of Certain Beneficial Owners, Management and Directors" in Flagstone's Definitive Proxy Statement filed with the SEC on March 28, 2012. Certain of Flagstone's directors and executive officers have financial interests in the mergers that are different from, or are in addition to, the interests of Flagstone shareholders generally, as more fully described below. Flagstone's board of directors was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the mergers, and in recommending to Flagstone shareholders that they approve the merger proposal. See the section titled "*Flagstone's Reasons for the Mergers; Recommendation of Flagstone's Board of Directors*" for a further discussion of these matters.

The interests of Flagstone's non-employee directors include, among other things, the right to receive the share unit consideration with respect to the directors' RSUs.

The interests of Flagstone's executive officers include the rights to:

- accelerated vesting and receipt of the share unit consideration with respect to the executive officers' PSUs, calculated assuming attainment of all applicable performance goals at the maximum level;

- with respect to Flagstone's executive officers other than Messrs. Slade and Fawcett, certain contractual severance payments in the event of a qualifying termination of employment following the mergers;

- with respect to Messrs. Brown, Flitman, Swayne, Fawcett and Slade, certain statutory severance payments in the event of a termination of

employment  
following the  
mergers;

continued  
employment during a  
specified notice  
period following  
termination of  
employment or, with  
respect to Flagstone's  
executive officers  
other than Messrs.  
Boisvert and  
Traimond, payment of  
base salary in lieu of  
such notice;

accelerated payment  
of the executive  
officers' guaranteed  
minimum 2012 bonus  
in the event of a  
qualifying termination  
of employment  
following the mergers  
and prior to  
December 31, 2012;  
and

solely with respect to  
Mr. Brown, the  
Leyton Limited  
Warrant to acquire  
630,194 Flagstone  
shares, which,  
pursuant to the  
merger agreement,  
will be amended at  
the effective time of  
the second-step  
merger such that,  
upon payment during  
the exercise period  
(which runs from  
December 1, 2013 to  
December 31, 2013)  
of the exercise price  
as of the completion  
of the mergers,  
subject to adjustments

(if any) pursuant to the terms of the Leyton Limited Warrant, the Leyton Limited Warrant will be converted into the right to receive the \$2.00 in cash and 0.1935 Validus common shares, on a per share basis for each of the Flagstone shares subject to the Leyton Limited Warrant (the Leyton Limited Warrant will have value during the exercise period only if the value of the merger consideration during the exercise period is greater than the Leyton Limited Warrant's exercise price, which, as of the date of this proxy statement/prospectus, is \$13.96 per Flagstone share).

Flagstone's board of directors and executive officers also have the right to indemnification and insurance coverage that will survive the completion of the mergers (see the section below titled *Directors and Officers Indemnification and Insurance* for additional information).

In addition, Validus has agreed to the terms of separation agreements to be effective upon completion of the mergers with each of Messrs. Boisvert and Traimond, pursuant to which each executive will remain employed by Flagstone Réassurance Suisse SA through July 31, 2013. Upon termination from Flagstone Réassurance Suisse SA on or prior to July 31, 2013, Messrs. Boisvert and Traimond will be entitled to certain payments in addition to those provided for under their existing employment agreements with Flagstone Réassurance Suisse SA (see the section below titled *New Separation Agreements* for additional information).

***Treatment of Equity Awards***

As of the date of this proxy statement/prospectus, certain of Flagstone's non-employee directors hold RSUs and Flagstone's executive officers hold PSUs.

For information regarding beneficial ownership of Flagstone shares, other than the equity awards described below, by each of Flagstone's directors and certain executive officers and all of such directors and executive officers as a group, see the section titled "Security Ownership of Certain Beneficial Owners, Management and Directors" in Flagstone's Definitive Proxy Statement filed with the SEC on March 28, 2012. Flagstone directors and executive officers will be entitled to receive, for each vested Flagstone share, the same per share merger consideration in the same manner as other shareholders.

The merger agreement provides that each RSU and PSU that is outstanding immediately prior to completion of the first-step merger (whether then vested or unvested) will be converted into a right to receive per share (determined based on the number of Flagstone shares subject to such award immediately prior to the completion of the first-step merger and calculated assuming, in the case of PSUs, attainment of all applicable performance goals at the maximum level) the share unit consideration. In addition, upon the completion of the mergers, each holder of a PSU that vests pursuant to its terms prior to the completion of the first-step merger will be entitled to receive any additional share unit consideration that such holder would have been entitled to receive had such PSU vested at the maximum level for payout.

***Summary of Director Equity Awards.***

The table below, titled "Payments to Directors in Respect of Vested RSUs," shows the outstanding RSUs (all of which are vested) held by Flagstone's non-employee directors and the payments each of them can expect to receive for such awards.

***Payments to Directors in Respect of Vested RSUs***

| <b>Name</b>                    | <b>No. of Vested RSUs</b> | <b>Resulting Consideration from Vested RSUs (\$) <sup>(1)</sup></b> |
|--------------------------------|---------------------------|---|
| Gary Black                     | 48,185                    | 440,569   |
| Stephen Coley                  | 50,193                    | 458,974   |
| Thomas Dickson <sup>(2)</sup>  | 1,501                     | 13,104  |
| Stewart Gross <sup>(3)</sup>   | 14,939                    | 135,505   |
| E. Daniel James <sup>(4)</sup> | 56,721                    | 517,134   |
| Dr. Anthony Knapp              | 44,256                    | 405,214   |
| Anthony P. Latham              | 8,853                     | 79,563  |
| Jan Spiering                   | 3,329                     | 29,062  |
| Wray T. Thorn <sup>(5)</sup>   | 46,437                    | 426,507   |
| Peter F. Watson                | 19,151                    | 172,955   |

(1)

Because the value of the merger consideration is not fixed, the value shown above of vested RSUs is based on the average closing price of Flagstone shares over the first five business days following public announcement of the mergers, or \$8.61.

Accordingly, the values of actual consideration received by Flagstone's non-employee directors may be greater or less than those shown above.

The table above does not include any RSUs which may be granted following the filing of this proxy statement/prospectus.

Amounts disclosed above are inclusive of dividends accumulated with respect to vested RSUs. In determining the consideration in respect of RSUs above, it has been assumed that dividends will be declared by Flagstone through the completion of the mergers consistent with past practice.

- (2) Thomas Dickson is Chief Executive Officer and Founder of Meetinghouse LLC. Flagstone authorized the

issuance of these  
RSUs in  
consideration of Mr.  
Dickson's service as a  
director of Flagstone.  
The RSUs were  
granted in favor of  
Meetinghouse LLC.

- (3) Stewart Gross is a Managing Director of Lightyear Capital. Flagstone authorized the issuance of these RSUs in consideration of Mr. Stewart's service as a director of Flagstone. The RSUs were granted in favor of Lightyear Capital, LLC. Mr. Gross does not beneficially own these RSUs.
- (4) E. Daniel James is a founding partner and head of North America of Trilantic Capital Partners. As part of his compensation for serving as a director of Flagstone, Mr. James has received RSUs. Under the terms of Mr. James' employment with Trilantic Capital Partners, he is required to

surrender to Trilantic Capital Partners any compensation (including RSUs) received in his capacity as a director of Flagstone. Mr. James disclaims beneficial ownership of all RSUs granted to him.

- (5) Wray Thorn was Managing Director at Marathon Asset Management, LP (formerly known as Marathon Asset Management, LLC) and served as the investment manager of Marathon Special Opportunity Master Fund, Ltd. and Marathon Special Opportunity Liquidating Fund, Ltd. (together, the Marathon Funds ) for some portion of the time that he was a director of

Flagstone.  
 Flagstone  
 authorized the  
 issuance of  
 certain RSUs  
 in  
 consideration  
 of Mr. Thorn's  
 service as a  
 director, but  
 these RSUs  
 were granted  
 in favor of  
 Marathon  
 Funds and Mr.  
 Thorn does  
 not  
 beneficially  
 own these  
 RSUs. The  
 amounts  
 above include  
 4,997 vested  
 RSUs granted  
 in favor of  
 Marathon  
 Funds,  
 resulting in  
 consideration  
 of \$48,021.

***Severance Entitlements***

Flagstone is party to employment agreements with each of its executive officers, pursuant to which the executive officers may be entitled to contractual severance and notice pay in certain circumstances as described below. In addition to the discussion below, Flagstone employees (including executive officers), may be entitled to statutory notice and/or severance payments. Flagstone's executive officers would benefit from the terms and conditions of these employment agreements and statutory provisions without regard to whether the mergers are completed.

*Contractual Severance.* The employment agreements for Flagstone's executive officers, other than Messrs. Fawcett and Slade, provide for contractual severance payments in the event an executive officer's employment is terminated by Flagstone without cause (as defined in the employment agreements). Specifically, the executive officers (other than Messrs. Fawcett and Slade) are entitled to receive a lump sum cash payment equal to the sum of (1) 12 months' base salary and (2) the average of the executive's three most recent paid annual bonuses prior to termination (pursuant to the terms of his employment agreement, Mr. Brown would be entitled to the greater of this amount or an amount based on the value of certain of his PSUs if such termination occurred prior to the completion of the mergers). With respect to Messrs. Flitman, Prestia and Swayne, these amounts are payable 545 days following the date on which notice of termination is provided to the executive officer, provided that the executive officer does not solicit or hire Flagstone employees during that period. On October 18, 2012, Validus agreed with Messrs. Brown, Boisvert and Traimond to cause their employers to pay their contractual severance within 10 days following termination of employment. Validus also agreed to an amendment of the terms of Mr. Brown's employment agreement to clarify the calculation of severance under his employment agreement, by including \$422,500 that was attributable to his fiscal year 2009 bonus

and would have been paid in 2010 and instead was paid in respect of an earlier year at Flagstone's request. Mr. Prestia would also be entitled to salary and continued benefits through September 1, 2013, which is the end of his guaranteed period of employment, upon a termination of his employment without cause, pursuant to the terms of his employment agreement with Flagstone.

As described below in *New Management Arrangements*, Flagstone has reserved the right to amend the employment agreements with Messrs. Flitman, Prestia and Swayne to provide for contractual severance to be paid no later than 30 days following such executive's termination of employment.

*Notice Pay.* Pursuant to the employment agreements, Flagstone is generally required to provide each executive officer with 12 months' notice of termination without cause or, with the exception of Messrs. Boisvert and Traimond, payment of base salary in lieu of such notice.

As described below in *New Management Arrangements*, Flagstone has reserved the right to enter into agreements with Messrs. Fawcett, Flitman, Prestia, Slade and Swayne to terminate their

employment without cause no earlier than 60 days following the later of completion of the mergers and December 31, 2012, and to pay each executive officer base salary in lieu of any required notice. On October 18, 2012, Validus agreed with Mr. Brown that his employment will be terminated without cause effective as of the completion of the mergers, and with Messrs. Boisvert and Traimond that their employment will be terminated without cause effective July 31, 2013, and that each of Messrs. Brown, Boisvert and Traimond will be entitled to base salary in lieu of any required notice.

*Statutory Severance.* Messrs. Brown, Flitman, Swayne, Fawcett and Slade are entitled to statutory severance under Bermuda law.

### ***Calendar Year 2012 Guaranteed Bonuses***

On February 22, 2012, Flagstone entered into an agreement with each of Messrs. Boisvert, Flitman, Prestia, Swayne, Traimond, Slade and Fawcett guaranteeing a minimum 2012 calendar year annual bonus. On September 14, 2012, Flagstone entered into a new agreement with each of Messrs. Slade and Fawcett to increase the amount of the guaranteed minimum 2012 calendar year annual bonus, which agreement superseded the prior agreements entered into in February between Flagstone and each of Messrs. Fawcett and Slade. On October 18, 2012, Validus agreed with Mr. Brown that he will be entitled to a guaranteed minimum 2012 calendar year annual bonus and agreed with Messrs. Boisvert and Traimond that each executive will be entitled to an increase in the amount of each executive's guaranteed minimum 2012 calendar year annual bonuses to each executive's target bonus amount. Under these agreements, each of Messrs. Brown, Boisvert, Flitman, Prestia, Swayne, Traimond, Slade and Fawcett is entitled to receive a minimum 2012 calendar year annual bonus, provided that the executive has not resigned or been terminated for cause (as defined in the executives' employment agreements) and is not subject to disciplinary proceedings as of December 31, 2012. Payment of these guaranteed 2012 calendar year annual bonuses is accelerated in the event the applicable executive's employment is terminated without cause. The aforementioned executive officers would benefit from the terms and conditions of these guaranteed 2012 calendar year annual bonuses without regard to whether the mergers are completed (except for the 2012 calendar year annual bonus amount guaranteed to Mr. Brown, and Mr. Boisvert's and Mr. Traimond's increased bonuses).

As described below in *New Management Arrangements*, Flagstone has reserved the right to increase the guaranteed minimum 2012 annual bonus for Mr. Flitman to his target annual bonus amount.

### ***New Management Arrangements***

As of the date of this proxy statement/prospectus, Flagstone has not entered into any employment agreements with Flagstone's executive officers in connection with the mergers, and Flagstone has not amended or modified any existing employment agreements or other arrangements with its executive officers. Flagstone has, however, reserved the right, prior to completion of the mergers, to (1) amend the employment agreements with Messrs. Flitman, Prestia and Swayne to provide for contractual severance to be paid no later than 30 days following such executive's termination of employment, (2) enter into agreements with Messrs. Flitman, Prestia, Swayne, Fawcett and Slade to terminate their employment without cause, with payment in lieu of the notice due to such executive, effective no earlier than 60 days following the later of completion of the mergers and December 31, 2012 and (3) increase the guaranteed minimum 2012 annual bonus for Mr. Flitman to his target annual bonus amount.

### ***New Separation Agreements***

On October 18, 2012, Validus agreed to the terms of separation agreements to be effective upon completion of the mergers with each of Messrs. Boisvert and Traimond, pursuant to which each executive will remain employed by Flagstone Réassurance Suisse SA through July 31, 2013. From the completion of the mergers through July 31, 2013, the executives will be entitled to the following payments:

continued  
base salary  
and other  
compensation  
and benefits,  
unless the  
executive's  
employment  
is terminated  
prior to July  
31, 2013 by  
Flagstone  
Réassurance  
Suisse SA for  
cause or due  
to the  
executive's  
resignation;

on or before  
January 31,  
2013, a lump  
sum payment in  
an amount not  
less than the  
executive's  
guaranteed  
minimum 2012  
annual bonus,  
unless the  
executive's  
employment is  
terminated prior  
to December 31,  
2012 by  
Flagstone  
Réassurance  
Suisse SA for  
cause or due to  
the executive's  
resignation;

annual  
membership  
fees in  
accounting and  
finance  
professional  
orders and an  
allowance for  
annual  
professional  
development not  
to exceed  
approximately  
\$5,236;

medical, life,  
accident and  
disability  
benefits and  
insurance for the  
executive, his  
spouse, and  
eligible  
dependents, and  
any Swiss  
pension, social  
insurance, and

other contributions substantially similar to those made in the year prior to the completion of the mergers; and

for Mr. Boisvert only, reimbursements for any fees incurred by the executive for professional advice regarding the executive's interest in securing a Swiss C Permit in an amount not to exceed approximately \$10,471, net of any taxes and social security contributions.

Upon termination from Flagstone Réassurance Suisse SA on or prior to July 31, 2013, Messrs. Boisvert and Traimond will be entitled to the following lump sum payments within 10 days of such termination equal to:

any accrued but unused vacation and accrued but unpaid salary through the date of termination;

12 months base salary in lieu of notice of termination without cause ;

the sum of (x) 12 months base salary

plus (y) the average of the executive s three most recently paid annual bonuses prior to the date of termination;

approximately \$424,084 in respect of the annual bonus for the fiscal year ending December 31, 2013, unless the executive s employment is terminated prior to July 31, 2013 by Flagstone Réassurance Suisse SA for cause or due to the executive s resignation; and

for Mr. Boisvert only, the schooling allowance to which the executive was entitled as of immediately prior to the completion of the mergers.

