



## **Chairman's statement**

### **Results**

The group has made progress on a number of fronts, with growth in revenue and solid pre-tax profits. We benefit from having a well diversified business and continue to build a platform for profitable growth. Group revenue rose 6% to £48.4 million (2009 – £45.9 million). Statutory profit before tax rose 3% to £5.7 million (2009 – £5.6 million) while adjusted profit before tax fell by 1% to £6.8 million (2009 – £6.9 million).

Statutory earnings per share were 7.38 pence (2009 – 11.01 pence) and adjusted earnings per share 10.02 pence (2009 – 14.19 pence). Earnings per share for the first six months of 2010 have fallen as a result of:

- significantly lower profitability from Adjusting Services as a consequence of a change in business mix and a lack of major new instructions in our Energy and Aviation businesses.
- increased staff costs in Management Services and head office; and
- reduced attributable earnings from our insurance run-off companies as a result of higher pre-tax profits being more than offset by higher tax and minority interests.

Despite these factors, the company is well placed to build on the investment it has made, and will continue to make, in its broadly based insurance services business.

### **Operational Highlights**

#### **Management Services**

Divisional revenues in the first half of 2010 remain at similar levels to 2009 with profits slightly behind. Significant growth was achieved in the tonnage insured within the shipping mutuals that we manage. That growth and increasing regulatory requirements, including preparation for Solvency II, require us to gear up in order to provide the services needed by our clients. The cost of so doing will have an impact on this year's results, but our management fees will be reviewed with our clients later this year.

The result from Signal management and captive management showed some improvement from the low levels of profitability in 2009.

While the Local Democracy, Economic Development and Construction Act 2009 is a very positive development for our UK public sector plans, it came too late to avoid a loss of income within our local authority business in 2010. As flagged previously, we intend to recommence our efforts in this area once the appropriate enabling regulations are enacted later in the year.

#### **Adjusting Services**

After the record result of 2009 the division maintained its excellent revenue levels of last year. There were good results from our smaller divisions, Non-Marine and Marine, but reduced results from our larger Energy and Aviation businesses. Profit fell overall primarily because of the type of work being undertaken. Major instructions often require teams of adjusting staff and contractors at various levels of seniority frequently working intensively in difficult conditions, which produces very high levels of productivity. Following the record Energy result of 2009, as 2010 has progressed certain large Energy claims have concluded earlier than anticipated and the consequent reduction in revenue has not been replaced with new large claims in Energy as quickly as expected. Various hurricane losses worked on over the last few years have also been coming to an end. Our Aviation revenues have been at a relatively low level, both in traditional loss adjusting and within the aviation asset management business, reflecting the market background of subdued aviation activity generally.

Throughout the period, we continued to build our presence around the world and we expect this investment to benefit the group in due course.

### **Insurance Companies Run-off**

In the first six months of 2010, the profit before tax of our insurance companies in run-off was £2.7 million (2009 - £0.7m) but changes in the profit mix between the insurance companies have resulted in higher tax and minority interests and hence a reduced contribution to earnings per share of 1.1 pence compared to 2.0 pence in the first half of 2009. The large minority interests are the consequence of the group's desire to minimise capital outlay and risk when acquiring insurers in run-off.

### **Insurance Support Services**

The Insurance Support Services division has not to date generated significant new business, but it is now demonstrating its potential as new and existing clients increasingly involve it in assessing the feasibility of new opportunities. Although it is not expected to make more than a small contribution this year, some of these opportunities could develop into important activities for the group in the future.

### **Head office**

We have continued to invest in people with the right skills and experience to control and support the development of the various group activities. In particular, initiatives such as Solvency II and the increasing regulatory requirements within insurance markets have caused us to strengthen our resources in the areas of risk management and compliance.

### **Company strategy and growth opportunities**

We continue to develop a diversified insurance services business. We expect European insurers to become increasingly sensitive to the implications of Solvency II, both financially under Pillar I and from a risk management and administrative perspective under Pillar II. These developments should present further opportunities for the group.

### **Gearing and cash flow**

Net debt at 30 June was £41.6 million, compared to £42.2 million at year end. Interest cover was 7.0 times on an adjusted basis and 6.1 times on a statutory basis. Operating cash flow of £4.5 million (before client funds movements) compares favourably with £1.1 million in the same period of 2009, mainly because of improved working capital movements. Nonetheless, we have not yet recovered the working capital invested in Charles Taylor Insurance Services following the Axiom acquisition and we remain subject to a long working capital cycle in Adjusting Services. We are continuing to improve our working capital processes and performance and are increasingly collecting our fees directly from underwriters rather than through brokers.

While the continuing environment of low interest rates is helpful in relation to our borrowing costs, lower corporate bond yields have increased the value of pension liabilities by 7% since year end, resulting in an increase of some £4 million in the value of the deficit, now £26.7 million, reflected in our balance sheet despite a 3% increase in asset values. We continue to work closely with trustees to fund the group's pension obligations in a planned and cost-effective manner.

### **Dividends**

The interim dividend is being maintained at 5.54 pence, the same level as the 2009 interim dividend.

**Current trading and outlook**

We expect a number of new business opportunities to come to fruition during the remainder of the year. We also expect to be able to conclude negotiations with the relevant existing clients to take account of the extra investment necessary to support their businesses. Our diversified and geographically spread adjusting business is well placed to serve insurers as losses occur although the timing and extent of these are unpredictable. There are encouraging signs of new business for Charles Taylor Insurance Services, but timing is difficult to assess. Our insurance companies are further into their respective run-off periods, but it remains the case that the results and their timing are difficult to anticipate. Taking into account the performance for the first half year, we believe that our full year earnings will be below our previous expectations.

## **Business review**

### **Management Services Division**

This division involves the management of mutual insurers including investment management and underwriting services, as well as captive management and risk consulting.

