

## PRESS RELEASE

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### Charles Taylor Consulting plc Announcement of results for six months ended 30 June 2008

#### Financial Highlights

	Note	Six months to 30 June 2008	Six months to 30 June 2007	Increase/ (Decrease)
Revenue		£39.9m	£40.7m	(2%)
Profit before tax – adjusted	1	£6.4m	£6.7m	(5%)
Profit after tax – adjusted	1	£5.8m	£7.1m	(13%)
Earnings per share – adjusted	1	14.51p	16.83p	(14%)
Earnings per share – basic		9.24p	12.43p	(26%)
Dividend per share – interim	2	5.28p	4.80p	10%

1. Profit before and after tax shown in these financial highlights have been adjusted by £2.11m (2007 – £1.75m) in total compared with the equivalent statutory figures. This relates to relocation and reorganisation costs (see note 13 to the condensed consolidated financial statements) of £1.52m (2007 – £nil), a goodwill charge of £0.36m (2007 – £1.68m) arising under IFRS from the recognition of a deferred tax asset in respect of tax losses acquired with an insurance company subsidiary and a £0.23m (2007 – £0.07m) charge for amortisation of acquired customer relationship intangibles. Because of the non-recurring nature and significance of these items they have been added back in reporting adjusted profit and adjusted earnings per share figures. Statutory profit and statutory earnings per share are calculated after these adjustments and are shown in the condensed consolidated income statement.
2. The interim dividend of 5.28p is payable on 26 November 2008 to shareholders on the register on 10 October 2008.0

“The company remains in a healthy financial position with encouraging long term prospects. The board proposes a 10% increase in the interim dividend.”

**Rupert Robson**  
Chairman

## **Chairman's Statement**

Revenue in the six months to 30 June 2008 was £39.9m (2007 - £40.7m), a decrease of 2%. Adjusted profit before tax, relocation and reorganisation costs of £1.5m and goodwill and intangible charges of £0.6m, was £6.4m (2007 - £6.7m). Adjusted earnings per share were 14.51p (2007 - 16.83p). Growth in revenue and operating profit in the two largest divisions, Management and Adjusting, was positive. This was offset by weak performance in the Run-off division. The tax charge was a more normal 13.5%, compared to the 2007 tax credit which flattered last year's earnings figure.

The company remains in a healthy financial position with encouraging long term prospects. The board proposes a 10% increase in the interim dividend.

### **Divisional review**

#### *Management*

Revenue grew by 6% during the period, principally due to growth at the Standard Club and from our captive management operation, CTC Allegro. The Standard Club has continued to grow, attracting increasing tonnage, both as a result of organic growth in the industry and due to its comparative strength vis-a-vis its competitors. Signal has reached a record level of membership despite the recent loss of a large member, which was taken over by private equity interests and is now self insured. The measures taken to refocus the non-marine mutual operations of the Management division are bearing fruit. Costs have substantially reduced and the overall margin has improved, albeit that there will be reduced revenues in the second half as a result of our withdrawal from discretionary mutuals. Overall, the division saw its operating margin increase to 16% (2007 - 15%).

#### *Adjusting*

The division overall showed a slight growth in revenue despite a modest decline in Aviation and the operating margin rose to 17.5% (2007 - 17.2%). A satisfactory performance by Energy and Marine was eclipsed by a very good performance by Non marine. Aviation in London, by contrast was affected by the lack of significant instructions. A poor result from our general aviation business in the US led to a decision to withdraw from an insufficiently profitable contract. The commercial aviation business in the USA continues to prosper as does the important Asian business conducted out of Singapore.

#### *Run-off division*

The lack of a completed acquisition in the Run-off division was a substantial factor in the much lower first half result than in 2007. I can assure you, however, that significant work is being done in this area within the group and, although its ultimate completion is still not certain, a potential acquisition is at an advanced stage of negotiation. We expect to make a further announcement shortly. In general, there are signs of an increase in the number of financially viable acquisition opportunities for the Run-off division.

### **Shareholder return**

The company's share price has under-performed over the last twelve months in absolute and relative terms. The board is conscious that the company must continue with its efforts to maximise shareholder value. To that end, there are two important parallel streams of work taking place. The first is to optimise the growth rates of both the revenue and earnings within the Management and the Adjusting divisions. The second is to continue to identify and, if financially attractive, pursue acquisition opportunities in the Run-off business and elsewhere. Greater resources are being devoted to this effort than historically. In both cases, the objective is to enhance shareholder value.

**Board**

Richard Titley and John Howes both retired from the Board of Directors of the company yesterday and I thank them on behalf of the group for their hard work, dedication and enthusiasm over the years.

I am delighted that Julian Cazalet has agreed to join the company as a non-executive director. Subject to FSA approval, he will also be appointed as the senior independent non-executive director. Julian was appointed as a partner of Cazenove in 1978 before becoming managing director of corporate finance at JPMorgan Cazenove from which he retired in 2007. We will appoint an additional non-executive director in due course.

**Current trading and outlook**

The business taken as a whole is trading in line with management expectations for the full year. While today's results are testament to the underlying resilience of the business overall, your board is determined to maximise shareholder value; it will in particular continue to focus on growing revenue in both the Management and Adjusting divisions and on driving up the margin in Adjusting. We expect these long established divisions to perform at least as well in the second half as they have in the first, with the expected reduction in Signal revenues offset to some extent by a stronger US Dollar against Sterling. A better performance from the run-off division will depend on a completed acquisition, as discussed above.