***Quantification of Payments and Benefits***

The following table shows the amounts of payments and benefits that each named executive officer of Flagstone would receive in connection with the mergers, assuming the completion of the mergers occurred on December 15, 2012, and the employment of the named executive officer was terminated by the surviving company without cause on such date. The amounts reflect the terms of the named executive officers compensation arrangements with Flagstone as in effect on the date of this proxy statement/prospectus and, as such, do not reflect the impact of any changes to such arrangements that Flagstone has reserved the right to make (as described above in *New Management*

*Arrangements* ) or, other than with respect to 2012 guaranteed bonuses for Messrs. Brown and Boisvert, any agreements between Validus and Flagstone s named executive officers following the date of the merger agreement.

The table below, along with its footnotes, shows the compensation payable to Flagstone s chief executive officer, chief financial officer and the three other most highly compensated executive officers, as determined for purposes of its most recent annual proxy statement, and is subject to an advisory vote of Flagstone s shareholders (as described below in *Advisory Vote on Golden Parachutes* ).

*Potential Change of Control Payments to Named Executive Officers*

| <b>Name</b>      | <b>Cash (\$)<sup>(1)</sup></b> | <b>Equity (\$)<sup>(2)</sup></b> | <b>Perquisites/<br/>Benefits (\$)<sup>(3)</sup></b> | <b>Other (\$)<sup>(4)</sup></b> | <b>Total (\$)</b> |
|------------------|--------------------------------|----------------------------------|---|---------------------------------|-------------------|
| David Brown      | 3,891,284                      | 4,316,830                        | 21,912  |                                 | 8,230,026         |
| Patrick Boisvert | 1,104,712                      | 2,212,353                        | 4,693   | 573,280                         | 3,895,038         |
| David Flitman    | 1,872,631                      | 2,587,763                        | 16,175  |                                 | 4,476,569         |
| Gary Prestia     | 2,134,151                      | 2,587,763                        | 90,381  |                                 | 4,812,295         |
| Guy Swayne       | 1,876,237                      | 2,587,763                        | 50,837  |                                 | 4,514,837         |

(1) As described above, the cash payments for Flagstone's named executive officers consist of (i) contractual severance for each of the named executive officers pursuant to their respective employment agreements, which consists of a cash payment equal to one year's annual salary and a bonus calculated by averaging the sum of the most recent three bonuses paid to them, respectively (and, with respect to Mr. Prestia, the base salary that

would have otherwise been paid to him through September 1, 2013, which is his guaranteed employment period), (ii) continued payment of base salary and provision of benefits during a 12-month notice period, or with respect to each named executive officer other than Mr. Boisvert, payment of 12 months base salary in lieu of notice, (iii) solely with respect to Messrs. Brown, Flitman and Swayne, statutory severance under Bermuda law and (iv) with respect to each of the named executive officers other than Mr. Brown, accelerated vesting and payment of such executive officer's 2012 guaranteed bonus. These payments are double-trigger,

as they will generally only be payable in the event of a termination of employment without cause following the completion of the mergers.

These payments are based on compensation and benefit levels in effect on October 22, 2012; therefore, if compensation and benefit levels are increased after October 22, 2012, actual payments may be greater than those provided for above.

The amounts of the respective components described above are set forth in the following table and assume that, with respect to each of the named executive officers other than Mr. Boisvert, Flagstone elects to pay the named executive officer base salary in lieu of

notice:

| <b>Name</b>                     | <b>Contractual Severance (\$)<sup>(a)</sup></b> | <b>Payment in Lieu of Notice (\$)</b> | <b>Statutory Severance (\$)</b> | <b>2012 Guaranteed Bonus (\$)<sup>(b)</sup></b> |
|---------------------------------|---|---------------------------------------|---------------------------------|---|
| David Brown                     | 1,533,750                                       | 1,000,000                             | 357,534                         | 1,000,000                                       |
| Patrick Boisvert <sup>(c)</sup> | 680,628   |                                       |                                 | 424,084   |
| David Flitman                   | 880,000   | 580,000                               | 151,631                         | 261,000   |
| Gary Prestia                    | 1,293,151                                       | 580,000                               |                                 | 261,000   |
| Guy Swayne                      | 880,000   | 580,000                               | 155,237                         | 261,000   |

- (a) The salary and bonus components of the contractual severance, respectively, for each named executive officer are as follows: (i) Mr. Brown \$1,000,000 and \$533,750; (ii) Mr. Boisvert \$471,204 and \$209,424; (iii) Mr. Flitman \$580,000 and \$300,000; (iv) Mr. Prestia \$580,000 and \$300,000; and (v) Mr. Swayne \$580,000 and \$300,000. In addition, the amount in respect of Mr. Prestia includes the value of the salary that would have been paid to him through September 1, 2013, the end of the guaranteed employment

period in his employment agreement.

- (b) These amounts reflect the agreements between Validus and Messrs. Brown and Boisvert with respect to their guaranteed 2012 bonuses and assume that Flagstone does not increase Mr. Flitman's guaranteed 2012 bonus, which Flagstone has reserved the right to do prior to completion of the mergers.
- (c) Amounts will be paid to Mr. Boisvert in Swiss francs. For purposes of these calculations, the Swiss franc amounts were converted into U.S. dollars based on an exchange rate of 0.955 Swiss francs per U.S. dollar.
- (2) As described above, the equity amounts consist of the accelerated vesting of unvested PSUs, which is

single-trigger  
in that it will  
occur  
immediately  
upon  
completion of  
the mergers,

whether or not employment is terminated. The following table shows the amounts in this column attributable to such PSUs:

| <b>Name</b>      | <b>No. of Shares Underlying PSUs</b> | <b>Resulting Consideration from PSUs (\$)</b> |
|------------------|--------------------------------------|---|
| David Brown      | 481,400                              | 4,316,830                                     |
| Patrick Boisvert | 248,450                              | 2,212,353                                     |
| David Flitman    | 290,250                              | 2,587,763                                     |
| Gary Prestia     | 290,250                              | 2,587,763                                     |
| Guy Swayne       | 290,250                              | 2,587,763                                     |

In determining the number of Flagstone shares underlying such PSUs and the resulting consideration, in accordance with the merger agreement, performance goals will be deemed to be achieved at maximum levels. The preceding table also assumes that dividends will be declared by Flagstone through the completion of the mergers.

Because the value of the merger consideration is not fixed, the value of PSUs shown above is based on the average closing price of Flagstone shares over the first five business days following public announcement of the mergers, or \$8.61. Accordingly, actual payments may be greater or less than those shown above. Depending on when completion of the mergers occurs, certain PSUs shown as unvested in the table may become vested in accordance with their terms without regard to the mergers.

- (3) Pursuant to the terms of his employment agreement, Mr. Prestia is entitled to guaranteed employment, including continued perquisites and benefits, through September 1, 2013. In

addition, these amounts include payout of accrued and unused vacation for each of the named executive officers. These benefits are double-trigger as they will only be payable in the event of a termination of employment following the completion of the mergers. The estimated value of these benefits is displayed above.

- (4) As described above, pursuant to the terms of his employment agreement, Flagstone is required to provide Mr. Boisvert with 12 months notice of termination of employment, during which period Flagstone is required to continue to provide Mr. Boisvert with base salary, perquisites and benefits, the

estimated value of which is displayed above. These payments are double-trigger, as they will generally only be payable in the event of a termination of employment without cause following the completion of the mergers. These payments are based on compensation and benefit levels in effect on October 22, 2012; therefore, if compensation and benefit levels are increased after October 22, 2012, actual payments may be greater than those provided for above.

***Leyton Limited Warrant***

The interests of Mr. Brown include the Leyton Limited Warrant, which was issued prior to Flagstone's initial public offering and a portion of which was subsequently transferred to Mr. Brown on June 25, 2010. As of the date of this proxy statement/prospectus, the Leyton Limited Warrant is for 630,194 Flagstone shares. Pursuant to the merger agreement, the Leyton Limited Warrant will be amended upon the completion of the second-step merger such that, upon payment during the exercise period (which runs from December 1, 2013 to December 31, 2013) of the exercise price as of the completion of the mergers, the Leyton Limited Warrant will be converted into the right to receive the \$2.00 in cash and 0.1935 Validus common shares, subject to adjustments (if any) pursuant to the terms of the Leyton Limited Warrant, on a per share basis for each of the Flagstone shares subject to the Leyton Limited Warrant. The Leyton Limited Warrant will have value during the exercise period only if the value of the merger consideration during the exercise period is greater than the Leyton Limited Warrant's exercise price, which, as of the date of this proxy statement/prospectus, is \$13.96 per Flagstone share.

***Directors and Officers Indemnification and Insurance***

Flagstone's board of directors and executive officers have rights to indemnification and insurance coverage that will survive the completion of the mergers. See the section of this proxy

statement/prospectus titled *The Merger Agreement Indemnification and Insurance* for additional information.

### ***Committee Compensation***

In consideration of the expected time and effort required of members of the finance committee and other standing committees of Flagstone's board of directors, each non-employee director receives cash in the amount of \$3,500 for each committee meeting attended in person, and \$2,000 for each meeting attended by telephone. Each non-employee director also receives cash in the amount of \$3,000 per year for each committee on which the director serves. In addition, committee chairs (other than the audit committee chair) receive an annual fee of \$2,000 for each committee chaired. These fees are payable whether or not the mergers are completed and were approved by Flagstone's board of directors prior to Flagstone's receipt of Validus' final proposal. In connection with Flagstone's review process, Flagstone's board of directors determined that, in lieu of receiving a fee for each meeting attended in connection with Flagstone's review process, each member of the finance committee, other than Mr. Brown, would be entitled to a fee of \$35,000. For more information about the meetings of the finance committee see the section titled *Background of the Mergers*.

### ***Potential Change of Control Payments to Other Executive Officers***

Messrs. Fawcett, Slade and Traimond may receive cash payments in connection with the mergers consisting of (i) for Mr. Traimond, (A) contractual severance pursuant to his employment agreement in the amount of \$680,628, which consists of a cash payment equal to one year's annual salary and a bonus calculated by averaging the sum of the most recent three bonuses paid to him, (B) a guaranteed minimum 2012 annual bonus in the amount of \$424,084 and (C) payment in respect of accrued and unused vacation in the amount of \$15,018; (ii) for Messrs. Fawcett and Slade, (A) payment of 12 months' base salary in lieu of notice in the amount of \$371,000 and \$390,000, respectively, (B) statutory severance under Bermuda law in the amount of \$62,863 and \$133,808, respectively, (C) a guaranteed minimum 2012 annual bonus in the amount of \$148,400 and \$195,000, respectively, and (D) payment in respect of accrued and unused vacation in the amount of \$21,432 and \$12,430, respectively. Because Mr. Traimond's employment agreement does not provide for payment in lieu of notice, Mr. Traimond may also receive the continued payment of base salary and provision of benefits during a 12-month notice period, with an estimated value of \$534,209. Other than with respect to his 2012 annual bonus, these amounts do not take into account the separation agreement between Validus and Mr. Traimond described above in *New Separation Agreements*. Amounts will be paid to Mr. Traimond in Swiss francs. For purposes of these calculations, the Swiss franc amounts were converted into U.S. dollars based on an exchange rate of 0.955 Swiss francs per U.S. dollar.

In addition, in connection with the mergers, Messrs. Fawcett, Slade and Traimond are entitled to accelerated vesting of unvested PSUs upon completion of the mergers, whether or not employment is terminated. The number of shares underlying the unvested PSUs held by Messrs. Fawcett, Slade and Traimond, and the resulting consideration related thereto, are, respectively: Mr. Fawcett, 70,750 and \$631,048; Mr. Slade, 102,000 and \$909,900; and Mr. Traimond, 248,450 and \$2,212,353. In determining the number of Flagstone shares underlying such PSUs and the resulting consideration, performance goals will be deemed to be achieved at maximum levels and it is assumed that dividends will be declared by Flagstone through the completion of the mergers consistent with past practice. Since the value of the merger consideration is not fixed, the value of PSUs described above is based on the average closing price of Flagstone shares over the first five business days following public announcement of the mergers, or \$8.61. Accordingly, actual payments may be greater or less than those described above. Depending on when completion of the mergers occurs, certain PSUs described as unvested above may become vested in accordance with their terms without regard to the mergers. These payments are based on compensation and benefit levels in effect on September 14, 2012; therefore, if compensation and benefit levels are increased after September 14, 2012, actual payments may be greater than those provided for above.

***Advisory Vote on Golden Parachutes***

In accordance with Section 14A of the Exchange Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, Flagstone is providing its shareholders with the opportunity to cast a non-binding, advisory vote on the compensation that may be payable to its named executive officers in connection with the mergers. This non-binding, advisory proposal relates only to compensation or other arrangements between Flagstone's named executive officers and Flagstone in existence prior to completion of the mergers and that may result in a payment to Flagstone's named executive officers in connection with, or following, the completion of the mergers and does not relate to any new compensation or other arrangements between Flagstone's named executive officers and Validus or, following the mergers, Flagstone and its subsidiaries. As required by Section 14A of the Exchange Act, Flagstone is asking its shareholders to vote on the adoption of the following resolution:

RESOLVED, that the compensation that may be paid or become payable to Flagstone's named executive officers in connection with the mergers, as disclosed in the table titled *Potential Change of Control Payments to Named Executive Officers*, including the associated footnotes and narrative discussion, and the agreements or understandings pursuant to which such compensation may be paid or become payable, are hereby APPROVED.

**The board of directors unanimously recommends that you vote FOR the non-binding compensation proposal.**

The vote on executive compensation payable in connection with the mergers is a vote separate and apart from the vote to approve the merger proposal. Accordingly, you may vote to approve the merger proposal and vote not to approve the executive compensation and vice versa. Because the vote is advisory in nature only, it will not be binding on Flagstone. Accordingly, because Flagstone is contractually obligated to pay the compensation, such compensation will be paid or become payable, subject only to the conditions applicable thereto, if the mergers are completed and regardless of the outcome of the advisory vote.

The approval of the non-binding compensation proposal requires the affirmative vote of at least two-thirds of the Flagstone shares present, in person or represented by proxy, at the extraordinary general meeting.

Abstentions are considered to be Flagstone shares present, and thus will have the same effect as a vote AGAINST the non-binding compensation proposal. If your shares are held in street name as of the close of business on the record date, broker non-votes are not considered to be present. Thus, whether you hold your shares in street name or directly in your name, failing to submit voting instructions or failing to vote will have no effect on the vote to approve the non-binding compensation proposal (assuming a quorum is present). See the section of this proxy statement/prospectus titled *The Extraordinary General Meeting Voting Procedures*.

**Validus Reasons for the Mergers**

Validus' board of directors has approved the merger agreement and declared advisable the mergers. In evaluating the mergers, Validus' board of directors consulted with Validus' management, as well as with Validus' advisors, and, in reaching its conclusions, Validus' board of directors considered, among other things, the following factors:

its belief that  
the  
acquisition  
of  
Flagstone's  
business will  
enhance  
Validus

leadership  
position in  
the property  
catastrophe  
reinsurance  
industry;

that the  
mergers will  
create a  
company  
with greater  
size and  
economies  
of scale,  
which  
should  
enable  
Validus to  
have  
incremental  
excess  
capital,  
greater  
capital  
flexibility,  
the ability to  
respond to  
competitive  
pressures  
and an  
increased  
opportunity  
to compete  
profitably;

that Validus  
successfully  
integrated  
similar  
businesses  
in the past,  
including its  
2009  
acquisition  
of IPC  
Holdings,  
Ltd.;

the  
opportunity  
that the  
mergers  
provide to  
reduce costs  
associated  
with running  
two separate  
public  
companies,  
including  
Flagstone s  
NYSE and  
Bermuda  
Stock  
Exchange  
listing fees,  
transfer agent  
fees, legal and  
accounting  
fees related to  
SEC filings  
and  
shareholder  
mailings,  
printing and  
mailing  
expenses for  
periodic  
reports and  
proxy  
statements,  
annual  
meeting  
expenses and  
other investor  
relations  
related  
expenses;

the expectation  
that Validus  
will  
experience  
accretion to its  
diluted book  
value per share  
and diluted  
tangible book

value per share  
as a result of  
the mergers;

that the  
addition of  
Flagstone's  
business to  
Validus is  
intended to  
create a more  
diversified  
pool of  
underwriting  
risk by product  
and  
geography;

that Validus  
would remain  
within its  
stated  
limitations of  
reinsurance  
aggregates by  
exposure zone;

the  
understanding  
by Validus  
board of  
directors of the  
business,  
operations and  
financial  
condition of  
Flagstone;

the ongoing  
representation  
by all of  
Validus  
existing  
directors on  
Validus board  
of directors  
after the  
mergers, and  
that Validus  
senior  
management

will continue  
to manage  
Validus;

Validus board  
of directors  
belief, based  
on discussions  
with Validus  
management,  
that Validus  
has sufficient  
surplus capital  
available to  
pay a material  
portion of the  
merger  
consideration  
in cash;

that no  
external  
financing is  
required for  
the transaction  
and that  
Validus had  
already  
secured an  
amendment to  
its existing  
Talbot credit  
facility that  
permits  
Validus to  
effect the  
mergers;

that Flagstone  
shareholders  
that  
collectively  
own or control  
approximately  
22.5% of the  
outstanding  
Flagstone  
shares have  
agreed to  
support and  
vote in favor

of the merger proposal; and

the terms of the merger agreement, which resulted from arm s-length negotiations between Validus and its advisors, on the one hand, and Flagstone and its advisors, on the other hand.