Management Services division revenue was similar but profitability fell slightly compared with the first half of 2009, with an inevitably weaker performance from the UK public sector business and the continuing effects of the US recession on the risk consulting business. The Signal business performed slightly better than last year, despite the effect of Signal Mutual lowering insurance rates and the Captive Management business also improved its performance.

*Mutual Management:* 92% of Management Division revenues (2009 - 91%)

#### *Shipping Mutuals*

The Standard Clubs saw growth in tonnage by over 30% to 110m gt at 20 February 2010 with further growth achieved since then. A combination of the Clubs' growth and greater regulatory demands, primarily in respect of the impending Solvency II directive, requires a significant increase in resources. Given the nature of the annual management fee arrangement, this will adversely affect this year's result but we expect to see the benefits of this investment in 2011 and beyond.

#### *Workers' Compensation Mutuals*

Signal Mutual is the largest provider of workers' compensation to maritime employers covered by the US Longshore Act. Payrolls for the first half were up on the first half of 2009, with stevedore payrolls showing some growth from the lows of 2009 although still at a lower rate than payrolls in the shipyard and other sectors. However, a significant improvement in the results of safety initiatives over the last few years has seen members' average insurance rates falling, although this now appears to have bottomed out. A small rate increase targeted for the forthcoming renewal and stronger new business performance will help underpin Signal's premiums going forward. The new management fee agreement, which comes into effect on 1 October 2010, is expected to have a positive impact on the second half of the year.

SCALA is a mutual that covers the workers' compensation liabilities of the majority of Canadian shipowners. The performance of this business was a little below the first half of last year as a result of additional costs incurred as part of a management succession plan that will not be repeated next year.

#### *Public Sector Mutuals*

First half revenues were considerably lower than last year as the full effects were felt of the unavoidable decisions to put LAML and FRAML into run-off during 2008 and 2009, as previously reported. The Local Democracy, Economic Development and Construction Act 2009 will provide local authorities with the necessary explicit powers to participate in a body corporate which can provide insurance to local authorities and affiliates. CTC is maintaining close contact with a variety of public entities across this sector and anticipates that following the availability of specific powers to create insurance mutuals, the group will be able to develop revenue opportunities from 2011 onwards.

#### *Investment Management*

At 30 June 2010 funds under management were \$1.33bn, little changed from a year ago. Charles Taylor Investment Management, however, improved its performance on the first half of 2009 and

again produced a good performance for the group's insurance mutual clients as well as for CTC's owned insurance companies in run off.

#### *Underwriting Services*

Charles Taylor Underwriting Agencies (CTUA) provides the group's clients with access to its binding authorities. After a slow start to the year, new business initiatives have now met with some success and include a coverage for insolvency practitioners and a terrorism cover for a public sector entity which will generate revenue in the second half of the year.

*Other Management:* 8% of Management Division revenues (2009 - 9%)

The captive management business performance has improved over last year with a new captive formed for a California business association and new opportunities also arising from CTUA. Costs were below the first half of last year.

The group's small risk consulting business performed less well with the performance in the US in particular well below last year. Continuing concerns about the economic outlook have resulted in clients cutting back or postponing discretionary expenditure.

#### **Adjusting Services Division**

Adjusting activities involve the provision of advice to insurers (Loss Adjusting) and to shipowners (Average Adjusting). The division's employees are spread across the four specialist business sectors of energy, marine, aviation and non marine with a global office network.

Adjusting revenues rose by 2% on the first half of 2009 with little effect from foreign exchange, following the 20% growth achieved between 2008 and 2009. The result was, however, well down on the same period last year, mainly because of the impact of reduced workloads from a very high level in key offices in the energy business, and in the aviation business, where market losses have generally been at a lower level. The aviation asset management business also underperformed. Selective investment in network expansion has continued. We believe that the business continues to secure a high share of instructions from global insurance markets.

*Energy:* 45% of Adjusting Division revenues (2009 - 45%)

Energy revenues were slightly up in the first half, but the performance was mixed. Calgary, Singapore and the Australian offices continued to perform very well but other offices were well below the strong performance last year. The Houston office's completion of a number of hurricane-related instructions resulted in a significant reduction in revenues year on year and it has accordingly reduced its costs by limiting the use of contractors, while maintaining its capability to deal with future major losses. The UK office's workload was lower primarily due to the work on a major UK loss tailing off this year earlier than anticipated. There was also a lower level of new claims in the London energy market albeit that the UK office was appointed on notable instructions, including an oil rig that sank off the coast of Venezuela and an explosion at a refinery in the UK. We believe that the business continues to receive a similar share of instructions from the market as last year. Selective recruitment has also been required to support business growth, especially in the Asia Pacific region, New York, Canada and Switzerland.

*Aviation:* 18% of Adjusting Division revenues (2009 - 18%)

Overall Aviation revenues were slightly ahead of last year. In the first half, Aviation were appointed on high profile losses in India, the Lebanon and China, where the group has now further invested (in Beijing) to increase its market profile. Miami and Dubai again produced a good performance and the Australian business generated an improved result in part due to appointment

by a new client. Progress was made in developing the risk and asset management activities with a major operational risk audit being carried out in India and risk survey work in Israel and Ireland. Staff absence and the need to invest in new staff impacted the small aviation asset management business acquired in 2009.

*Marine: 22% of Adjusting Division revenues (2009 - 23%)*

Marine again performed well, although not quite as strongly as the first half of 2009. The UK, Tokyo and Greater China offices produced the strongest performances. Marine's leading team of average adjusters and extensive office network saw them benefit from a range of instructions in Europe, Arabia and Asia, including high profile losses involving cruise ships, cargo ship fires and collisions, damage to terminals and cargo losses.

*Non-Marine: 15% of Adjusting Division revenues (2009 - 14%)*

Non-Marine produced another good performance, building further on its strong growth in 2009. Financial institution work has continued to expand with the nomination as the adjuster for a large Spanish bank and large claims being handled in Russia and Saudi Arabia. Product recall claims work has also expanded further in particular with the appointment on various automotive recall losses. The Miami office has been busy including working with the Mexico office on a Chilean earthquake claim and a major earthquake loss for a Mexican water authority. The Middle East offices in Dubai and Doha also continued to perform well, expanding their handling of regional losses for several major Japanese insurers.

### **Insurance Support Services Division**

This division was created during 2009 to combine the non-life services of the recently acquired Axiom with the non-life and life run-off services of LCL Services. The division enables our insurance industry clients to reduce costs, increase efficiency and manage their businesses more effectively by outsourcing specialist insurance processes to us. The division provides support to clients at Lloyd's and elsewhere in the London insurance market, as well as providing third party administration services to both life and non-life insurance companies in run-off.

Revenue was 63% higher than the first half of 2009, reflecting the Axiom acquisition in May 2009, while the operating loss of £8,000 compares with a loss of £0.3 million last year and reflects the modest progress made to date in improving the performance of Charles Taylor Insurance Services.

*Non-Life Business: 88% of Insurance Support Services Division revenues (2009 - 78%)*

Charles Taylor Insurance Services continued to provide its clients in the Lloyds and other insurance markets with a range of services including claims run-off, financial reporting and broker and underwriting support services. It is also assisting clients with the commutation of various reinsurance policies. Investment in new IT platforms continues to enable us to maintain a wider range of services and act as a potential differentiator. New revenue development remains the strong focus for 2010. A review is continuing on the most effective way to enter the market to offer 'turnkey' managing agency services to new Lloyd's syndicates and there are various other opportunities within the Lloyd's market as well to provide specialist outsourced services for major corporate insurers.

*Life Business: 12% of Insurance Support Services Division revenues (2009 - 22%)*

This business is the group's life insurance administration operation and is the leading provider of third party life insurance administration on the Isle of Man. It administers business for two life insurers as well as for its sister company, LCL International Life Assurance Company Limited, and a large life reinsurance company. While the results of this service business will gradually reduce in

scale as policies run off, there remain opportunities for new run-off business, mostly in association with potential life business acquisitions.

### **Insurance Companies Run-Off Division**

This division consists of three non life insurance companies in run-off (two in the UK and one in Ireland) and a life insurance company in run-off in the Isle of Man. The result was significantly up on the performance in the first half of 2009, primarily driven by a very strong performance from Cardrow but also due to an improved performance from the life business.

#### *Non-Life Business 37% of Insurance Companies Run-off Division revenues (2009 - 40%)*

Bestpark was a multi-line insurer and is now in its eighth year of run-off. It has continued to run off steadily but with a relatively narrow margin of solvency. In the first half, Bestpark's performance was worse than in the first half of 2009 due to an increase in claims reserves.

The other two companies were acquired in late 2008. Cardrow, which was a UK motor insurance company primarily underwriting taxi risks, produced another strong result as claims continued to be settled within their reserves. A substantial proportion of this result is, however, attributable to minority interests. The group now has a share in Cardrow's net assets worth £2.3 million having paid initial consideration of £1 (one pound). Beech Hill wrote motor and household business in the UK, Northern Ireland and the Republic of Ireland. Beech Hill's run-off is now much more mature and its result in the first half of 2010 was much less material to the group than in 2009.

#### *Life Business: 63% of Insurance Companies Run-off Division revenues (2009 - 60%)*

LCL International benefited from the improvement in investment markets experienced in the first half, leading to improved investment income. Policy persistency was also better than expected. The overall result was therefore better than expected, which it is anticipated should be maintained for the remainder of the year. A small Guernsey life insurer was acquired in the first half and good progress has been made in transferring it to the Isle of Man.

Acquisition opportunities continue to be explored.

### **Results**

Revenue for the six months to 30 June 2010 was £48.4 million, 6% above the equivalent period of 2009. Statutory profit before tax was £5.7 million, 3% above 2009, and adjusted profit before tax was £6.8 million, 1% below 2009. The impact of foreign exchange rates on the results was negligible.

Statutory earnings per share were 7.38 pence (2009 – 11.01 pence), with the reduction mainly attributable to a lower trading result from Adjusting Services and a lower attributable result from Insurance Companies Run-off (more than offset by higher tax and minority interests) as well as higher amortisation charges arising from acquired customer relationships, although no exceptional reorganisation costs have been incurred in 2010.

The largest factor behind the increase in administrative expenses to £42.7 million (2009 - £37.5 million) is higher staff costs, with most of these caused by the acquisitions made towards the end of the comparable 2009 period, and higher premises costs and intangible amortisation charges, also mostly acquisition-related. There has also been selective investment in people in our shipping mutuals, Adjusting Services and at head office.

Adjusted earnings per share were 10.02 pence (2009 – 14.19 pence).

Associates and joint ventures results have improved by £0.2 million compared to the comparable 2009 period, reflecting a better performance from Crescendo, our Italian marine consultancy joint venture, and disposal of certain marginal operations in 2009 and 2010.

The retirement benefit deficit at 30 June 2010 stands at £26.7 million, compared to £22.9 million at 31 December 2009. The increase is principally because of a lower discount rate (5.4%) than at year end (5.8%), reflecting corporate bond yields. The group's four defined benefit pension schemes are being funded on a long-term basis and accordingly the latest balance sheet values have no direct impact on the business's cash flow. Pension costs of £0.9 million charged to the profit and loss account in the first half of 2010 are £0.2m lower than in the same period of 2009, principally reflecting higher expected returns on plan assets and increased asset values.