The Validus board of directors weighed the foregoing against a number of potentially negative factors, including:

that the value of the share component of the merger consideration fluctuates with the price of Validus common shares and that a decline in the trading price of Validus common shares during the pendency of the mergers could result in the value of the merger consideration being unattractive to Flagstone shareholders;

the possibility that Flagstone shareholders may not react

favorably to  
the  
contemplated  
mergers, and  
the execution  
risk and  
additional  
costs that  
would be  
required to  
complete the  
mergers as a  
result of any  
legal actions  
brought by  
Validus  
shareholders or  
Flagstone  
shareholders;

the restrictions  
on the conduct  
of Validus  
business  
imposed by the  
merger  
agreement  
prior to the  
completion of  
the mergers,  
which require  
Validus to  
conduct its  
business in the  
ordinary  
course, subject  
to specific  
limitations,  
and may delay  
or prevent  
Validus from  
undertaking  
business  
opportunities  
that may arise  
pending  
completion of  
the mergers;

the effect of  
the

announcement of the mergers on Validus share price if Validus shareholders do not view the mergers positively or the mergers are not completed;

the potential disruption to Validus business that could result from the announcement and pursuit of the mergers, including the diversion of management and employee attention;

the possibility that the mergers may not be completed due to the failure to obtain the required approval of Flagstone shareholders, the occurrence of a Material Adverse Effect on either company's business, or the failure to satisfy other conditions to closing;

the risk that A.M. Best, S&P or Moody's might lower the ratings of Validus, Flagstone or any of their respective reinsurance subsidiaries following the mergers; and

the risks described in the section of this proxy statement/prospectus titled *Risk Factors*.

The foregoing discussion of the information and factors considered by Validus' board of directors is not intended to be exhaustive, but is believed to include material positive and potentially adverse factors considered by Validus' board of directors. The factors listed above are not presented in any order of priority. In view of the variety of factors considered in connection with its evaluation of the merger agreement and the transactions contemplated by the merger agreement, Validus' board of directors did not find it practicable to, and did not, quantify or otherwise assign specific weights to the factors considered in reaching its determination. In addition, each of the members of Validus' board of directors may have given different weights to different factors. This explanation of the reasoning of Validus' board of directors and certain information presented in this section is forward-looking in nature and should be read in light of the factors discussed in the section of this proxy statement/prospectus titled *Special Note Concerning Forward-Looking Statements*. Validus' board of directors believed that the positive factors outweighed the negative factors discussed above, especially after giving effect to the likelihood of occurrence.

### **Accounting Treatment**

Validus will account for the acquisition of Flagstone shares pursuant to the mergers under the acquisition method of accounting in accordance with ASC 805, under which the total consideration paid in the second-step merger will be allocated among acquired assets and assumed liabilities based on the fair values of the assets acquired and liabilities assumed. Validus anticipates that the acquisition will result in an excess of the fair values of the acquired assets and liabilities assumed over the total consideration paid. In the event there is an excess of the total consideration paid in the second-step merger over the fair values of the assets acquired and liabilities assumed, the excess will be accounted for as goodwill. Intangible assets with definite lives will be amortized over their estimated useful lives. Goodwill resulting from the second-step merger will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that the management of Validus determines that the value of goodwill has become impaired, an accounting charge will be taken in the fiscal quarter in which such determination is made. In the event there is an excess of the fair values of the assets acquired and liabilities assumed over the total consideration paid in the second-step merger, the excess will be accounted for as a gain to be recognized through the income statement at the close of the transaction, in accordance with ASC 805.

### **Certain Financial Projections**

Flagstone does not as a matter of course publicly disclose detailed financial forecasts or projections, and Flagstone generally does not disclose forecasts for extended periods due to the unpredictability of the underlying assumptions and estimates. However, Flagstone provided Evercore with Flagstone's standalone projections as of July 2012 (which

we refer to as the financial forecasts ). Evercore used the financial forecasts in its financial analyses relating to the potential transaction and other potential strategic and operating options. Flagstone's board of directors also considered the financial forecasts for the purpose of evaluating the mergers and other potential strategic and operating options.

Financial projections prepared before the end of the quarterly period ended June 30, 2012 were provided to Validus, Evercore and Flagstone's board of directors. These financial projections are not being disclosed because the financial forecasts (disclosed below) reflect the actual results of the quarterly period ended June 30, 2012 (instead of Flagstone's projections for that period). Accordingly, the financial projections prepared before the end of the quarterly period ended June 30, 2012 are superseded by the financial forecasts discussed below. Validus was not provided with the financial forecasts prior to entering into the merger agreement.

The financial forecasts were not prepared with a view toward public disclosure or compliance with published guidelines of the SEC or the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information or with GAAP. In addition, the financial forecasts are unaudited and neither Flagstone's independent registered public accounting firm, nor any other independent auditor, has compiled, examined or performed any procedures with respect to the financial forecasts, nor have they expressed any opinion or given any form of assurance on the financial forecasts or their achievability, and they assume no responsibility for, and disclaim any association with, the financial forecasts.

The financial forecasts cover multiple years and such information by its nature becomes less reliable with each successive year. In addition, the financial forecasts will be affected by Flagstone's ability to achieve strategic goals, objectives and targets over the applicable periods. The assumptions and variables (including, without limitation, those related to industry performance and competition and general business, economic, market and financial conditions) upon which the financial forecasts are based necessarily involve judgments as of the time of their preparation with respect to, among other things, future economic, competitive and regulatory conditions and financial market conditions, all of which are difficult or impossible to predict accurately and many of which are beyond Flagstone's control. The financial forecasts are forward-looking statements. The financial forecasts also reflect assumptions as of the time of their preparation as to certain business decisions or estimates that are subject to change and do not necessarily reflect current estimates or assumptions that Flagstone's management may have about the prospects for Flagstone's businesses, changes in general business or economic conditions, industry performance, the regulatory environment and other factors described in the section of this proxy statement/prospectus titled *Special Note Concerning Forward-Looking Statements* and in the risk factors included in Flagstone's Annual Report on Form 10-K for the year ended December 31, 2011, as such risks may be updated or supplemented in Flagstone's subsequently filed Quarterly Reports on Form 10-Q or Current Reports on Form 8-K, which are incorporated by reference into this proxy statement/prospectus. The financial forecasts cannot, therefore, be considered a guarantee of future operating results, and this information should not be relied on as such. Flagstone's actual results may differ materially from those contained in the financial forecasts.

Information from the financial forecasts is included in this proxy statement/prospectus solely to give shareholders access to information that was provided by Flagstone to Evercore, Flagstone's financial advisor, and Flagstone's board of directors in connection with its evaluation of the proposed transaction with Validus and is not included in this proxy statement/prospectus in order to influence your decision about whether to vote for the merger proposal or the other proposal to be considered and voted upon at the special meeting.

The inclusion of the financial forecasts in this proxy statement/prospectus should not be regarded as an indication that Flagstone, Validus or any of their respective affiliates, advisors, representatives or any recipient of this information considered, or now considers, the financial forecasts to be predictive of actual future results, and the financial forecasts should not be relied upon as such. None of Flagstone, Validus, or any of their respective affiliates, advisors, officers, directors or representatives can give you any assurance that actual results will not differ from the financial forecasts, and none of them undertakes any obligation to update or otherwise revise or reconcile the financial forecasts to reflect circumstances existing after the date the financial forecasts were generated or to reflect the occurrence of future events even in the event that any or all of the assumptions underlying the financial forecasts are shown to be in error. Flagstone does not intend to make publicly available any update or other revision to the financial forecasts. Further, the inclusion of the financial forecasts in this proxy statement/prospectus does not constitute an admission or representation by Flagstone that this information is material. None of Flagstone, Validus, or any of their respective affiliates, advisors, officers, directors or representatives has made or makes any representation to any shareholder or other person regarding Flagstone's ultimate performance compared to the information contained in the financial forecasts or that any of the forecasted results will be achieved. Flagstone has made no representation to Validus, in the merger agreement or otherwise, concerning the financial forecasts. The financial forecasts are subjective in many respects and thus subject to interpretation.



The following is a summary of the financial forecasts:

|                       | 2012E          | 2013E          | 2014E          | 2015E          |
|-----------------------|----------------|----------------|----------------|----------------|
| Gross Premium Written | \$ 430,629,882 | \$ 452,824,828 | \$ 522,473,124 | \$ 579,892,154 |
| Net Premium Written   | \$ 338,378,198 | \$ 380,154,771 | \$ 442,191,456 | \$ 491,536,383 |
| Loss Ratio            | 51.9 %         | 49.1 %         | 48.6 %         | 48.7 %         |
| Combined Ratio        | 92.0 %         | 87.0 %         | 83.9 %         | 82.5 %         |
| Net Income            | \$ 79,953,145  | \$ 69,179,450  | \$ 89,378,974  | \$ 105,432,312 |
| Shareholders Equity   | \$ 859,490,634 | \$ 846,834,874 | \$ 855,116,950 | \$ 955,209,314 |

### Regulatory Approvals

The mergers will be subject to review by insurance, antitrust and other regulatory authorities in various jurisdictions. Validus has filed all applications and notifications determined by Validus or Flagstone to be necessary or advisable under the laws of the respective jurisdictions for the completion of the mergers. Subject to the terms and conditions of the merger agreement, Validus and Flagstone must use their respective reasonable best efforts to obtain all necessary governmental and regulatory approvals. See the section of this proxy statement/prospectus titled *The Merger Agreement Reasonable Best Efforts to Complete the Mergers*.

The mergers are conditioned on the receipt of required governmental and regulatory authorizations, consents, orders and approvals. No assurance can be given that the required consents and approvals of the applicable insurance, antitrust and other regulatory authorities to complete the mergers will be obtained, and, if all required consents and approvals are obtained, no assurance can be given as to the terms, conditions and timing of the consents and approvals. If Validus agrees to any material requirements, limitations, costs, divestitures or restrictions in order to obtain any consents or approvals required to complete the mergers, these requirements, limitations, additional costs or restrictions could adversely affect Validus' ability to integrate the operations of Flagstone into Validus or reduce the anticipated benefits of the combination contemplated by the mergers. See the sections of this proxy statement/prospectus titled *Risk Factors* and *The Merger Agreement Conditions to the Completion of the Mergers*.

### U.S. Insurance Regulatory

The insurance laws and regulations of all 50 U.S. states and the District of Columbia generally require that, prior to the acquisition of control of an insurance company, either through the acquisition of or merger with the insurance company or a holding company of that insurance company, the acquiring company must obtain approval from the insurance commissioner of the insurance company's state of domicile or, in certain jurisdictions, where such insurance company is commercially domiciled.

Flagstone indirectly owns 45.02% of Star & Shield Holdings LLC, a Delaware limited liability company that is the parent company of Star & Shield Risk Management, L.L.C., the Attorney-In-Fact for Star & Shield Insurance Exchange, a Florida reciprocal insurance company. Accordingly, before it can acquire Flagstone's indirect ownership interest in Star & Shield Risk Management, L.L.C. through its acquisition of Flagstone, Validus will be required to obtain approval for this acquisition from the Florida Office of Insurance Regulation. Validus has made the filing with the Florida Office of Insurance Regulation.

***Non-U.S. Insurance Regulatory***

The mergers are subject to review by non-U.S. insurance regulatory authorities in various jurisdictions. The applicable non-U.S. insurance regulatory authorities pursuant to which Validus has made filings in connection with the mergers are the Registrar of Short-Term Insurance in South Africa, the Bermuda Monetary Authority, the Swiss Financial Market Supervisory Authority (FINMA) and the Financial Services Authority (FSA) in the United Kingdom. Validus has received the approvals from the Bermuda Monetary Authority, the Financial Services Authority (FSA) in the

United Kingdom and the Registrar of Short-Term Insurance in South Africa necessary to complete the mergers.

### ***U.S. Antitrust Clearance***

Validus and Flagstone have determined that filing of a notification under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, is not required in connection with the mergers.

### ***Non-U.S. Antitrust Clearance***

Validus has made antitrust or competition law filings in Norway, South Africa and Turkey in connection with the mergers. The Turkish Competition Board has approved the mergers under the Act on the Protection of Competition. In addition, the mergers have been deemed to be automatically cleared under the Norwegian Competition Act of 2004 because the applicable waiting period expired without the Norwegian Competition Authority taking action in respect of the mergers.

Other than the filings described above, neither Validus nor Flagstone is aware of any governmental or regulatory filings or approvals required to be made or obtained, or waiting periods required to expire after the making of a filing. If the parties discover that other filings or approvals or waiting periods are necessary, they will seek to make or obtain or comply with them, although there can be no assurance that they will be made or obtained or complied with or that any required governmental or regulatory approvals will be granted on a timely basis or, if granted, will not include terms, conditions or restrictions that are adverse to Validus or Flagstone or that would cause one or both of them to abandon the mergers, if permitted by the terms of the merger agreement.

### **Flagstone Notes and Credit Facilities**

Flagstone's obligations with respect to the Flagstone Notes will be assumed by the surviving company and become its obligations following the completion of the mergers. The aggregate principal amount outstanding under the Flagstone Notes as of October 22, 2012 was approximately \$250.5 million.

Flagstone has agreed to use commercially reasonable efforts to cooperate with Validus in connection with any amendments to Flagstone's existing credit facilities that Validus determines are necessary or desirable.

### **Modification of Validus Credit Facilities**

On August 30, 2012, Validus, as guarantor, and its wholly owned subsidiary, Talbot Holdings Ltd., as borrower, entered into an amendment letter relating to Validus's \$25 million Funds-at-Lloyd's Standby Letter of Credit Facility, which includes certain exceptions to the negative covenants under the credit facility that permit the completion of the mergers and the transactions related thereto. The amendment letter also amends various other negative covenants under the credit facility in order to permit the indebtedness of Flagstone and its subsidiaries to remain outstanding on and after the completion of the mergers. The credit facility was provided and arranged by Lloyds TSB Bank plc and ING Bank N.V., London Branch.

### **Listing of Validus Common Shares**

It is a condition to the completion of the mergers that the Validus common shares to be issued to Flagstone shareholders pursuant to the mergers be authorized for listing on the NYSE upon the completion of the mergers, subject to official notice of issuance.

**Delisting of Flagstone Shares**

Upon completion of the mergers, Flagstone shares currently listed on the NYSE will cease to be listed on the NYSE, and will subsequently be deregistered under the Exchange Act. Upon completion of the mergers, Flagstone shares will also be delisted from the Bermuda Stock Exchange.

### **Source and Amount of Funds**

The aggregate consideration to be paid to Flagstone shareholders in the second-step merger will consist of 0.1935 Validus common shares and \$2.00 in cash (less any applicable withholding taxes and without interest), plus cash in lieu of any fractional Validus common shares otherwise issuable to a Flagstone shareholder, for each Flagstone share held immediately prior to the mergers.

Validus expects to have sufficient cash on hand to complete the transactions contemplated by the merger agreement, including any cash that may be required to pay fees, expenses and other related amounts.

### **Dividends and Distributions**

Each of Validus and Flagstone has historically paid a regular quarterly cash dividend or distribution to its respective shareholders (\$0.25 per common share in the case of Validus and \$0.04 per share in the case of Flagstone). Under the terms of the merger agreement, prior to the completion of the mergers, Validus and Flagstone are permitted to continue to declare and pay ordinary course quarterly dividends or distributions at no more than the amounts specified above and, in the case of Flagstone, with record and payment dates consistent with past practice as agreed between Flagstone and Validus.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Except as otherwise described in this proxy statement/prospectus, there have been no material contracts, arrangements, understandings, relationships, negotiations or transactions since December 31, 2011, between Validus or, after due inquiry and to the best of Validus knowledge and belief, between affiliates of Validus, and Flagstone or its affiliates, concerning a merger, consolidation or acquisition, a tender offer or other acquisition of securities, an election of directors, or a sale or other transfer of a material amount of assets. In the ordinary course of business, Validus and Flagstone enter into, from time to time, various insurance and reinsurance arrangements.

**MANAGEMENT OF THE ACQUIRING COMPANY FOLLOWING THE MERGERS**

Upon the completion of the mergers, Validus board of directors will not change and will consist of the directors serving on Validus board of directors immediately prior to the mergers, and the officers of Validus will be the officers serving Validus immediately prior to the mergers.

## THE MERGER AGREEMENT

The following is a summary of selected material provisions of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, which is incorporated herein by reference and is attached to this proxy statement/prospectus as Annex A. The rights and obligations of the parties are governed by the express terms and conditions of the merger agreement and not by this summary or any other information contained in this document. Flagstone shareholders are urged to read the merger agreement carefully and in its entirety as well as this proxy statement/prospectus before deciding whether to vote in favor of the merger proposal. In reviewing the merger agreement, you should understand that it is included to provide you with information regarding its terms and is not intended to provide any other factual information about Validus or Flagstone.

The representations, warranties and covenants of Validus, Merger Sub, Flagstone and Flagstone Bermuda contained in the merger agreement have been made solely for the benefit of the parties thereto. In addition, such representations, warranties and covenants (a) have been made only for purposes of the merger agreement, (b) have been qualified by (i) matters specifically disclosed in Validus and Flagstone's filings with the SEC and (ii) confidential disclosures made in the disclosure schedules delivered in connection with the merger agreement, (c) are subject to materiality qualifications contained in the merger agreement which may differ from what may be viewed as material by investors, (d) were made only as of the date of the merger agreement or such other date as is specified in the merger agreement and (e) have been included in the merger agreement for the purpose of allocating risk between the contracting parties rather than establishing matters as fact. Accordingly, the merger agreement is included with this filing only to provide investors with information regarding the terms of the merger agreement, and not to provide investors with any other factual information regarding Validus, Flagstone or their respective businesses. Investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of Validus, Flagstone or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the merger agreement, which subsequent information may or may not be fully reflected in Validus or Flagstone's public disclosures.

### Terms of the Mergers

If Flagstone shareholders approve the merger proposal, and all other conditions to the mergers are satisfied (or waived, if permissible under applicable law), (1) Flagstone will merge with and into Flagstone Bermuda, which is a wholly owned subsidiary of Flagstone, and Flagstone Bermuda, as successor-in-interest to Flagstone, will survive the merger as the intermediate company, and (2) immediately following the first-step merger, Flagstone Bermuda will merge with and into Merger Sub, which is a wholly owned subsidiary of Validus, and Merger Sub will survive the merger as the surviving company, such that, immediately following the mergers, the successor-in-interest to Flagstone will be a wholly owned subsidiary of Validus.

Upon the effectiveness of the mergers, Merger Sub's board of directors will consist of the directors serving on the board of directors of Merger Sub immediately prior to the mergers, and the officers of Merger Sub will be the officers serving Merger Sub immediately prior to the mergers.

Also, upon the effectiveness of the mergers, Validus' board of directors will consist of the directors serving on the board of directors of Validus immediately prior to the mergers. See the section of this proxy statement/prospectus titled *Management of the Acquiring Company Following the Mergers*.

### Effective Time; Closing of the Mergers

Validus and Flagstone anticipate that the closing of the mergers will occur as soon as reasonably practicable after the approval of the merger agreement by Flagstone shareholders at the extraordinary general meeting and after the satisfaction or (to the extent permitted by applicable



law) waiver of all other conditions described below in the section titled *Conditions to the Completion of the Mergers*. Under the terms of the merger agreement, the closing of the mergers will occur on a date to be specified by Flagstone and Validus, which will be as soon as reasonably practicable (but in any event no later than the third business day) following the satisfaction or (to the extent permitted by applicable law) waiver by the party or parties entitled to the benefits thereof of the conditions to the completion of the merger (other than those conditions that by their nature are to be satisfied at the closing of the mergers), or at such other place, time and date as may be agreed to in writing by Flagstone and Validus. We refer to the date on which the closing of the mergers will occur as the closing date. Validus and Flagstone currently expect the mergers to close in the fourth quarter of 2012, subject to the conditions referenced above. However, as the mergers are subject to various regulatory clearances and the satisfaction or waiver of other conditions described below in the section titled *Conditions to the Completion of the Mergers*, it is possible that factors outside the control of Flagstone and Validus could result in the mergers being completed at a later time or not at all.

The mergers will become effective on the same date. The first-step merger will become effective at the time on the closing date shown on the certificate of first-step merger issued by the Registrar of Companies in Bermuda. The second-step merger will become effective immediately after the first-step merger becomes effective at the time on the closing date shown on the certificate of second-step merger issued by the Registrar of Companies in Bermuda.

### **Merger Consideration**

As a result of the first-step merger, each outstanding Flagstone share (other than treasury shares held by Flagstone) automatically will be converted into one common share of Flagstone Bermuda. As a result of the second-step merger, each outstanding common share of Flagstone Bermuda (other than treasury shares and any common shares held by Validus, Merger Sub or their respective subsidiaries) will then be automatically converted into the right to receive 0.1935 Validus common shares and \$2.00 in cash (less any applicable withholding taxes and without interest), plus cash in lieu of any fractional Validus common share such holder would otherwise be entitled to receive. For information regarding the treatment of performance share units and restricted share units, see the description below in the section titled *Treatment of Flagstone Restricted Share Unit Awards and Performance Share Unit Awards*. For information regarding the treatment of outstanding warrants, see the description below in the section titled *Treatment of the Leyton Limited Warrant*.

### **Fractional Shares**

Validus will not issue any fractional Validus common shares in connection with the second-step merger. Instead, any Flagstone shareholder who otherwise would have been entitled to a fraction of a Validus common share in connection with the second-step merger will, upon surrender of title to all Flagstone shares held by such shareholder, be paid cash, without interest, in an amount determined by multiplying such fractional interest by the average Validus common share price, as determined on the basis of the volume weighted average trading price of the Validus common shares on the NYSE for the ten consecutive trading days immediately preceding the second trading day prior to the closing date.

### **Exchange Agent**

Prior to the closing date, Validus will designate a bank or trust company reasonably acceptable to Flagstone to act as agent (which we refer to as the exchange agent) for the payment and delivery of the aggregate merger consideration. At or prior to the completion of the second-step merger, Validus will deposit with the exchange agent (1) a number of certificates or shares in book-entry form representing the aggregate number of Validus common shares to be issued to Flagstone shareholders in connection with the second-step merger, and (2) an amount in cash sufficient to pay the aggregate cash consideration and, to the extent then determinable, any cash payable in lieu of fractional shares in connection with the second-step merger.



## **Exchange Process**

The merger agreement provides that as soon as practicable after the completion of the second-step merger, but not later than three business day after the completion of the second-step merger, Validus will cause the exchange agent to mail a letter of transmittal to each holder of record of Flagstone shares. The letter of transmittal will contain instructions on how to surrender certificates that immediately prior to the completion of the mergers represented Flagstone shares, or Flagstone shares represented by book-entry, in exchange for the merger consideration the holder is entitled to receive under the merger agreement.

After receiving the letter of transmittal, each holder of certificates formerly representing Flagstone shares or of book-entry Flagstone shares will be able to surrender the certificates or book-entry shares to the exchange agent, together with a duly signed and completed letter of transmittal and such other documents as the exchange agent may reasonably require, and receive the merger consideration.

After the completion of the second-step merger, each certificate that previously represented Flagstone shares and each book-entry Flagstone share (other than treasury shares and certificates or book-entry shares held by Validus, Merger Sub or their respective subsidiaries) will represent only the right to receive the merger consideration and any dividends or distributions to which the holders are entitled or become entitled upon surrender of those certificates or book-entry shares. No interest will be paid or will accrue on the cash payable upon surrender of those certificates or book-entry shares.

At any time following the first anniversary of the completion of the mergers, Merger Sub may require the exchange agent to deliver to Merger Sub any portion of the aggregate merger consideration that had been made available to the exchange agent and which has not been disbursed to former Flagstone shareholders. After any such delivery to Merger Sub, former Flagstone shareholders will be entitled to look only to Validus and Merger Sub for, and, subject to applicable laws, Validus and Merger Sub will remain liable for, any payment of claims for the merger consideration and any dividends or other distributions those shareholders have a right to receive pursuant to the terms of the merger agreement.

## **Treatment of Flagstone Restricted Share Unit Awards and Performance Share Unit Awards**

Each RSU in respect of Flagstone shares and each PSU in respect to Flagstone shares that is outstanding immediately prior to the completion of the first-step merger (whether then vested or unvested) will be converted into a right to receive per share (determined based on the number of Flagstone shares subject to such award immediately prior to the completion of the first-step merger and calculated assuming, in the case of PSUs, attainment of all applicable performance goals at the maximum level for payout) (1) cash in an amount equal to the sum of \$2.00 and the cumulative dividends declared by Flagstone in respect of the shares subject to such award from the beginning of the vesting or performance period for such award, as applicable, through immediately prior to the completion of the first-step merger and (2) a number of fully vested Validus common shares equal to the exchange ratio of 0.1935 multiplied by the number of Flagstone shares subject to such award, provided that the total number of Validus common shares that any holder will be entitled to receive (in respect of the aggregate outstanding awards held by such holder) will be rounded down to the nearest whole Validus common share, with such holder receiving cash in lieu of any fractional Validus common shares (we collectively defined above this consideration in clauses (1) and (2) as the share unit consideration ). Upon completion of the mergers, each holder of a PSU that vests pursuant to its terms prior to the completion of the first-step merger will be entitled to receive any additional share unit consideration that such holder would have been entitled to receive had such PSU vested at the maximum level.

In addition, pursuant to the merger agreement, Flagstone has reserved the right, if the mergers have not been completed by December 31, 2012, to grant in the ordinary course up to an aggregate of 140,000 RSUs to its employees, which RSUs will not vest and will not be converted into the right to receive the share unit consideration in connection with the completion of the mergers. Rather, such RSUs will convert automatically upon the completion of

the mergers to Validus RSUs (with

generally the same terms and conditions as the original awards, except that these Validus RSUs will be immediately forfeited if the holder does not remain employed by Validus or any of its affiliates through the date that is 60 days following the completion of the mergers or is terminated pursuant to a notice of termination that is provided to such holder prior to such date) based on the Flagstone RSU exchange ratio, which is generally (1) the reported closing price of Flagstone shares for the last trading day prior to the completion of the mergers divided by (2) the reported closing price of Validus common shares for the last trading day prior to the completion of the mergers.

### **Treatment of the Leyton Limited Warrant**

Upon the completion of the second-step merger, the Leyton Limited Warrant to purchase Flagstone shares will be amended, such that following the second-step merger it will represent a warrant to acquire \$2.00 in cash and 0.1935 Validus common shares for each Flagstone share underlying the warrant. See the section of this proxy statement/prospectus titled *The Mergers Interests of Flagstone's Directors and Executive Officers in the Mergers Leyton Limited Warrant* for more information.

### **Representations and Warranties of Flagstone in the Merger Agreement**

The merger agreement contains a number of representations and warranties made by Flagstone to Validus, including those regarding:

organization,  
standing;

capitalization;

the operations of  
Flagstone  
Bermuda;

authority,  
noncontravention,  
voting  
requirements;

governmental  
approvals;

Flagstone's SEC  
documents,  
undisclosed  
liabilities;

absence of certain  
changes;

legal proceedings;

compliance with  
laws, permits;

tax matters;

employee benefits;

labor matters;

environmental  
matters;

investments,  
derivatives;

intellectual  
property;

anti-takeover  
provisions;

real property;

contracts;

insurance  
subsidiaries;

statutory  
statements,  
examinations;

agreements with  
insurance  
regulators;

reinsurance and  
retrocession;

reserves;

opinion of  
financial advisor;

brokers and other  
advisors; and

affiliate  
transactions.

Certain of Flagstone's representations and warranties are qualified as to materiality or Material Adverse Effect. When used with respect to Flagstone, Material Adverse Effect means any effect, change, event or occurrence that, individually or in the aggregate with all other effects, changes, events or occurrences, has a material adverse effect on (1) the ability of Flagstone or Flagstone Bermuda to complete the mergers or (2) the business, results of operations, properties, assets, liabilities, obligations or condition (financial or otherwise) of Flagstone and its subsidiaries taken as a whole.

None of the following, and no effect, change, event or occurrence arising out of, or resulting from, the following, will constitute or be taken into account, individually or in the aggregate, in determining whether a Material Adverse Effect has occurred or may occur with respect to the business, results of operations, properties, assets, liabilities, obligations or condition (financial or otherwise) of Flagstone and its subsidiaries taken as a whole:

changes or  
conditions  
generally  
affecting the  
property  
catastrophe  
reinsurance  
industry in the  
geographic  
regions in which  
Flagstone and its  
subsidiaries  
operate or  
underwrite  
reinsurance;

general  
economic or  
regulatory,  
legislative or  
political  
conditions or  
securities, credit,  
financial or other  
capital markets  
conditions in any  
jurisdiction;

any change in  
applicable law,  
regulation,  
generally  
accepted  
accounting  
principles (or  
authoritative  
interpretation  
thereof) or in

applicable  
statutory  
accounting  
principles,  
including  
accounting and  
financial  
reporting  
pronouncements  
by the SEC and  
the Financial  
Accounting  
Standards Board;

any failure, in  
and of itself, by  
Flagstone to  
meet any internal  
or published  
projections,  
forecasts,  
estimates or  
predictions in  
respect of  
revenues,  
earnings or other  
financial or  
operating  
metrics for any  
period;

geopolitical  
conditions, the  
outbreak or  
escalation of  
hostilities, any  
acts of war  
(whether or not  
declared),  
sabotage,  
terrorism or  
man-made  
disaster, or any  
escalation or  
worsening of any  
such hostilities,  
acts of war  
(whether or not  
declared),  
sabotage,  
terrorism or

man-made  
disaster;

any volcano,  
tsunami,  
pandemic,  
hurricane,  
tornado,  
windstorm,  
flood,  
earthquake or  
other natural  
disaster or  
catastrophe;

the execution  
and delivery of  
the merger  
agreement or the  
public  
announcement or  
pendency of the  
transactions  
contemplated by  
the merger  
agreement  
(including the  
mergers), or the  
identity of  
Validus;

any change or  
announcement of  
a potential  
change, in and of  
itself, in  
Flagstone s or  
any of its  
subsidiaries  
credit, financial  
strength or  
claims paying  
ratings or the  
ratings of any of  
Flagstone s or its  
subsidiaries  
businesses;

any change, in  
and of itself, in  
the market price,

credit ratings or trading volume of Flagstone or any of its subsidiaries securities; or

any action required to be taken by Flagstone, or that Flagstone is required to cause one of its subsidiaries to take, pursuant to the terms of the merger agreement;

except, in the case of the first (except to the extent resulting from the events described in the fifth or sixth bullets above), second and third bullets above, to the extent such effect, change, event or occurrence has a disproportionate adverse effect on Flagstone and its subsidiaries, taken as a whole, relative to other participants engaged primarily in the property catastrophe reinsurance industry operating in the geographic regions in which Flagstone and its subsidiaries operate or underwrite reinsurance (in which case the incremental disproportionate effect or effects may be taken into account in determining whether or not a Material Adverse Effect has occurred).