### **Dividends and earnings per share**

The interim dividend for 2010 is 5.54 pence (2009 – 5.54 pence). This will be paid on 24 November 2010 to shareholders on the share register at the close of business on 7 October 2010.

### **Treasury**

The US dollar has been slightly weaker against sterling during the first half of 2010 than in the equivalent period of 2009, with the first half 2010 average rate of 1.53 in comparison to 1.50 in 2009. The group manages its exposure to foreign currency fluctuations and has a number of forward contracts in place. These contracts average out exchange rate movements and provide a degree of certainty over future cash flows. The weaker US trading conditions which the Management Services division has experienced since late 2009 have reduced the group's exposure to the US dollar in comparison to earlier years.

The group has access to UK loan, revolving credit and overdraft facilities totalling £40.5 million and further facilities overseas of some £6.8 million. £20.9 million of loan finance is on an amortising basis. The overdraft facilities of £8.0 million are subject to annual commitment and renewal, with the other facilities on a five-year term. Net debt (excluding client funds) has decreased from £42.2 million at year end to £41.6 million at 30 June 2010, with a £4.0 million decrease in loans and overdrafts, a reduction of £6.4 million in client funds, a reduction of £9.4 million in cash and cash equivalents and an increase in finance leases of £0.4 million. Interest cover was 7.0 times on an adjusted basis and 6.1 times on a statutory basis. Operating cash flow of £4.5 million (before client funds movements) compares to £1.1 million in the same period of 2009 due mainly to improvement in working capital movements. Interest rates during 2010 have remained low and so the net interest charge has remained at a historically low level in comparison to the level of borrowings. The group entered into an interest rate swap in early 2009 that fixes LIBOR at 2.96% on the loan finance for the five-year term.

### **Taxation**

The effective tax rate on current year adjusted profits is 17.1% (2009 – 12.9%). 2.8 percentage points of this increase reflects UK corporation tax on increased profits in run-off insurance companies, mainly in Cardrow.

### **Related party transactions**

There have been no related party transactions in the period that have materially affected the financial position or performance of the company.

## **Principal risks and uncertainties**

The nature of the principal risks and uncertainties for the second half of 2010 remains unchanged from the types of risks and uncertainties explained in the 2009 annual report. They include risks and uncertainties relating to service quality, concentration of revenue, historical and future acquisitions, staff (in particular, attraction, retention and performance), the group's geographical spread and range of services, the legal and regulatory environment, financial risks and a range of uncontrollable external risks (for instance, investment market performance and the insurance cycle).

## Condensed consolidated income statement

		Six months to 30 June 2010 £000 (Unaudited)	Six months to 30 June 2009 £000 (Unaudited)	Year to 31 December 2009 £000 (Audited)
	Note			
<b>Continuing operations</b>				
Revenue from insurance services		46,553	43,682	91,951
Revenue from insurance companies run-off				
Gross revenue		2,382	4,824	7,890
Outward reinsurance premiums		(510)	(2,626)	(3,237)
Net revenue		1,872	2,198	4,653
<b>Total revenue</b>	3	48,425	45,880	96,604
Expenses from insurance companies run-off				
Claims incurred		(964)	3,866	(9,022)
Reinsurance recoveries		2,493	1,905	(1,157)
Investment returns		1,949	(2,841)	21,792
Net operating expenses		(2,443)	(4,155)	(8,086)
Net expenses		1,035	(1,225)	3,527
Administrative expenses		(42,704)	(37,517)	(80,485)
Amounts written off goodwill		–	–	(523)
Relocation and reorganisation costs	13	–	(668)	(1,433)
Share of results of associates		15	74	187
Share of results of joint ventures		17	(232)	(211)
<b>Profit from operations</b>		6,788	6,312	17,666
Investment and other income from non-insurance activities		79	156	96
Finance costs		(1,125)	(882)	(2,034)
<b>Profit before tax</b>		5,742	5,586	15,728
Income tax expense	4	(1,162)	(885)	(3,839)
<b>Profit for the period from continuing operations</b>		4,580	4,701	11,889
Attributable to:				
Owners of the company		2,952	4,401	7,613
Non-controlling interest		1,628	300	4,276

		4,580	4,701	11,889
		_____	_____	_____
<b>Earnings per share from continuing operations</b>				
Statutory basic (pence)	6	7.38	11.01	19.04
Statutory diluted (pence)	6	7.38	11.00	19.03
		_____	_____	_____

Adjusted earnings per share figures are shown in the financial highlights.

## Condensed consolidated statement of comprehensive income

	Six months to 30 June 2010 £000 (Unaudited)	Six months to 30 June 2009 £000 (Unaudited)	Year to 31 December 2009 £000 (Audited)
Losses on revaluation of available-for-sale investments taken to equity	(48)	(212)	(10)
Exchange differences on translation of foreign operations	1,632	(2,390)	(1,303)
Actuarial (losses)/gains on defined benefit pension schemes	(4,533)	1,786	(527)
Losses on cash flow hedges	(766)	–	–
Tax on items taken directly to equity	1,247	(719)	(7)
Net loss recognised directly in equity	(2,468)	(1,535)	(1,847)
Profit for the period	4,580	4,701	11,889
<b>Total comprehensive income for the period</b>	<b>2,112</b>	<b>3,166</b>	<b>10,042</b>
Attributable to:			
Owners of the company	484	2,866	5,766
Non-controlling interests	1,628	300	4,276
	2,112	3,166	10,042