## **Representations and Warranties of Validus in the Merger Agreement**

The merger agreement contains a number of representations and warranties made by Validus to Flagstone, including those regarding:

organization,  
standing;

capitalization;

authority,  
noncontravention  
and voting  
requirements;

governmental  
approvals;

ownership and  
operations of  
Merger Sub;

Validus SEC  
documents,  
undisclosed  
liabilities;

absence of certain  
changes;

legal proceedings;

compliance with  
laws, permits;

tax matters;

anti-takeover  
provisions;

insurance  
subsidiaries;

statutory  
statements,  
examinations;

agreements with  
insurance  
regulators;

reserves;

financing;

certain  
arrangements;

brokers and other  
advisors; and

ownership of  
Flagstone shares.

Certain of Validus' representations and warranties are qualified as to materiality or Validus Material Adverse Effect. When used with respect to Validus, Validus Material Adverse Effect means any effect, change, event or occurrence that, individually or in the aggregate with all other effects, changes, events or occurrences, has a material adverse effect on (1) the ability of Validus or Merger Sub to complete the second-step merger or (2) the business, results of operations, properties, assets, liabilities, obligations or condition (financial or otherwise) of Validus and its subsidiaries taken as a whole.

None of the following, and no effect, change, event or occurrence arising out of, or resulting from, the following, will constitute or be taken into account, individually or in the aggregate, in determining whether a Validus Material Adverse Effect has occurred or may occur with respect to the business, results of operations, properties, assets, liabilities, obligations or condition (financial or otherwise) of Validus and its subsidiaries taken as a whole:

changes or  
conditions  
generally  
affecting the  
property  
catastrophe  
reinsurance  
industry and  
insurance  
industries in the  
geographic  
regions in which  
Validus and its  
subsidiaries  
operate or  
underwrite  
reinsurance or  
insurance;

general  
economic or  
regulatory,  
legislative or  
political  
conditions or

securities, credit,  
financial or other  
capital markets  
conditions in any  
jurisdiction;

any change in  
applicable law,  
regulation,  
generally  
accepted  
accounting  
principles (or  
authoritative  
interpretation  
thereof) or in  
applicable  
statutory  
accounting  
principles,  
including  
accounting and  
financial  
reporting  
pronouncements  
by the SEC and  
the Financial  
Accounting  
Standards Board;

any failure, in  
and of itself, by  
Validus to meet  
any internal or  
published  
projections,  
forecasts,  
estimates or  
predictions in  
respect of  
revenues,  
earnings or other  
financial or  
operating  
metrics for any  
period;

geopolitical conditions, the outbreak or escalation of hostilities, any acts of war (whether or not declared), sabotage, terrorism or man-made disaster, or any escalation or worsening of any such hostilities, acts of war (whether or not declared), sabotage, terrorism or man-made disaster;

any volcano, tsunami, pandemic, hurricane, tornado, windstorm, flood, earthquake or other natural disaster or catastrophe;

the execution and delivery of the merger agreement or the public announcement or pendency of the transactions contemplated by the merger agreement (including the mergers), or

the identity of  
Flagstone;

any change or  
announcement  
of a potential  
change, in and  
of itself, in  
Validus or any  
of its  
subsidiaries  
credit,  
financial  
strength or  
claims paying  
ratings or the  
ratings of any  
of Validus or  
its subsidiaries  
businesses;

any change, in  
and of itself, in  
the market  
price, credit  
ratings or  
trading volume  
of Validus or  
any of its  
subsidiaries  
securities; or

any action  
required to be  
taken by  
Validus, or  
that Validus is  
required to  
cause one of  
its subsidiaries  
to take,  
pursuant to the  
terms of the  
merger  
agreement;

except, in the case of the first (except to the extent resulting from the events described in the fifth or sixth bullets above), second and third bullets above, to the extent such effect, change, event or occurrence has a disproportionate adverse effect on Validus and its subsidiaries, taken as a whole, relative to other participants engaged primarily in the property catastrophe reinsurance industry and insurance industries operating in the geographic regions in which Validus and its subsidiaries operate or underwrite reinsurance or insurance (in which case the incremental disproportionate effect or effects may be taken into account in determining whether or not a Validus Material Adverse

Effect has occurred).

### **Conduct of Business**

Flagstone has agreed that until the completion of the second-step merger or the termination of the merger agreement, unless Validus otherwise consents in writing or as may be required by applicable law or the merger agreement or as previously disclosed in the confidential disclosure schedules provided by Flagstone to Validus, Flagstone will, and will cause each of its subsidiaries to, conduct its business in the ordinary course, and use its reasonable best efforts to preserve its and each of its subsidiaries' business organizations substantially intact, and preserve existing relations with key customers, reinsurance providers, governmental authorities and other persons with whom Flagstone or its subsidiaries have significant business relationships, in each case, consistent with past practice.

In addition, Flagstone has agreed that, until the completion of the second-step merger or the termination of the merger agreement, Flagstone and its subsidiaries will not take the following actions (each as more fully described in the merger agreement or the confidential disclosure schedules provided by Flagstone to Validus) without Validus' written consent (which may not be unreasonably withheld, delayed or conditioned) or as may be required by applicable law or the merger agreement:

issue, sell or  
grant any  
shares of its  
capital stock  
or other  
equity or  
voting  
interests, or  
any securities  
or rights  
convertible  
into,  
exchangeable  
or exercisable  
for, or  
evidencing  
the right to  
subscribe for  
any shares of  
its capital  
stock or other  
equity or  
voting  
interests,  
except as  
required  
under the  
vesting or  
settlement  
provisions of  
certain of  
Flagstone's

RSUs and  
PSUs  
outstanding as  
of the date of  
the merger  
agreement or  
granted after  
the date of the  
merger  
agreement in  
accordance  
with the  
merger  
agreement;

redeem,  
purchase or  
otherwise  
acquire any of  
its  
outstanding  
shares of  
capital stock  
or other  
equity or  
voting  
interests, or  
any rights,  
warrants or  
options to  
acquire any  
shares of its  
capital stock  
or other  
equity or  
voting  
interests,  
except in  
accordance  
with the terms  
of

certain of Flagstone's plans, RSUs or PSUs or in connection with the satisfaction of tax withholding obligations related to Flagstone's RSUs or PSUs;

in the case of Flagstone, establish a record date, declare, set aside for payment or pay any dividend on, or make any other distribution in respect of, any shares of its capital stock or other equity or voting interests, other than regular quarterly cash distributions not to exceed \$0.04 per share;

split, combine, subdivide or reclassify any shares of its capital stock or other equity or voting interests;

incur any indebtedness, modify any of the material terms with respect to any indebtedness, or guaranty the indebtedness of any other person or entity, except for (1) intercompany guarantees or intercompany keep well or other agreements to maintain any financial statement condition of Flagstone or any of its subsidiaries and

(2) letters of credit issued in the ordinary course of business;

enter into any swap or hedging transaction or other derivative agreements other than consistent with Flagstone's investment guidelines or hedging policy;

make any loans, capital contributions or advances to any person other than (1) to Flagstone or any of its subsidiaries, (2) in connection with permitted acquisitions or (3) consistent with Flagstone's investment guidelines;

adopt or implement any shareholder rights plan or similar arrangement;

sell or lease to any person or entity, in a single transaction or series of related transactions, any of its properties or assets whose value or purchase price exceeds \$250,000 individually or \$1 million in the aggregate, except (1) dispositions of obsolete, surplus or worn out assets or assets that are no longer used or useful

in the conduct of the business of Flagstone or any of its subsidiaries, (2) transfers among Flagstone and its subsidiaries, or (3) dispositions of investment assets in accordance with Flagstone's investment guidelines;

make or authorize capital expenditures outside the ordinary course of business;

make any acquisition (including by merger) of the capital stock or, except in the ordinary course of business, a material portion of the assets of any other person or entity, in each case for consideration in excess of \$250,000 individually or \$1 million in the aggregate, other than permitted capital expenditures and acquisitions of investment assets pursuant to Flagstone's investment guidelines;

except as required pursuant to the terms of any Flagstone plan as in effect on the date of the merger agreement or with respect to the replacement of

terminated employees or the hiring of employees to fill open positions under certain conditions, (1) grant to any director, executive officer or other employee any increase in salary or bonus opportunity other than increases to non-executive employees in the ordinary course of business, (2) grant to any director, executive officer or other employee any increase in severance, retention or termination pay, (3) establish, adopt, enter into or amend in any respect any of its plans or collective bargaining agreements other than non-material amendments in the ordinary course of business consistent with past practice or (4) enter into any employment, consulting, severance or termination agreement with any director, executive officer or other employee of Flagstone or any of its subsidiaries (see the section of this proxy statement/prospectus titled *The Mergers Interests of Flagstone s Directors and Executive Officers in*

*the Mergers New Management Arrangements* for information relating to certain exceptions to these restrictions);

make any changes in any material respect in Flagstone s or any of its subsidiaries financial accounting or actuarial methods, principles or practices, except insofar as may be required (1) by generally accepted accounting principles (or any interpretation thereof), including pursuant to standards, guidelines and interpretations of the Financial Accounting Standards Board or any similar organization, (2) by applicable statutory accounting principles or (3) by law, including Regulation S-X under the Securities Act;

amend (whether by merger, amalgamation, consolidation or otherwise) Flagstone's articles of incorporation or amend (whether by merger, amalgamation, consolidation or otherwise) in any material respect the comparable organizational documents of any Flagstone subsidiary;

adopt a plan or agreement of complete or partial liquidation or dissolution, merger, amalgamation, consolidation, restructuring, recapitalization or other reorganization of Flagstone or any of its subsidiaries;

grant, or allow to be imposed, any lien, other than permitted liens, on any of its material assets;

settle or compromise any pending or threatened

action,  
litigation,  
dispute or  
similar matter  
against  
Flagstone or  
any of its  
subsidiaries (1)  
for a cash  
settlement  
amount of more  
than \$250,000  
individually or  
\$1 million in  
the aggregate,  
or (2) which  
settlement or  
compromise  
imposes or  
concedes any  
fault on the part  
of Flagstone or  
any of its  
subsidiaries or  
imposes any  
material  
restrictions on  
any of their  
future  
activities;

amend or  
modify in any  
material respect  
or terminate  
(excluding  
terminations  
upon expiration  
of the term  
thereof in  
accordance  
with its terms)  
any material  
contract or  
waive, release  
or assign any  
material rights,  
claims or  
benefits of it or  
its subsidiaries  
under any

material  
contract, or  
enter into any  
material  
contract;

reduce any  
reserves,  
provisions for  
losses or other  
liability  
amounts in  
respect of  
Flagstone s  
reinsurance  
contracts,  
except (1) to  
the extent  
required after  
the date of the  
merger  
agreement by  
any concurrent  
change in  
applicable law,  
applicable  
statutory  
accounting  
principles or  
generally  
accepted  
accounting  
principles, as  
applicable or  
(2) as a result of  
payments to  
other parties in  
accordance  
with the terms  
of Flagstone s  
reinsurance  
contracts;

except in the  
ordinary course  
of business or  
as related to the  
first-step  
merger, make  
any material tax  
election or

settle or  
compromise  
any material tax  
liability or  
material tax  
refund;

acquire or  
dispose of any  
investment  
assets in any  
manner  
inconsistent  
with Flagstone's  
investment  
guidelines;

amend, modify  
or otherwise  
change  
Flagstone's  
investment  
guidelines in  
any material  
respect;

abandon,  
dispose of, or  
permit to lapse  
any right to  
material  
intellectual  
property owned  
by Flagstone or  
its subsidiaries,  
or disclose any  
material trade  
secret or other  
material  
confidential  
information of  
Flagstone or  
any of its  
subsidiaries in a  
manner that  
would result in  
the loss of  
confidentiality  
thereof;

take any action or cause any action to be taken that would prevent the first-step merger or the second-step merger from constituting a tax-free reorganization under Section 368(a) and related provisions of the Code;

fail to take any commercially reasonable action or fail to cause any commercially reasonable action to be taken that is necessary to cause the first-step merger or the second-step merger to constitute a tax-free reorganization under Section 368(a) and related provisions of the Code;

amend the outstanding warrant to purchase Flagstone shares held by Leyton Limited except in a manner so that

following the  
mergers it will  
represent a  
warrant to  
acquire the  
merger  
consideration  
for each  
Flagstone share  
underlying the  
warrant; or

authorize any  
of, or commit  
or agree, in  
writing or  
otherwise, to  
take any of, the  
foregoing  
actions.

Validus has agreed that until the completion of the second-step merger or the termination of the merger agreement, unless Flagstone otherwise consents in writing or as may be required by applicable law or by the merger agreement, Validus will, and will cause each of its subsidiaries to, conduct its business in the ordinary course.

In addition, Validus has agreed that, until the completion of the second-step merger or the termination of the merger agreement, Validus and its subsidiaries will not take the following actions (each as more fully described in the merger agreement or the confidential disclosure schedules

provided by Validus to Flagstone) without Flagstone's written consent (which may not be unreasonably withheld, delayed or conditioned) or as may be required by applicable law or required by the merger agreement:

redeem,  
purchase or  
otherwise  
acquire any of  
its outstanding  
shares of  
capital stock or  
other equity or  
voting  
interests, or  
any rights,  
warrants or  
options to  
acquire any  
shares of its  
capital stock or  
other equity or  
voting  
interests,  
except in  
accordance  
with the terms  
of Validus  
equity  
compensation  
plans and  
awards,  
pursuant to its  
share  
repurchase  
program or in  
connection  
with the  
satisfaction of  
tax  
withholding  
obligations on  
such equity  
awards;

in the case of  
Validus,  
establish a  
record date,  
declare, set  
aside for  
payment or pay

any dividend  
on, or make  
any other  
distribution in  
respect of, any  
shares of its  
capital stock or  
other equity or  
voting  
interests, other  
than regular  
quarterly cash  
distributions  
not to exceed  
\$0.25 per  
share;

split, combine,  
subdivide or  
reclassify any  
shares of its  
capital stock or  
other equity or  
voting  
interests;

make any  
changes in any  
material  
respect in  
Validus or any  
of its  
subsidiaries  
financial  
accounting or  
actuarial  
methods,  
principles or  
practices,  
except insofar  
as may be  
required (1) by  
generally  
accepted  
accounting  
principles (or  
any  
interpretation  
thereof),  
including  
pursuant to

standards,  
guidelines and  
interpretations  
of the  
Financial  
Accounting  
Standards  
Board or any  
similar  
organization,  
(2) by  
applicable  
statutory  
accounting  
principles or  
(3) by law,  
including  
Regulation S-X  
under the  
Securities Act;

amend  
(whether by  
merger,  
amalgamation,  
consolidation  
or otherwise)  
Validus  
memorandum  
of association  
or bye-laws or  
amend  
(whether by  
merger,  
amalgamation,  
consolidation  
or otherwise)  
in any material  
respect the  
comparable  
organizational  
documents of  
any Validus  
subsidiary in a  
manner that  
would  
reasonably be  
expected to  
interfere with  
or delay in any  
material

respect the transactions contemplated by the merger agreement;

adopt a plan or agreement of complete or partial liquidation or dissolution of Validus or any of its subsidiaries (other than dormant subsidiaries);

take any action or cause any action to be taken that would prevent the first-step merger or the second-step merger from constituting a tax-free reorganization under Section 368(a) and related provisions of the Code;

fail to take any commercially reasonable action or fail to cause any commercially reasonable action to be taken that is necessary to cause the first-step merger or the second-step

merger to  
constitute a  
tax-free  
reorganization  
under Section  
368(a) and  
related  
provisions of  
the Code; or

authorize any  
of, or commit  
or agree, in  
writing or  
otherwise, to  
take any of, the  
foregoing  
actions.