## Condensed consolidated balance sheet

	At 30 June 2010 £000 (Unaudited)	At 30 June 2009 £000 (Unaudited)	At 31 December 2009 £000 (Audited)
Note			
<b>Non-current assets</b>			
Goodwill	43,984	38,355	43,574
Intangible assets	14,000	16,848	15,631
Property, plant and equipment	6,112	6,157	6,027
Investments	1,502	1,672	1,800
Deferred tax assets	7,002	6,353	6,138
	72,600	69,385	73,170
<b>Current assets</b>			
Total assets in insurance businesses	285,499	308,967	297,084
Trade and other receivables	56,669	55,208	55,875
Cash and cash equivalents	39,966	38,586	49,384
	382,134	402,761	402,343
<b>Total assets</b>	454,734	472,146	475,513
<b>Current liabilities</b>			
Total liabilities in insurance businesses	230,403	264,039	244,595
Trade and other payables	22,679	20,830	19,209
Tax liabilities	262	1,135	1,138
Obligations under finance leases	551	388	459
Borrowings	19,235	17,548	22,545
Client funds	32,310	32,229	38,709
	305,440	336,169	326,655
<b>Net current assets</b>	76,694	66,592	75,688
<b>Non-current liabilities</b>			
Borrowings	28,636	29,964	29,437
Retirement benefit obligation	26,654	21,136	22,909
Provisions	1,760	1,822	2,870
Obligations under finance leases	1,140	971	856
Deferred consideration	19,398	13,522	19,577
	77,588	67,415	75,649
<b>Total liabilities</b>	383,028	403,584	402,304
<b>Net assets</b>	71,706	68,562	73,209

<b>Equity</b>				
Share capital	8	401	401	401
Share premium account		29,978	29,897	29,897
Merger reserve		6,872	6,872	6,872
Capital reserve		662	662	662
Own shares		(310)	(310)	(310)
Retained earnings		371	2,498	3,530
		<hr/>	<hr/>	<hr/>
Equity attributable to owners of the company		37,974	40,020	41,052
Non-controlling interest		33,732	28,542	32,157
		<hr/>	<hr/>	<hr/>
<b>Total equity</b>		<b>71,706</b>	<b>68,562</b>	<b>73,209</b>
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The financial statements were approved by the board of directors and authorised for issue on 17 August 2010.

George Fitzsimons  
Director  
17 August 2010

## Condensed consolidated cash flow statement

		Six months to 30 June 2010 £000 (Unaudited)	Six months to 30 June 2009 £000 (Unaudited)	Year to 31 December 2009 £000 (Audited)
<b>Net cash outflow from operating activities</b>	9	(1,891)	(11,724)	(2,707)
<b>Investing activities</b>				
Interest received		48	43	55
Proceeds on disposal of property, plant and equipment		146	65	135
Purchases of property, plant and equipment		(495)	(437)	(818)
Acquisition of intangible assets		(406)	(141)	(578)
Proceeds from sale of investments		52	–	11
Acquisition of subsidiaries		(11)	(8,007)	(8,427)
Payment of deferred consideration		(155)	(137)	–
Net cash acquired with subsidiary		–	436	–
Net cash with subsidiary disposed of		(38)	–	–
<b>Net cash used in investing activities</b>		(859)	(8,178)	(9,622)
<b>Financing activities</b>				
Dividends paid		(3,602)	(3,430)	(5,645)
Repayments of borrowings	7	(1,695)	(23,373)	(26,486)
Repayments of obligations under finance leases		(292)	(186)	(422)
New bank loans raised	7	700	33,400	38,090
(Decrease)/increase in bank overdrafts		(3,285)	(345)	4,242
<b>Net cash (used in)/from financing activities</b>		(8,174)	6,066	9,779
<b>Net decrease in cash and cash equivalents</b>		(10,924)	(13,836)	(2,550)
Cash and cash equivalents at beginning of period		49,384	53,339	53,339
Effect of foreign exchange rate changes		1,506	(917)	(1,405)
<b>Cash and cash equivalents at end of period</b>		39,966	38,586	49,384

## Condensed consolidated statement of changes in equity

	Share capital £000	Share premium account £000	Merger reserve £000	Capital reserve £000	Own shares £000	Retained earnings £000	Non- controlling interest £000	Total £000
At 31 December 2009 (audited)	401	29,897	6,872	662	(310)	3,530	32,157	73,209
Issue of share capital	–	–	–	–	–	–	–	–
Share premium arising on issue of share capital	–	81	–	–	–	–	–	81
Profit for the financial period	–	–	–	–	–	2,952	1,628	4,580
Dividends paid (note 5)	–	–	–	–	–	(3,602)	–	(3,602)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(4,533)	–	(4,533)
Tax on items taken to equity	–	–	–	–	–	1,247	–	1,247
Unrealised losses on available-for-sale investments	–	–	–	–	–	(48)	–	(48)
Losses on cash flow hedges	–	–	–	–	–	(766)	–	(766)
Foreign exchange translation differences	–	–	–	–	–	1,594	38	1,632
Movement in own shares	–	–	–	–	–	–	–	–
Other movements	–	–	–	–	–	(3)	(91)	(94)
At 30 June 2010 (unaudited)	401	29,978	6,872	662	(310)	371	33,732	71,706

	Share capital £000	Share Premium Account £000	Merger reserve £000	Capital reserve £000	Own shares £000	Retained earnings £000	Non- controlling interest £000	Total £000
At 31 December 2008 (audited)	401	29,897	6,872	662	(310)	2,975	27,961	68,458
Issue of share capital	–	–	–	–	–	–	–	–
Share premium arising on issue of share capital	–	–	–	–	–	–	–	–

Profit for the financial period	–	–	–	–	–	4,401	300	4,701
Dividends paid (note 5)	–	–	–	–	–	(3,430)	–	(3,430)
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	1,786	–	1,786
Tax on items taken to equity	–	–	–	–	–	(719)	–	(719)
Unrealised losses on available-for-sale investments	–	–	–	–	–	(212)	–	(212)
Foreign exchange translation differences	–	–	–	–	–	(2,363)	(27)	(2,390)
Movement in own shares	–	–	–	–	–	–	–	–
Other movements	–	–	–	–	–	60	308	368
At 30 June 2009 (unaudited)	<u>401</u>	<u>29,897</u>	<u>6,872</u>	<u>662</u>	<u>(310)</u>	<u>2,498</u>	<u>28,542</u>	<u>68,562</u>

## **Notes to the Condensed Consolidated Financial Statements**

For the six months ended 30 June 2010

### **1. General information**

The information for the year ended 31 December 2009 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

### **2. Accounting policies**

#### **Basis of preparation**

The annual financial statements of Charles Taylor Consulting plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

The company owns a number of insurance companies. The assets of the insurance companies are held for the benefit of the policyholders in the first instance and the group's interest is restricted to income from managing these businesses and a share in any surplus after deferred consideration payments to the former owners. Consequently, although fully consolidated, the assets and liabilities relating to insurance companies are separately identified in these financial statements.

Similarly, the income and expense items relating to insurance contracts are grouped together in the condensed consolidated income statement because most are related, for example claims and related insurance recoveries and to distinguish them from the group's main activities.

The analysis between current and non-current assets and liabilities is not useful for insurance companies. The assets and liabilities of the insurance companies have been classified as current rather than non-current for practical purposes and to conform with the presentation used in these financial statements although in practice an element is expected to be settled in more than one year.

#### **Going concern**

The directors are satisfied that the group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### **Changes in accounting policy**

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the group's latest annual audited financial statements, except as described below.

In the current financial year, the group has adopted International Financial Reporting Standard 3 "Business Combinations" (revised 2008) and International Accounting Standard 27 "Consolidated and Separate Financial Statements" (revised 2008).

The most significant changes to the group's previous accounting policies for business combinations are as follows:

- acquisition related costs which previously would have been included in the cost of a business combination are included in administrative expenses as they are incurred;
- any pre-existing equity interest in the entity acquired is remeasured to fair value at the date

- of obtaining control, with any resulting gain or loss recognised in profit or loss;
- any changes in the group's ownership interest subsequent to the date of obtaining control are recognised directly in equity, with no adjustment to goodwill; and
- any changes to the cost of an acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in profit or loss. Previously, such changes resulted in an adjustment to goodwill.

Any adjustments to contingent consideration for acquisitions made prior to 1 January 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS 3(2004) and IAS 27(2005), for which the accounting policies can be found in the group's latest annual audited financial statements.

### **3. Segmental information**

#### **Identification of segments**

For management and internal reporting purposes the group is currently organised into four operating divisions whose principal activities are as follows:

- Management services division – mutual management, captive management, investment management and risk management.
- Adjusting services division – energy, aviation, non-marine and marine (including average) adjusting.
- Insurance support services division – non-life and life insurance support services.
- Insurance companies run-off division – non-life and life insurance companies closed to new business.

Management information about these divisions is regularly provided to the group's chief operating decision maker to assess their performance and to make decisions about the allocation of resources. Accordingly, these divisions correspond with the group's operating segments under IFRS 8 "Operating Segments". Businesses forming part of each division which might otherwise qualify as reportable operating segments have been aggregated where they share similar economic characteristics and meet the other aggregation criteria in IFRS 8.

In the Management services division, a higher proportion of revenue arises in the second half of the financial year. There is no significant seasonality or cyclicity in the other divisions.

#### **Measurement of segmental results and assets**

Transactions between reportable segments are accounted for on the basis of the contractual arrangements in place for the provision of goods or services between segments and in accordance with the group's accounting policies. Reportable segment results and assets are also measured on a basis consistent with the group's accounting policies. Operating segment profit includes an allocation of central costs across the four divisions and excludes exceptional adjusting items. Central costs allocations for new acquisitions are typically phased in over a number of reporting periods. Reconciliations of segmental results to the group profit before tax are set out below.

<b>Six months to 30 June 2010</b>	Management services division £000	Adjusting services division £000	Insurance support services division £000	Insurance companies run-off division £000	Inter- segment eliminations £000	Amounts not allocated to segments £000	Total group £000
Revenue from insurance services	17,978	23,286	5,280	–	–	9	46,553
Revenue from insurance companies run-off	–	–	–	1,872	–	–	1,872
Revenue from other operating segments	–	–	1,336	–	(1,336)	–	–
<b>Total revenue</b>	17,978	23,286	6,616	1,872	(1,336)	9	48,425
Depreciation and amortisation	(328)	(567)	(290)	–	–	–	(1,185)
Other expenses	(15,146)	(19,887)	(6,334)	835	1,336	(235)	(39,431)
<b>Operating segment profit</b>	2,504	2,832	(8)	2,707	–	(226)	7,809
Share of results of associates and joint ventures							32
Investment and other income from non- insurance activities							79
Finance costs							(1,125)
<b>Profit before tax – adjusted</b>							6,795
Amortisation of customer relationship intangibles							(1,053)
Relocation and reorganisation costs							–
<b>Profit before tax</b>							5,742

<b>Six months to 30 June 2009</b>	Management services division £000	Adjusting services division £000	Insurance support services division £000	Insurance companies run-off division £000	Inter- segment eliminations £000	Amounts not allocated to segments £000	Total group £000
Revenue from insurance services	18,030	22,906	2,735	–	–	11	43,682
Revenue from insurance companies run-off	–	–	–	2,198	–	–	2,198
Revenue from other operating segments	–	–	1,331	–	(1,331)	–	–
<b>Total revenue</b>	18,030	22,906	4,066	2,198	(1,331)	11	45,880
Depreciation and amortisation	(72)	(233)	(103)	–	–	–	(408)
Other expenses	(15,280)	(18,450)	(4,230)	(1,459)	1,331	358	(37,730)
<b>Operating segment profit</b>	2,678	4,223	(267)	739	–	369	7,742
Share of results of associates and joint ventures							(158)
Investment and other income from non- insurance activities							156
Finance costs							(882)
<b>Profit before tax – adjusted</b>							6,858
Amortisation of customer relationship intangibles							(604)
Relocation and reorganisation costs							(668)
<b>Profit before tax</b>							5,586