**No Solicitation; Change in Recommendation**

Flagstone has agreed to, and to cause each of its subsidiaries to, and to direct and use its reasonable best efforts to cause its representatives to, immediately cease any solicitation, encouragement, discussions or negotiations with any persons or entities that may be ongoing with respect to a takeover proposal. In addition, Flagstone has agreed to, and to cause each of its subsidiaries to, and to direct and use its reasonable best efforts to cause its representatives to, until the completion of the second-step merger or the termination of the merger agreement, not, directly or indirectly:

solicit,  
initiate or  
knowingly  
facilitate or  
encourage  
(including by  
way of  
furnishing  
non-public  
information)  
the  
submission  
of any  
inquiries or  
requests for  
non-public  
information  
regarding, or  
the making  
or  
completion  
of any  
proposal or  
offer that

constitutes,  
or would  
reasonably  
be expected  
to lead to, a  
takeover  
proposal;

engage in,  
continue or  
otherwise  
participate in  
any  
discussions or  
negotiations  
regarding, or  
furnish to any  
other person or  
entity any  
non-public  
information in  
connection  
with, or for the  
purpose of,  
encouraging or  
facilitating a  
takeover  
proposal;

enter into or  
publicly  
propose to  
enter into any  
letter of intent,  
agreement or  
agreement in  
principle with  
respect to a  
takeover  
proposal; or

terminate,  
waive, amend,  
modify or fail  
to enforce the  
terms or  
conditions of  
any  
confidentiality  
agreement,  
standstill  
agreement or  
similar  
obligation of  
any person or  
entity (other  
than (1)  
Validus and its

affiliates and  
(2) any other  
person that is  
subject to a  
standstill  
agreement  
with Flagstone  
as of the date  
of the merger  
agreement, but  
only to the  
extent  
necessary to  
permit such  
person or  
entity to make  
a non-public  
takeover  
proposal to  
Flagstone if  
such person or  
entity requests  
permission  
from Flagstone  
(on a  
non-public  
basis) to make  
such a  
takeover  
proposal to  
Flagstone or  
any of its  
subsidiaries).

Flagstone will be responsible for any breach of the above restrictions by Flagstone's or its subsidiaries' representatives.

Notwithstanding the restrictions described above, if at any time prior to the approval by Flagstone shareholders of the merger proposal, (1) Flagstone receives a takeover proposal that does not result from any breach by Flagstone of Flagstone's covenants described under this section titled *No Solicitation; Change in Recommendation* and (2) Flagstone's board of directors determines in good faith after consultation with its financial advisors and outside legal counsel that the failure to do so would violate or result in a breach of the directors' fiduciary duties under the laws of Luxembourg, then Flagstone may enter into an acceptable confidentiality agreement with the person, entity or group of persons or entities making the takeover proposal and, after execution and delivery of such acceptable confidentiality agreement:

furnish  
pursuant  
thereto  
information  
(including  
non-public

information)  
with respect  
to Flagstone  
and its  
subsidiaries  
to the  
person,  
entity or  
group of  
persons or  
entities  
making such  
takeover  
proposal;  
and

engage in or  
otherwise  
participate in  
discussions  
or  
negotiations  
with the  
person or  
entity or  
group of  
persons or  
entities  
making such  
takeover  
proposal.

If Flagstone or its subsidiaries or its or their representatives receive any takeover proposal, any inquiries or requests for information regarding a takeover proposal, or any proposal or offer that constitutes, or would reasonably be expected to lead to, a takeover proposal, Flagstone must:

promptly (but in  
no event later  
than 24 hours  
after receipt by,  
or  
communication  
to, Flagstone  
(including from  
any of its  
subsidiaries or  
any of its or their  
representatives))  
notify Validus of  
the receipt by  
Flagstone or any

of its subsidiaries  
or its or their  
representatives  
of any such  
takeover  
proposal,  
inquiry, request  
or other proposal  
or offer;

disclose to  
Validus the  
material terms  
and conditions of  
any such  
takeover  
proposal, inquiry  
or request and  
the identity of  
the person, entity  
or group of  
persons or  
entities making  
such takeover  
proposal, inquiry  
or request; and

keep Validus  
informed in  
reasonable detail  
on a prompt  
basis of any  
material  
developments  
with respect to  
any such  
takeover  
proposal, inquiry  
or request  
(including  
notifying  
Validus within  
24 hours after  
any material  
changes or other  
action with  
respect thereto  
and providing all  
material  
correspondence  
or other written

material within  
24 hours after  
receipt thereof).

Flagstone has also agreed that neither its board of directors nor any committee of its board of directors will:

(1) withhold or  
withdraw (or modify  
or qualify in a manner  
adverse to Validus),  
or publicly propose to  
withhold or withdraw  
(or modify or qualify  
in a manner adverse  
to Validus), the  
board's  
recommendation of  
approval of the  
merger proposal to  
Flagstone  
shareholders (which  
we refer to as the  
company board  
recommendation ) or  
fail to include the  
company board  
recommendation in  
this proxy  
statement/prospectus,  
(2) recommend the  
approval or adoption  
of, or approve or  
adopt, or publicly  
propose to  
recommend, approve  
or adopt, any takeover  
proposal, or (3)  
resolve, agree or  
publicly propose to  
take any actions  
described in clause  
(1)

or (2) in this bullet (we refer to any action described in this bullet as an adverse recommendation change ); or

authorize, cause or permit, or resolve, agree or publicly propose to authorize, cause or permit, Flagstone or any of its subsidiaries to execute or enter into any letter of intent, confidentiality agreement, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement or other similar agreement related to any takeover proposal, other than an acceptable confidentiality agreement.

Notwithstanding the restrictions described above, prior to the time Flagstone shareholders approve the merger proposal (which we refer to as the Flagstone shareholder approval ), Flagstone's board of directors may make an adverse recommendation change if (and only if) Flagstone's board of directors determines in good faith, after consultation with its financial advisors and outside legal counsel, that failure to make an adverse recommendation change would violate or result in a breach of the directors' fiduciary duties under the laws of Luxembourg.

Notwithstanding the preceding sentence, neither Flagstone's board of directors nor any committee of the board may make any adverse recommendation change unless:

Flagstone has given Validus at least five business days' prior written notice of its

intention to take  
such action,  
specifying the  
reasons therefor;  
and

if the decision of  
Flagstone's board of  
directors to make an  
adverse  
recommendation  
change relates to a  
superior proposal,  
(1) the notice  
provided by  
Flagstone specifies  
the identity of the  
party making such  
superior proposal  
and the material  
terms and  
conditions thereof,  
and Flagstone  
contemporaneously  
furnishes to Validus  
a copy of the  
superior proposal  
and any other  
material  
documentation and  
(2) prior to the  
expiration of the  
five business day  
period, Validus  
does not make a  
proposal to adjust  
the terms and  
conditions of the  
merger agreement  
that Flagstone's  
board of directors  
determines in good  
faith to be at least  
as favorable as the  
superior proposal  
after giving effect  
to, among other  
things, the payment  
of the required  
termination fee (see  
*Effect of*

*Termination;*  
*Termination Fee* ),  
such that Flagstone's  
board of directors  
determines, after  
consultation with its  
financial advisors  
and outside legal  
counsel, that an  
adverse  
recommendation  
change is no longer  
required by its  
fiduciary duties  
under the laws of  
Luxembourg.

During the five business day period prior to its effecting an adverse recommendation change, Flagstone must, and must cause its financial advisors and outside legal counsel to, make itself and themselves, as applicable, available and participate in negotiations with Validus (to the extent that Validus seeks to negotiate) regarding any revisions to the terms of the transactions contemplated by the merger agreement that may be proposed by Validus. If at any time during the five business day period described above, the superior proposal is amended or modified in any material respect, then Flagstone will notify Validus, and Flagstone's board of directors may not make any adverse recommendation change without again complying with the procedures described above (replacing five business days with three business days).

Notwithstanding the matters described above, Flagstone must submit to a vote of its shareholders the approval of the merger proposal, in order to obtain the Flagstone shareholder approval at the extraordinary general meeting (see *Reasonable Best Efforts to Obtain Shareholder Approval* ). If Flagstone's board of directors has made an adverse recommendation change, then in submitting the merger proposal to Flagstone shareholders at the extraordinary general meeting, Flagstone's board of directors may submit the merger proposal without recommendation, in which event Flagstone's board of directors will communicate the basis for its lack of a recommendation in this proxy statement/prospectus or an appropriate amendment or supplement thereto, if Flagstone's board of directors determines, after consultation with its outside legal counsel, that such lack of recommendation and communication is required in order to comply with the directors' fiduciary duties under the laws of Luxembourg.

Nothing in the merger agreement will prohibit Flagstone or Flagstone's board of directors or any committee thereof from (1) taking and disclosing to Flagstone shareholders a position or communication contemplated by Rule 14e-2(a), Rule 14d-9 or Item 1012(a) of Regulation M-A promulgated under the Exchange Act or (2) making any disclosure or communication to Flagstone

shareholders that Flagstone's board of directors determines in good faith, after consultation with its outside legal counsel, is required in order to comply with its directors' fiduciary duties under the laws of Luxembourg or federal securities laws. Any disclosure by Flagstone or Flagstone's board of directors or any committee thereof relating to a takeover proposal will be deemed an adverse recommendation change, unless Flagstone's board of directors reaffirms the company board recommendation in such disclosure.

For purposes of the preceding discussion, the following terms have the meanings stated below:

An acceptable confidentiality agreement means a confidentiality and standstill agreement in a form previously agreed between Flagstone and Validus, which includes standstill provisions that, among other things, would prevent a third party from making further public takeover proposals for Flagstone, but would permit the private submission of a takeover proposal.

A takeover proposal means any inquiry, proposal or offer from any person, entity or group (other than Validus and its subsidiaries) relating to, in a single transaction or series of related transactions, any direct or indirect (1) acquisition of 10% or more of the consolidated assets of Flagstone and its subsidiaries (based on the fair market value thereof, as determined in good faith by Flagstone's board of directors), (2) acquisition of 10% or more of the outstanding Flagstone shares, (3) tender offer or exchange offer that if completed would result in any person, entity or group beneficially owning 10% or more of the outstanding Flagstone shares or (4) merger, amalgamation, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving Flagstone, in each case, other than the transactions contemplated by the merger agreement.

A superior proposal means any bona fide written takeover proposal that did not result from a breach of the restrictions described above that Flagstone's board of directors has determined in its good faith judgment, after consultation with its financial advisors and outside legal counsel, and taking into account all relevant legal, regulatory, financial and other aspects of such proposal (including value and other financial considerations, financing and legal and regulatory considerations, expense reimbursement requirements and any conditions to, and expected timing and risks of, completion, as well as any changes to the terms of the merger agreement proposed by Validus in response to such superior proposal) would be more favorable to Flagstone shareholders than the mergers, except that for purposes of the definition of superior proposal, the references to 10% in the definition of takeover proposal will be deemed to be references to 80%.

### **Reasonable Best Efforts to Obtain Shareholder Approval**

Flagstone has agreed to hold the extraordinary general meeting and to use its reasonable best efforts to obtain the Flagstone shareholder approval. The merger agreement requires Flagstone to seek such shareholder approval at the extraordinary general meeting even if Flagstone's board of directors no longer recommends approval of the merger agreement, the first-step merger and the first-step statutory merger agreement.

### **Reasonable Best Efforts to Complete the Mergers**

Validus and Flagstone have each agreed to cooperate with the other parties to the merger agreement and to use (and to cause their respective subsidiaries to use) their respective reasonable best efforts to promptly:

take, or cause  
to be taken, all  
actions, and  
do, or cause to  
be done, and  
assist and

cooperate with the other parties to the merger agreement in doing, all things necessary, proper or advisable to cause the conditions to closing to be satisfied as promptly as reasonably practicable and to complete and make effective, in the most expeditious manner reasonably practicable, the transactions contemplated by the merger agreement;

obtain all approvals, consents, registrations, waivers, permits, authorizations, orders and other confirmations from any governmental authority or third party necessary, proper or advisable to complete the transactions contemplated by the merger

agreement;

take all steps  
that are  
necessary,  
proper or  
advisable to  
avoid any  
action,  
litigation,  
dispute or  
similar matter  
by any  
governmental  
authorities with  
respect to the  
merger  
agreement or  
the transactions  
contemplated  
by the merger  
agreement; and

defend or  
contest in good  
faith any  
action,  
litigation,  
dispute or  
similar matter  
by any third  
party  
(including any  
governmental  
authority),  
whether  
judicial or  
administrative,  
challenging the  
merger  
agreement or  
that would  
otherwise  
prevent or  
impede,  
interfere with,  
hinder or delay  
in any material  
respect the  
completion of  
the transactions  
contemplated

by the merger agreement, including by seeking to have any stay or temporary restraining order entered by any court or other governmental authority vacated or reversed.

In addition, Validus and Flagstone have agreed, in consultation and cooperation with each other and as promptly as practicable, to file:

all appropriate documents, forms, filings or submissions required under any non-U.S. antitrust laws; and

with applicable insurance regulators, all documents, forms, filings or other submissions required under applicable insurance laws with respect to the transactions contemplated by the merger agreement.

**Indemnification and Insurance**

The surviving company in the mergers must indemnify and hold harmless each individual who is or was, prior to the completion of the second-step merger, a director or officer of Flagstone or one of its subsidiaries (who we refer to collectively as "indemnitees") with respect to all claims, liabilities, losses and costs in connection with any action, litigation, dispute or similar matter (whether civil, criminal, administrative or investigative), whenever asserted, based on or arising out of, in whole or in part, (1) the fact that an indemnitee was a director or officer of Flagstone or one of its subsidiaries or (2) acts or omissions by an indemnitee in the indemnitee's capacity as a director, officer, employee or agent of Flagstone or one of its subsidiaries, in each case, at, or at any time prior to, the completion of the mergers, to the fullest extent permitted by applicable law but only to the extent that the indemnitees are entitled to indemnification under the organizational documents of Flagstone and its subsidiaries as of the date of the merger agreement. The surviving company in the second-step merger must assume all obligations of Flagstone, Flagstone Bermuda and any of their subsidiaries to indemnitees in respect of indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the completion of the second-step merger as provided under the organizational documents of Flagstone and its subsidiaries as of the date of the merger agreement or in any written agreement in existence as of the date of the merger agreement providing for indemnification between Flagstone and any indemnitee.

In addition, for a period of six years following the mergers, the surviving company in the mergers must maintain in effect Flagstone's current directors' and officers' liability coverage or purchase a "tail policy" providing coverage to directors and officers for six years following the completion of the mergers with at least the same coverage as under Flagstone's existing directors' and officers' liability insurance policies. The surviving company will not be required to pay an annual premium of more than 250% of the current annual premium (which we refer to as the "maximum premium") for any such insurance policy. Flagstone may purchase prior to the completion of the second-step merger, for an aggregate amount not to exceed the aggregate maximum premium for six years, a six-year prepaid "tail policy" on terms and conditions providing at least substantially equivalent benefits as the current policies of directors' and officers' liability insurance maintained by Flagstone and its subsidiaries with respect to matters existing or occurring prior to the completion of the second-step merger, covering without limitation the transactions contemplated by the merger agreement.

### **Employee Matters**

Validus has agreed that, for a period of one year following the completion of the second-step merger (or, other than with respect to post-termination benefits and payments, if shorter, until an

employee is no longer employed by Validus or any of its subsidiaries), Validus will provide, or will cause the surviving company in the second-step merger to provide, each individual who is employed by Flagstone or any of its subsidiaries immediately prior to the completion of the first-step merger (who we refer to collectively as company employees ) with compensation and benefits that are substantially comparable in the aggregate to the compensation and benefits provided to those employees immediately prior to the completion of the first-step merger and to honor according to their terms Flagstone's compensation and benefits plan, agreements and arrangements listed or described in the schedules to the merger agreement. In addition, Validus has agreed to, or to cause the surviving company in the second-step merger and its subsidiaries to, (1) treat service with Flagstone or any of its subsidiaries as service with the surviving company in the second-step merger or its subsidiaries for all purposes (including determining eligibility to participate, level of benefits, vesting, benefit accruals and early retirement subsidies) under all employee benefit plans of such surviving company and any of its subsidiaries (except to the extent that such recognition would result in a duplication of benefits for the same period of service or for purposes of benefit accrual under any defined benefit pension plan), (2) waive any pre-existing condition limitation, exclusions, actively-at-work requirements and waiting periods under any welfare benefit plan maintained by the surviving company in the second-step merger or any of its subsidiaries in which a company employee (or an eligible dependent thereof) will be eligible to participate from and after the completion of the second-step merger, except to the extent that such pre-existing condition limitations, exclusions, requirements or waiting periods would not have been satisfied or waived under the comparable Flagstone plan immediately prior to the completion of the first-step merger and (3) recognize the dollar amount of all co-payments, deductibles and similar expenses incurred by each company employee (and his or her eligible dependents) during the calendar year in which the completion of the second-step merger occurs for purposes of satisfying such year's deductible and co-payment limitations under the relevant welfare benefit plans in which the company employees (and eligible dependents) may be eligible to participate from and after the completion of the second-step merger.