<b>Year to 31 December 2009</b>	Management services division £000	Adjusting services division £000	Insurance support services division £000	Insurance companies run-off division £000	Inter- segment eliminations £000	Amounts not allocated to segments £000	Total group £000
Revenue from insurance services	36,147	46,654	9,139	–	–	11	91,951
Revenue from insurance companies run-off	–	–	–	4,653	–	–	4,653
Revenue from other operating segments	–	–	2,653	–	(2,653)	–	–
<b>Total revenue</b>	36,147	46,654	11,792	4,653	(2,653)	11	96,604
Depreciation and amortisation	(563)	(1,011)	(460)	–	–	–	(2,034)
Other expenses	(29,572)	(37,438)	(12,260)	2,463	2,653	284	(73,870)
<b>Operating segment profit</b>	6,012	8,205	(928)	7,116	–	295	20,700
Share of results of associates and joint ventures							(24)
Investment and other income							96
Finance costs							(2,034)
<b>Profit before tax – adjusted</b>							18,738
Amortisation of customer relationship intangibles							(1,631)
Life insurance							577
VOBA credit							(523)
Amounts written off goodwill							(1,433)
Relocation and reorganisation costs							
<b>Profit before tax</b>							15,728

	At 30 June 2010 £000	At 30 June 2009 £000	At 31 December 2009 £000
<b>Total assets</b>			
Management services division	5,867	6,325	6,728
Adjusting services division	96,445	96,382	103,111
Insurance support services division	38,743	34,714	39,852
Insurance companies run-off division*	291,048	315,757	303,467
Unallocated assets and eliminations	22,631	18,968	22,355
	<u>454,734</u>	<u>472,146</u>	<u>475,513</u>

\* Includes related intangible assets and provisions.

### Geographical information

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
<b>Revenue</b>			
United Kingdom	15,609	14,723	34,508
Other Europe	3,429	3,771	7,300
North America	6,894	7,096	13,596
Asia Pacific	5,859	4,028	8,497
Bermuda	16,634	16,262	32,703
	<u>48,425</u>	<u>45,880</u>	<u>96,604</u>

	At 30 June 2010 £000	At 30 June 2009 £000	At 31 December 2009 £000
<b>Non current assets (excluding deferred tax assets)</b>			
United Kingdom	52,017	49,574	52,903
Other Europe	4,740	4,820	5,106
North America	5,514	5,129	5,375
Asia Pacific	1,476	1,490	1,766
Bermuda	1,851	2,019	1,882
	<u>65,598</u>	<u>63,032</u>	<u>67,032</u>

### Information about major customers

The group derived revenue from transactions with external customers which individually amount to more than 10% of group revenues. Revenue from a customer in the management division amounted to £9.8 million (to 30 June 2009 – £9.5 million, full year 2009 – £19.4 million) and for a second customer in the same division revenue amounted to £4.7 million (to 30 June 2009 – £4.7 million, full year 2009 - £9.2 million).

### 4. Income tax expense

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Current tax:			
United Kingdom corporation tax at 28%	555	82	2,381
Overseas tax	607	803	1,660
Prior years' adjustment	–	–	848
Deferred taxation	–	–	(1,050)
	<u>1,162</u>	<u>885</u>	<u>3,839</u>

Current corporation tax for the interim period is charged at 17.1% (to 30 June 2009 – 12.9%) representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year calculated on adjusted profit. Adjustments to profit are shown in note 6.

### 5. Dividends paid

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Amounts recognised as distributions to equity holders in the period:			
Final dividend paid (2009 – 9.01 pence, 2008 – 8.58 pence)	3,602	3,430	3,430
Interim dividend paid (2009 – 5.54 pence per share)	–	–	2,215
	<u>3,602</u>	<u>3,430</u>	<u>5,645</u>

The proposed interim dividend for the six months ended 30 June 2010 of 5.54p (to 30 June 2009 – 5.54p) per share was approved by the board on 17 August 2010 and in accordance with IFRS, has not been included as a liability at 30 June 2010.

### 6. Earnings per share

Earnings per ordinary share have been calculated by dividing the profit on ordinary activities after taxation and minority interests for each period by the weighted average number of shares in issue. The shares held by the ESOP have been excluded from the calculation because the trustees have waived the right to dividends on these shares.

The calculation of the statutory basic, statutory diluted and adjusted earnings per share is based on the following data:

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
<b>Earnings</b>			
Earnings for the purposes of adjusted earnings per share being adjusted profit after tax attributable to owners of the company	4,005	5,673	11,605
Amounts written off goodwill	–	–	(523)
Amortisation of acquired customer relationship intangible assets	(1,053)	(604)	(1,631)
Relocation and reorganisation costs	–	(668)	(1,433)
Life insurance VOBA impairment	–	–	577
Prior years' tax settlement	–	–	(982)
	_____	_____	_____
Earnings for the purposes of statutory basic and statutory diluted earnings per share being net profit attributable to owners of the company	2,952	4,401	7,613
	_____	_____	_____
	Number	Number	Number
<b>Number of shares</b>			
Weighted average number of ordinary shares for the purposes of statutory basic earnings per share	39,986,589	39,982,390	39,983,065
Effect of dilutive potential ordinary shares: Share options	44,826	7,930	18,217
	_____	_____	_____
Weighted average number of ordinary shares for the purposes of statutory diluted earnings per share	40,031,415	39,990,320	40,001,282
	_____	_____	_____

## 7. Bank overdrafts and loans

Loans raised during the period amounted to £0.7million (to 30 June 2009 – £33.4 million, full year 2009 – £38.1 million) and repayments on loans amounted to £1.7 million (to 30 June 2009 – £23.4 million, full year 2009 – £26.5 million).