Flagstone agreed that any notice to or consultation with any employee representative required under any collective bargaining agreement or other agreement with a labor union, works council or like organization or applicable law in connection with the mergers will be timely completed prior to the closing of the mergers by Flagstone and its subsidiaries.

### **Flagstone Indentures and Credit Facilities**

Flagstone's obligations with respect to the Flagstone Notes will be assumed by the surviving company and become the surviving company's obligations, either as issuer or guarantor, following the second-step merger.

Flagstone also has agreed to use commercially reasonable efforts to cooperate with Validus in connection with any amendments to Flagstone's credit facilities that Validus determines are necessary or desirable.

### **Book Value Determination**

Validus and Flagstone may each, by written notice to the other party delivered no more than two days following the first business day following satisfaction of the conditions to closing to which the party delivering the notice is entitled (other than with respect to the book value condition and those conditions that by their nature are to be satisfied at closing), which we refer to as the measurement date, request that the other party prepare an estimate of such other party's book value, determined as of the measurement date. Upon making such request, the requesting party also must prepare a calculation of its book value as of the measurement date. Each party's book value shall be based on the consolidated interim unaudited balance sheet of each party as of the last day of the month immediately preceding the measurement date, but adjusted to account for any and all subsequent events occurring through and including the measurement date and calculated in accordance with the historical accounting methodologies, practices and procedures of the applicable party, consistently applied. Validus and Flagstone are required to cooperate and seek in good faith to resolve any disputes regarding their respective book value calculations. If the parties are unable



to agree on the book value calculations within the time periods described in the merger agreement and the applicable party reasonably believes in good faith that the items remaining in dispute would, if resolved in such party's favor, result in the satisfaction or failure, as applicable, of the conditions to closing relating to such book value determinations (see *Conditions to the Completion of the Mergers*) then such party may engage a mutually acceptable accounting firm to resolve the dispute. The determination of the accounting firm will be final, binding and conclusive on Validus and Flagstone absent manifest error. If the walk-away date occurs during the pendency of any determination of measurement date book value, then the walk-away date automatically will be extended through the period during which such determination is pending, plus five business days.

### **Other Covenants and Agreements**

The merger agreement contains certain other covenants and agreements, including those relating to:

payment of any applicable transfer taxes by Validus or Merger Sub, as the surviving company in the second-step merger;

cooperation between Validus and Flagstone in connection with public announcements;

confidentiality and access by Validus to certain information about Flagstone during the period prior to the mergers;

causing any dispositions of Flagstone equity securities pursuant to the transactions contemplated by the merger agreement by each individual

who is a director  
or officer of  
Flagstone  
subject to  
Section 16 of the  
Exchange Act to  
be exempt under  
Rule 16b-3  
promulgated  
under the  
Exchange Act;

notice of any  
legal action  
relating to the  
merger  
agreement or the  
transactions  
contemplated by  
the merger  
agreement, or  
any matter that  
would  
reasonably be  
expected to lead  
to a failure to  
satisfy any  
closing  
condition or  
trigger a right of  
termination  
under the merger  
agreement;

the right of  
Validus to  
participate in the  
defense and  
settlement of  
any shareholder  
litigation  
commenced  
against  
Flagstone or its  
directors that  
relates to the  
merger  
agreement or the  
transactions  
contemplated by  
the merger

agreement;

Validus  
approving the  
mergers in its  
capacity as the  
sole shareholder  
of Merger Sub;

Flagstone  
approving the  
mergers in its  
capacity as the  
sole shareholder  
of Flagstone  
Bermuda;

Validus causing  
the Validus  
common shares  
to be issued to  
Flagstone  
shareholders in  
the second-step  
merger to be  
approved for  
listing on the  
NYSE;

de-listing the  
Flagstone shares  
from the NYSE  
and  
de-registering  
the Flagstone  
shares under the  
Exchange Act;

Validus and  
Flagstone  
refraining from  
taking any  
action that  
would  
reasonably be  
expected to  
jeopardize the  
qualification of  
the first-step  
merger or the  
second-step

merger as a reorganization within the meaning of Section 368(a) of the Code; and

Validus and Flagstone delivering tax representation letters to Validus counsel and Flagstone's counsel containing representations necessary for counsel to deliver their respective opinions (see *Conditions to the Completion of the Mergers* ).

**Conditions to the Completion of the Mergers**

The obligations of each party to effect the mergers are subject to the satisfaction (or waiver, if permissible under applicable law) of the following conditions:

the merger proposal being approved by Flagstone's shareholders;

the authorizations, consents, orders or approvals of, or declarations or filings with, and the expirations of waiting periods required from, certain governmental authorities (see the section of this proxy statement/prospectus titled *The Mergers Regulatory Approvals* for more



information on the consents, orders, approvals and declarations of these governmental authorities) having been filed, having occurred or been obtained and being in full force and effect;

(1) no injunction, judgment or ruling enacted, promulgated, issued, entered, amended or enforced by any governmental authority being in effect restraining, enjoining or prohibiting completion of either of the mergers and (2) there being no action taken, or any law enacted, entered, enforced or made applicable to the mergers, by any governmental authority of competent jurisdiction that makes the completion of the mergers illegal or otherwise restrains, enjoins or prohibits the mergers (we refer to the matters listed in this bullet point as restraints upon closing );

the Validus common shares to be issued in the second-step merger having been approved for listing on the NYSE, subject

to official notice of issuance; and

the registration statement of which this proxy statement/prospectus forms a part must have been declared effective by the SEC under the Securities Act, no stop order by the SEC suspending the effectiveness of such registration statement being in effect and no proceedings for that purpose being pending.

The obligations of Validus and Merger Sub to effect the second-step merger are further subject to the satisfaction (or waiver, if permissible under applicable law) of the following conditions:

the representations and warranties of Flagstone and Bermuda relating to the absence of any Material Adverse Effect must be true and correct as of the date of the merger agreement;

certain representations and warranties of Flagstone and Bermuda relating to capitalization and the representations and warranties

of Flagstone and  
Flagstone  
Bermuda  
relating to  
anti-takeover  
laws must be  
true and correct  
in all respects  
(except for de  
minimis  
inaccuracies) as  
of the date of the  
merger  
agreement and  
as of the closing  
date (except to  
the extent  
expressly made  
as of an earlier  
date, in which  
case as of the  
earlier date);

all other  
representations  
of Flagstone and  
Flagstone  
Bermuda must  
be true and  
correct  
(disregarding  
any  
qualifications as  
to materiality or  
Material  
Adverse Effect)  
as of the date of  
the merger  
agreement and  
as of the closing  
date (except to  
the extent  
expressly made  
as of an earlier  
date, in which  
case as of the  
earlier date),  
except where the  
failure to be true  
and correct has  
not had and

would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Flagstone;

Flagstone and Flagstone Bermuda must have performed or complied in all material respects with their respective obligations required to be performed or complied with by them under the merger agreement at or prior to the completion of the first-step merger;

since the date of the merger agreement, there must not have been any effect, change, event or occurrence that has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Flagstone;

if Validus has timely exercised its right to determine

Flagstone's book value (described under the heading *Book Value*

*Determination* above) as of the measurement date (1)

Flagstone's book value as of the measurement date must be equal to or

greater than 50% of \$789,048,000,

and (2) (A) the decline (if any), on a percentage

basis, in

Flagstone's book value as of the measurement date from

\$789,048,000

shall not be more than 20

percentage points greater than (B) the

decline (if any), on a percentage

basis, in Validus book value as of

the measurement date from

\$3,448,425,000;

and

Validus must have received a tax opinion from Validus counsel

and a copy of the tax opinion from Flagstone's counsel that was delivered to

Flagstone, both to the effect that

(1) the first-step

merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and each of Flagstone and Flagstone Bermuda will be a party to such reorganization, (2) the second-step merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code

and each of Validus and Flagstone Bermuda will be a party to such reorganization, and (3) Validus will be treated, in respect of any shareholder who will own after the second-step merger less than five percent of the issued and outstanding Validus common shares (as determined under Treasury Regulation Section 1.367(a)-3(b)(1)(i)), as a corporation under Section 367(a) of the Code.

The obligations of Flagstone and Flagstone Bermuda to effect the mergers are further subject to the satisfaction (or waiver, if permissible under applicable law) of the following conditions:

the representations and warranties of Validus and Merger Sub relating to the absence of any Validus Material Adverse Effect must be true and correct as of the date of the merger agreement;

certain representations and warranties of Validus and Merger Sub relating to capitalization and the representations and warranties

of Validus and Merger Sub relating to anti-takeover laws must be true and correct in all respects (except for de minimis inaccuracies) as of the date of the merger agreement and as of the closing date (except to the extent expressly made as of an earlier date, in which case, as of the earlier date);

all other representations of Validus and Merger Sub must be true and correct (disregarding any qualifications as to materiality or Validus Material Adverse Effect) as of the date of the merger agreement and as of the closing date (except to the extent expressly made as of an earlier date, in which case, as of the earlier date) except where the failure to be true and correct has not had, and would not reasonably be

expected to  
have,  
individually or  
in the aggregate,  
a Validus  
Material  
Adverse Effect  
on Validus;

Validus and  
Merger Sub  
must have  
performed or  
complied in all  
material respects  
with their  
respective  
obligations  
required to be  
performed or  
complied with  
by them under  
the merger  
agreement at or  
prior to the  
completion of  
the first-step  
merger;

since the date of  
the merger  
agreement, there  
must not have  
been any effect,  
change, event or  
occurrence that  
has had or  
would  
reasonably be  
expected to  
have,  
individually or  
in the aggregate,  
a Validus  
Material  
Adverse Effect  
on Validus;

if Flagstone has  
timely exercised  
its right to

determine Validus book value (described under the heading *Book Value Determination* above) as of the measurement date, (1) Validus book value as of the measurement date must be equal to or greater than 50% of \$3,448,425,000, and (2) (A) the decline (if any), on a percentage basis, in Validus book value as of the measurement date from \$3,448,425,000 shall not be more than 20 percentage points greater than (B) the decline (if any), on a percentage basis, in Flagstone's book value as of the measurement date from \$789,048,000; and

Flagstone must have received a tax opinion from Flagstone's counsel and a copy of the tax opinion from Validus counsel that was delivered to Validus, both to

the effect that  
(1) the first-step merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and each of Flagstone and Flagstone Bermuda will be a party to such reorganization,  
(2) the second-step merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and each of Validus and Flagstone Bermuda will be a party to such reorganization,  
and (3) Validus will be treated, in respect of any shareholder who will own after the second-step merger less than five percent of the issued and outstanding Validus common shares (as determined under Treasury Regulation Section 1.367(a)-3(b)(1)(i)), as a

corporation  
under Section  
367(a) of the  
Code.

Neither Flagstone and Flagstone Bermuda nor Validus and Merger Sub may rely on the failure of any condition to their respective obligations to complete the mergers if such failure was primarily caused by the failure of Flagstone and Flagstone Bermuda or Validus and Merger Sub, as applicable, to perform in all material respects their obligations under the merger agreement.

## Termination

The merger agreement also may be terminated and the transactions contemplated by the merger agreement may be abandoned at any time prior to the completion of the first-step merger:

by the mutual written consent of Flagstone and Validus duly authorized by each of their respective boards of directors;

by either of Flagstone or Validus:

if the mergers have not been completed on or before the walk-away date, provided that the right to terminate will not be available to any party if the failure of that party to perform in all material respects its obligations under the merger agreement or to use its reasonable best efforts to complete the transactions contemplated

by the merger agreement has been the primary cause of the failure of the mergers to be completed on or before the walk-away date ;

if any restraint upon closing is in effect and becomes final and nonappealable; provided that the party seeking to terminate the merger agreement must have performed in all material respects its obligations under the merger agreement and used its reasonable best efforts to prevent the entry of and to remove this restraint upon closing; or

if the approval by Flagstone shareholders of the merger proposal has not been obtained at the extraordinary general meeting duly convened therefor or at any

adjournment,  
reconvenement  
or  
postponement  
thereof at  
which the vote  
was taken.

The merger agreement also may be terminated, and the transactions contemplated by the merger agreement may be abandoned, by Validus at any time prior to the completion of the first-step merger:

if Flagstone or  
Flagstone  
Bermuda has  
breached any of  
its representations  
or warranties or  
failed to perform  
any of its  
covenants or  
agreements set  
forth in the  
merger  
agreement, which  
breach or failure  
to perform (1)  
would give rise to  
the failure of  
certain conditions  
to closing relating  
to Flagstone s and  
Flagstone  
Bermuda s  
representations  
and warranties  
and performance  
and (2) is  
incapable of  
being cured prior  
to the walk-away  
date, or if capable  
of being cured,  
has not been  
cured within 30  
calendar days  
following receipt  
by Flagstone or  
Flagstone  
Bermuda of  
written notice of  
this breach or

failure to perform from Validus, provided that Validus cannot terminate the merger agreement as described in this bullet if Validus or Merger Sub is then in material breach of any of its representations, warranties, covenants or agreements thereunder;

prior to receipt of the Flagstone shareholder approval, if (1) Flagstone's board of directors has effected an adverse recommendation change or (2) there has occurred any willful and material breach of the obligations described under the headings *No Solicitation*; *Change in Recommendation* or *Reasonable Best Efforts to Obtain Shareholder Approval* above by Flagstone, any of its subsidiaries or any representative of Flagstone or any of its subsidiaries; or

if Validus requests a determination of Flagstone's book value as of the measurement date (described under the heading *Book Value Determination* above) and, after determination of Flagstone's book value as of the measurement date, the condition to closing with respect to Flagstone's book value as of the measurement date is not satisfied.

The merger agreement may be also be terminated, and the transactions contemplated by the merger agreement may be abandoned, by Flagstone at any time prior to the effective time of the first-step merger:

if Validus or Merger Sub has breached any of its representations or warranties or failed to perform any of its covenants or agreements set forth in the merger agreement, which breach or failure to perform (1) would give rise to the failure of certain conditions to closing relating to Validus and Merger Sub's

representations  
and warranties  
and  
performance  
and (2) is  
incapable of  
being cured  
prior to the  
walk-away  
date, or if  
capable of  
being cured,  
has not been  
cured within 30  
calendar days  
following  
receipt by  
Validus or

Merger Sub of written notice of such breach or failure to perform from Flagstone, provided that Flagstone cannot terminate the merger agreement as described in this bullet if Flagstone or Flagstone Bermuda is then in material breach of any of its representations, warranties, covenants or agreements thereunder; or

if Flagstone requests a determination of Validus book value as of the measurement date (described under the heading *Book Value Determination* above) and, after determination of Validus book value as of the measurement date, the condition to closing with respect to Validus book value as of the measurement date is not

satisfied.

**Effect of Termination; Termination Fee**

If the merger agreement is validly terminated, the merger agreement will become null and void (other than certain specified provisions that survive termination of the merger agreement, including those described in this section below), and there will be no liability on the part of any party or their respective directors, officers and affiliates, except with respect to any sections of the merger agreement that survive termination of the merger agreement and any willful and material breach of any representation, warranty, covenant or agreement set forth in the merger agreement or fraud.

Flagstone will be required to pay a termination fee of \$24.16 million to Validus if the merger agreement is terminated:

by Validus  
because  
Flagstone's board  
of directors has  
made an adverse  
recommendation  
change or any of  
Flagstone, its  
subsidiaries, or  
any  
representative of  
Flagstone or one  
of its subsidiaries  
has willfully and  
materially  
breached the  
covenants  
described under  
the headings *No  
Solicitation;  
Change in  
Recommendation  
and Reasonable  
Best Efforts to  
Obtain  
Shareholder  
Approval* above;

by either Validus  
or Flagstone  
because (1) the  
transactions  
contemplated by  
the merger  
agreement have  
not been  
completed on or  
before the  
walk-away date

(prior to obtaining the Flagstone shareholder approval) or (2) Flagstone shareholders do not approve the merger proposal at the extraordinary general meeting and:

on or following the date of the merger agreement and prior to the extraordinary general meeting (or prior to the termination of the merger agreement if there has been no extraordinary general meeting), a bona fide takeover proposal has been publicly made or proposed or otherwise communicated to Flagstone or any of its subsidiaries or any of their respective representatives; and

within twelve months after the date on which the merger agreement is terminated, Flagstone enters into a definitive agreement with respect to a takeover proposal or a takeover proposal is

completed  
(whether or not  
such takeover  
proposal was the  
same takeover  
proposal referred  
to above),  
provided that the  
references to 10%  
in the definition  
of takeover  
proposal  
described in *No  
Solicitation;  
Change in  
Recommendation*  
above shall be  
deemed to be  
references to  
35%.

In addition, if Flagstone shareholders do not approve the merger proposal and Validus is not in willful and material breach of its representations, warranties, covenants or agreements under the merger agreement at the time Validus or Flagstone terminates the merger agreement, Flagstone will be required to pay to Validus \$6 million. Any subsequent termination fee payable by Flagstone would, however, be reduced by the amount of this payment.

#### **Amendment or Supplement; Waiver**

At any time prior to the effective time of the first-step merger, the merger agreement may be amended or supplemented in any and all respects, whether before or after receipt of the Flagstone shareholder approval, by written agreement of the parties to the merger agreement. However, following receipt of the Flagstone shareholder approval, there may be no amendment or change to the provisions of the merger agreement that by law would require further approval by Flagstone shareholders to the merger agreement without such approval.

If either Flagstone or Validus waives the condition of the receipt of the tax opinions described in the section of this proxy statement/prospectus titled *United States Federal Income Tax Consequences of the Mergers U.S. Federal Income Tax Consequences to U.S. Holders of Flagstone Shares and Flagstone Bermuda Common Shares Consequences of the Mergers Tax Consequences of the Mergers Generally* after the merger proposal is approved by Flagstone shareholders, and the change in tax consequences is material, Flagstone and Validus undertake to recirculate an updated version of this proxy statement/prospectus and resolicit proxies from Flagstone shareholders. If either Flagstone or Validus waives the condition of the receipt of these tax opinions before the merger proposal is approved by Flagstone shareholders but after the registration statement (of which this proxy statement/prospectus forms a part) is declared effective by the SEC, Flagstone and Validus will publicly disclose this waiver to Flagstone shareholders.

Validus and Flagstone may, subject to applicable law, (1) waive any inaccuracies in the representations and warranties of the other party, (2) extend the time for the performance of any of the obligations or acts of the other party or (3) subject to the requirements of applicable law, waive compliance by the other party with any of the agreements contained in the merger agreement or, except as otherwise provided in the merger agreement, waive any of such party's conditions.

### **No Third-Party Beneficiaries**

The merger agreement is not intended to and will not confer upon any person or entity other than the parties to the merger agreement any rights or remedies. However, if the mergers are completed, holders of Flagstone shares and holders of certain Flagstone equity compensation awards immediately prior to the effective time of the first-step merger will have the right to enforce Validus' obligation to pay the merger consideration, including the consideration payable to holders of certain PSUs that were outstanding as of the date of the merger agreement but that vest prior to the effective time of the first-step merger. In addition, Flagstone's directors and officers will have the right to enforce Validus' covenant to provide indemnification and liability insurance coverage after the closing.

### **Governing Law**

The merger agreement is governed by the laws of the State of New York applicable to contracts executed in and to be performed entirely within that State, regardless of the laws that might otherwise govern under any applicable conflict of laws principles, except to the extent the provisions of the laws of Luxembourg or Bermuda are mandatorily applicable to the mergers.

### **Specific Performance**

The parties are entitled to an injunction, specific performance and other equitable relief to prevent breaches of the merger agreement and to enforce specifically the terms of the merger agreement in addition to any other remedy to which they are entitled at law or in equity.

### **Fees and Expenses**

Whether or not either of the mergers is completed, all fees and expenses incurred in connection with the mergers, the merger agreement and the other transactions contemplated by the merger agreement will be paid by the party incurring or required to incur such fees or expenses, except as otherwise set forth in the merger agreement.

## THE VOTING AGREEMENTS

On August 30, 2012, Validus entered into voting agreements with (1) Lightyear Fund II (Cayman), L.P., Lightyear Co-Invest Partnership II (Cayman), L.P., Lightyear Capital II, LLC and Lightyear Capital LLC and (2) Trilantic Capital Partners III L.P., Trilantic Capital Partners Fund (B) III L.P., Trilantic Capital Partners Fund III L.P., TCP Capital Partners V L.P., and Trilantic Capital Partners Fund III Onshore Rollover L.P. The following is a summary of selected material provisions of the voting agreements. This summary is qualified in its entirety by reference to the voting agreements, which are incorporated herein by reference and are attached to this proxy statement/prospectus as Annex D and Annex E, respectively. The rights and obligations of the parties are governed by the express terms and conditions of the voting agreements and not by this summary or any other information contained in this document. Flagstone shareholders are urged to read the voting agreements carefully and in their entirety as well as this proxy statement/prospectus before making any decisions regarding the merger proposal.

### Voting

Pursuant to the voting agreements, each shareholder party thereto has agreed to vote all of such shareholder's Flagstone shares (subject to the limitations on voting rights set forth in Section 51A of Flagstone's articles of incorporation, to the extent applicable, see the section of this proxy statement/prospectus titled *The Extraordinary General Meeting Voting Cutback Under Flagstone's Articles of Incorporation*):

in favor of  
approval of the  
merger  
proposal;

against any  
takeover  
proposal for  
Flagstone;

against any  
amendment to  
Flagstone's  
articles of  
incorporation  
or other  
proposal or  
transaction  
involving  
Flagstone or  
any of its  
subsidiaries, in  
each case, that  
would  
reasonably be  
expected to  
materially  
impede,  
interfere with,  
delay,

postpone or adversely affect in any manner the mergers or change, in any manner, the voting rights of any class of Flagstone's share capital; and

at Validus request, subject to certain limitations, for any proposal that Flagstone's board of directors has determined is reasonably necessary to facilitate the acquisition of Flagstone by Validus in accordance with the terms of the merger agreement, as may be amended (other than an amendment that would (1) reduce the merger consideration (or otherwise alter the mix of merger consideration) payable pursuant to the merger agreement as in effect on August 30,

2012 or (2) otherwise be less favorable in any material respect to such shareholders than the merger agreement as in effect on August 30, 2012).

In addition, in the event that the merger agreement is terminated (1) by Validus because Flagstone willfully and materially breached its covenants in the merger agreement relating to non-solicitation or the convening of the extraordinary general meeting to approve the merger proposal (these covenants are further described under the sections of this proxy statement/prospectus titled *The Merger Agreement No Solicitation; Change in Recommendation* and *The Merger Agreement Reasonable Best Efforts to Obtain Shareholder Approval* ) or (2) by Flagstone or Validus if either:

Flagstone's shareholders fail to approve the merger proposal; or

the mergers fail to close on or prior to March 31, 2013 (prior to obtaining the required approval by Flagstone shareholders of the merger proposal)

and, in the case of either bullet above, prior to such termination a bona fide takeover proposal shall have been publicly made or proposed or otherwise communicated to Flagstone or any of its subsidiaries or any of their respective representatives, then each shareholder party to one of the voting agreements has agreed to vote against any takeover proposal for Flagstone for a tail period of 90 days following such termination of the merger agreement.

## Grant of Proxy

Each shareholder party to the voting agreements has irrevocably granted to and appointed Validus (and up to two of Validus designated representatives), during the term of the voting agreement, as such shareholder's proxy to vote such shareholder's Flagstone shares at any duly convened meeting of Flagstone's shareholders or in any action by written consent of Flagstone shareholders. Flagstone has agreed in the merger agreement to recognize the grant of any such proxy and the exercise thereof by Validus (or one of Validus designated representatives) in accordance with its terms.

## Termination

Each of the voting agreements shall terminate at the first to occur of:

the  
termination of  
the merger  
agreement in  
accordance  
with its terms;  
provided, that,  
if the merger  
agreement is  
terminated in  
circumstances  
described  
under *Voting*  
above, the  
90-day tail  
provision  
described  
above will  
apply;  
a written  
agreement  
among  
Validus and  
the applicable  
shareholders  
party to such  
voting  
agreement to  
terminate such  
voting  
agreement;

the closing of  
the mergers;  
and

the date of any  
waiver,  
modification

or amendment  
to the terms of  
the merger  
agreement that  
would reduce  
the merger  
consideration  
(or otherwise  
alter the mix  
of merger  
consideration)  
payable  
pursuant to the  
merger  
agreement as  
in effect on  
August 30,  
2012.

**Transfer Restrictions; Other Proxies**

Each of the voting agreements provides that the shareholders party thereto will not, during the term of the voting agreement (including during the 90-day tail period described above, if applicable), subject to limited exceptions:

directly or  
indirectly sell  
(including any  
short sale),  
transfer,  
pledge,  
encumber,  
assign or  
otherwise  
dispose of its  
Flagstone  
shares;

enter into any  
contract,  
option,  
derivative,  
hedging or  
other  
agreement or  
arrangement  
or  
understanding  
with respect to  
a sale, a  
transfer,  
pledge,

encumbrance,  
assignment or  
other  
disposition of  
its Flagstone  
shares;

grant a proxy  
or power of  
attorney with  
respect to its  
Flagstone  
shares;

deposit into a  
voting trust  
any of its  
Flagstone  
shares; or  
enter into a  
voting  
agreement or  
arrangement,  
in each case,  
with respect to  
its Flagstone  
shares.

### **Governing Law**

The voting agreements are (1) governed by, and construed in accordance with, the laws of the State of New York, except to the extent that the provisions of the laws of Luxembourg or Bermuda are mandatorily applicable to the transactions contemplated by the voting agreements and (2) subject to the jurisdiction of New York courts except to the extent any such proceeding mandatorily must be brought in Luxembourg or Bermuda.

**UNAUDITED CONDENSED CONSOLIDATED PRO FORMA FINANCIAL INFORMATION**

The following unaudited condensed consolidated pro forma financial information is intended to provide you with information about how the acquisition of Flagstone might have affected the historical financial information of Validus if it had been completed at an earlier time. The following unaudited condensed consolidated pro forma financial information does not necessarily reflect the financial position or results of operations that actually would have resulted had the proposed transaction occurred as of the dates indicated, nor should they be taken as necessarily indicative of the future financial position or results of operations of Validus. For a summary of the proposed transactions to which the pro forma financial information relates, see the sections of this proxy statement/prospectus titled *The Mergers General* and *The Merger Agreement*.

The unaudited condensed consolidated pro forma financial information should be read in conjunction with Validus Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, Validus Annual Report on Form 10-K for the year ended December 31, 2011, Flagstone's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and Flagstone's Annual Report on Form 10-K for the year ended December 31, 2011, each as filed with the SEC. The unaudited condensed consolidated pro forma financial information gives effect to the proposed transactions as if they had occurred at June 30, 2012 for the purposes of the unaudited condensed consolidated pro forma balance sheet and at January 1, 2011 for the purposes of the unaudited condensed consolidated pro forma statements of operations for the year ended December 31, 2011 and the six months ended June 30, 2012.

This pro forma information is subject to risks and uncertainties, including those discussed in the sections of this proxy statement/prospectus titled *Risk Factors* and *Special Note Concerning Forward-Looking Statements*.

The following table presents unaudited condensed consolidated pro forma balance sheet data at June 30, 2012 (expressed in thousands of U.S. dollars, except share and per share data) giving effect to the proposed transactions as if they had occurred at June 30, 2012:

|                                       | <b>Historical<br/>Validus</b> | <b>Historical<br/>Flagstone</b> | <b>Pro Forma<br/>Purchase<br/>Adjustments</b> | <b>Notes</b>     | <b>Pro Forma<br/>Consolidated</b> |
|---------------------------------------|-------------------------------|---------------------------------|---|------------------|-----------------------------------|
| <b>Assets</b>                         |                               |                                 |   |                  |                                   |
| Fixed maturities, at fair value       | \$ 4,772,899                  | \$ 333,674                      | \$  |                  | \$ 5,106,573                      |
| Short-term investments, at fair value | 310,703                       | 696,838                         |   |                  | 1,007,541                         |
| Other investments, at fair value      | 463,018                       | 142,504                         |   |                  | 605,522                           |
| Cash and cash equivalents             | 903,310                       | 186,251                         | (118,143 )                                    | 3(b),<br>3(f), 4 | 971,418                           |
| Total investments and cash            | 6,449,930                     | 1,359,267                       | (118,143 )                                    |                  | 7,691,054                         |
| Restricted cash                       |                               | 17,823                          |   |                  | 17,823                            |
| Investments in affiliates             | 92,807                        |                                 |   |                  | 92,807                            |
| Premiums receivable                   | 977,431                       | 273,744                         |   |                  | 1,251,175                         |

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|  |                     |                     |                      |      |                      |
|--|---------------------|---------------------|----------------------|------|----------------------|
| Deferred acquisition costs                             | 176,172             | 50,144              |                      |      | 226,316              |
| Prepaid reinsurance premiums                           | 176,387             | 58,679              |                      |      | 235,066              |
| Securities lending collateral                          | 3,456               |                     |                      |      | 3,456                |
| Loss reserves recoverable                              | 371,484             | 232,784             |                      |      | 604,268              |
| Paid losses recoverable                                | 32,395              |                     |                      |      | 32,395               |
| Accrued investment income                              | 21,399              | 2,607               |                      |      | 24,006               |
| Income taxes recoverable                               | 2,651               |                     |                      |      | 2,651                |
| Intangible assets                                      | 112,651             |                     |                      |      | 112,651              |
| Goodwill   | 20,393              |                     |                      |      | 20,393               |
| Other assets   | 62,412              | 110,919             | (33,159 )            | 3(g) | 140,172              |
| Net receivable for investments sold                    |                     | 2,435               |                      |      | 2,435                |
| Funds withheld   |                     | 25,983              |                      |      | 25,983               |
| Assets held for sale including discontinued operations |                     | 439,641             | (432,301 )           | 3(f) | 7,340                |
| <b>Total assets</b>                                    | <b>\$ 8,499,568</b> | <b>\$ 2,574,026</b> | <b>\$ (583,603 )</b> |      | <b>\$ 10,489,991</b> |

|   | Historical<br>Validus | Historical<br>Flagstone | Pro Forma<br>Purchase<br>Adjustments | Notes         | Pro Forma<br>Consolidated |
|---|-----------------------|-------------------------|--------------------------------------|---------------|---------------------------|
| <b>Liabilities</b>  |                       |                         |                                      |               |                           |
| Reserve for losses and<br>loss expenses                       | \$ 2,591,299          | \$ 682,329              | \$ 76,300                            | 3(e)          | \$ 3,349,928              |
| Unearned premiums   | 1,196,836             | 292,109                 |                                      |               | 1,488,945                 |
| Reinsurance balances<br>payable                               | 185,456               | 45,454                  |                                      |               | 230,910                   |
| Deferred income taxes   | 19,197                |                         |                                      |               | 19,197                    |
| Securities lending<br>payable                                 | 4,145                 |                         |                                      |               | 4,145                     |
| Net payable for<br>investments purchased                      | 6,451                 | 2,494                   |                                      |               | 8,945                     |
| Accounts payable and<br>accrued expenses                      | 76,774                | 70,964                  | 35,180                               | 3(f),<br>3(g) | 182,918                   |
| Senior notes payable  | 247,036               |                         |                                      |               | 247,036                   |
| Debentures payable  | 289,800               | 250,202                 |                                      |               | 540,002                   |
| Liabilities of<br>discontinued<br>operations held for<br>sale |                       | 393,814                 | (392,044 )                           | 3(f)          | 1,770                     |
| <b>Total liabilities</b>                                      | <b>4,616,994</b>      | <b>1,737,366</b>        | <b>(280,564 )</b>                    |               | <b>6,073,796</b>          |
| <b>Shareholders equity</b>                                    |                       |                         |                                      |               |                           |
| Ordinary shares   | 23,691                | 845                     | 1,658                                | 3(a),<br>3(d) | 26,194                    |
| Treasury shares   |                       |                         |                                      |               |                           |