## 8. Share capital

30,370 ordinary 1 pence shares were issued during the period (to 30 June 2009 – nil, full year 2009 – nil). The consideration above 1 pence per share is reflected in the share premium account and amounts to £81,000 (to 30 June 2009 – £nil, full year 2009 – £nil).

## 9. Notes to the condensed consolidated cash flow statement

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
<b>Profit from operations</b>	6,788	6,312	17,666
Profit from insurance companies	(2,907)	(973)	(8,180)
Profit from operations (excluding insurance companies)	<u>3,881</u>	<u>5,339</u>	<u>9,486</u>
Adjustments for:			
Depreciation of property, plant and equipment	940	705	1,576
Intangibles (non-insurance) and goodwill	1,298	819	2,612
Other non-cash items	295	232	309
Decrease in provisions	(1,758)	(936)	(1,563)
Share of results of associates and joint ventures	(32)	158	24
Operating cash flows before movements in working capital	<u>4,624</u>	<u>6,317</u>	<u>12,444</u>
(Increase)/decrease in receivables	(1,442)	179	(723)
Increase/(decrease) in payables	3,065	(3,793)	(4,693)
Cash generated by operations	<u>6,247</u>	<u>2,703</u>	<u>7,028</u>
Income taxes paid	(781)	(715)	(1,348)
Interest paid	(958)	(909)	(2,064)
Net cash before movement in client funds	<u>4,508</u>	<u>1,079</u>	<u>3,616</u>
Movement in client funds	(6,399)	(12,803)	(6,323)
<b>Net cash outflow from operating activities</b>	<u>(1,891)</u>	<u>(11,724)</u>	<u>(2,707)</u>

Additions to tangible fixed assets during the period amounting to £565,000 (to 30 June 2009 – £nil, full year 2009 – £190,000) were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly-liquid investments with a maturity of three months or less. The condensed consolidated cash flow statement excludes the cash flows within the group's insurance companies.

Cash includes client funds of £32.3 million (30 June 2009 – £32.2 million, 31 December 2009 – £38.7 million).

## 10. Net interest bearing liabilities

	At 30 June 2010 £000	At 30 June 2009 £000	At 31 December 2009 £000
Cash and cash equivalents	39,966	38,586	49,384
Bank overdrafts	(15,500)	(14,197)	(18,784)
Current loans	(3,405)	(2,951)	(3,360)
Non-current bank loans	(28,636)	(29,964)	(29,437)
Finance leases	(1,691)	(1,359)	(1,315)
	<u>(9,266)</u>	<u>(9,885)</u>	<u>(3,512)</u>
Client funds	(32,310)	(32,229)	(38,709)
	<u>(41,576)</u>	<u>(42,114)</u>	<u>(42,221)</u>

## 11. Pensions

The group contributes to a number of defined benefit pension schemes on behalf of employees. The present value of the retirement benefit obligation at 30 June 2010 has been arrived at by recalculating the 31 December 2009 liabilities using the financial assumptions at 30 June 2010 and rolling forward the liability, allowing for interest and benefit accrual. The value of plan assets represents the bid value of invested assets at 30 June 2010 plus cash balances held.

The financial assumptions used to calculate scheme liabilities under IAS19 "Employee benefits" are as follows:

	At 30 June 2010 %	At 30 June 2009 %	At 31 December 2009 %
Rate of increase in salaries	3.2	3.3	3.5
Rate of increase in pensions in payment	3.2	3.3	3.5
Discount rate	5.4	6.3	5.8
Inflation assumption	3.2	3.3	3.5
Composite investment return	6.0	5.6	6.0

## Amount recognised in the balance sheet in respect of the group's retirement benefit obligations

	At 30 June 2010 £000	At 30 June 2009 £000	At 31 December 2009 £000
Assets at fair value	59,961	50,922	57,955
Actuarial value of liability	(84,909)	(70,083)	(79,115)
Unrecognised amount due to effect of limit	(1,541)	(1,723)	(1,459)

in paragraph 58(b)			
Overseas retirement benefit obligation	(165)	(252)	(290)
Net liability recognised in the balance sheet	<u>(26,654)</u>	<u>(21,136)</u>	<u>(22,909)</u>
Related deferred tax asset	7,261	5,792	6,272
Pension liability net of related tax asset	<u>(19,393)</u>	<u>(15,344)</u>	<u>(16,637)</u>

## 12. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

## 13. Relocation and reorganisation costs

No relocation and reorganisation costs have been incurred during the period. In the period to 30 June 2009 £668,000 was incurred in relation to the acquisition of Charles Taylor Insurance Services Limited (formerly Axiom Holdings Limited) and in the full year to 31 December 2009 £1,433,000 was incurred, including, in addition, office closure costs and professional fees expenses.

This interim report contains certain forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors, including demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; exchange rate fluctuations and other changes in business conditions; the actions of competitors and other factors.

**Responsibility Statement**

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34 “Interim Financial Reporting”;
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties’ transactions and changes therein).

By order of the Board

**John Rowe**

Chief executive

**Damian Ely**

Chief operating officer

**George Fitzsimons**

Finance director

## **Independent Review Report to the Members of Charles Taylor Consulting plc**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the income statement, the balance sheet, the statement of changes in equity, the statement of comprehensive income, the cash flow statement and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

### **Directors’ responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting,” as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

**Deloitte LLP**  
Chartered Accountants and Statutory Auditors  
London, United Kingdom  
17 August 2010