## **Business Highlights**

- Management division revenue up 6%
- Standard Club tonnage growth
- Office consolidations, in London and elsewhere
- Completed withdrawal from discretionary mutuals
- Adjusting division winning high-profile new instructions and tenders
- Reorganisation of some less profitable adjusting operations and offices
- Further increase in dividend

## **Business Review**

### **Summary and outlook**

The focus during H1 2008 has been firstly on optimising the growth rates of both the revenue and earnings within the Management and the Adjusting divisions. Secondly, the focus has been on business reorganisation in certain areas, including office consolidations and closures. Strategically, this will mean the group is better placed to improve margins as a result of reduced fixed costs, the withdrawal from certain less profitable activities and better co-ordination between the London adjusting businesses.

The building in which the group's head office used to be located is being redeveloped to enable all the existing London operations other than adjusting to be consolidated into the redeveloped building in the last quarter of 2009. A £1.1m one-off charge has been taken to provide for dilapidations, asset write-offs and moving costs. The result of this will be that the group will make substantial savings on London property costs from 2010 onwards.

The overall pension deficit has increased to £20.8m (2007 year end - £9.6m) as a result of changes in actuarial assumptions and falls in equity markets. The funding of the group's various pension schemes is based on statutory valuations and is unaffected by the figures reported in the group's balance sheet.

Revenue growth in the Management division was good, though progress in the UK public sector was slower than expected. The improved profitability of the division already reflects the withdrawal from discretionary mutuals. The revenue outlook for H2 2008 is mixed, following the loss from Signal of a large member. The position will be mitigated to some extent, however, by new members and if the US Dollar continues to appreciate against Sterling.

The Adjusting division performed solidly in H1 2008, building on its strong market position in a generally favourable and soft insurance market. However, growth on last year was limited by lower loss levels in certain areas of Aviation and Energy, limited availability of suitably qualified staff in certain businesses and the time taken to recruit experienced new fee earners. The division should be well positioned for profitable growth in H2 2008, owing to an increase in instructions in a number of businesses, recent fee earner recruitment and potentially continued weakness in Sterling.

Run-off services suffered in H1 2008 from a continuing lack of acquisitions and new third party business; prospects for H2 2008 appear better. Run-off insurance companies contributed a similar level of profit to last year.

The group has actively considered numerous acquisition opportunities in H1 2008 for each division. There is a reasonable prospect of completing some in H2 2008, given reduced valuation expectations of vendors.

## **Business Performance**

### **Management Division**

Our operations involve the management of mutual insurers, investment management, captive management and risk consulting.

Despite the decision to withdraw from discretionary mutuals, which inevitably impacted revenues, overall an increase in both revenue and margin was achieved. This primarily reflected the considerable increase in the captive management business with the acquisition of Allegro last

year. The Bermudian businesses have now been consolidated into one office and the group has a stronger base of professional staff in this growing insurance market. The development of the UK public sector mutuals together with further improvement in the US risk consulting business also contributed to the revenue growth.

### *Shipping Mutuals*

The Standard group of P&I clubs performed well in the first half with a further increase in tonnage to 75m gt since renewal and following the increase from 64m gt to 70m gt in the year to 20 February. Standard Asia and the offshore sector have both seen considerable growth in tonnage as the increasingly important shipping markets it serves continue to expand.

### *Workers' Compensation Mutuals*

Signal Mutual is the largest provider of workers' compensation insurance for those employers covered by the US Longshore Act. Despite a weakening US economy, growth in payrolls was achieved in all industry sectors in the first half, particularly in respect of shipyard members (which are primarily US military related) and the offshore sector.

Whilst Signal premium growth is related to payroll growth, the continued improvement in members' claim records together with a further softening of the US workers' compensation market resulted in flat revenue in the first half. These trends are expected to continue for the rest of the year. The second half will be impacted by the decision of the new private equity owners of a large member to self-insure outside Signal. The loss of premium is expected to be made up in due course as new members join the mutual, the membership of which is now at record numbers.

SCALA, the mutual that covers the workers' compensation liabilities of the majority of Canadian ship-owners, again performed well.

### *Public Sector Mutuals*

The launch of two UK public sector mutuals in 2007, the London Authorities Mutual (LAML) and the Fire and Rescue Authorities Mutual (FRAML), unsurprisingly saw a reaction from the commercial market. This came in the form of price reductions and proceedings in the English High Court against the London Borough of Brent requesting a judicial review into the powers (vires) of Brent to join the mutual and alleging a breach of the procurement regulations in the way that Brent awarded its insurances to LAML. Whilst the court of first instance found against Brent on the specific facts of their actions, the court held that local authorities in general had the necessary powers to join a mutual. Seven London Boroughs, including Islington which joined in July 2008, are members and place their insurances with the mutual, which continues to demonstrate significant potential. Brent have withdrawn from membership of the mutual temporarily pending the outcome of an appeal that is scheduled to be heard in late autumn 2008.

The judgment has wider implications than the narrow confines of local government insurance and it is anticipated therefore, that if the restrictions on local government's powers are not removed by the courts the government will have to examine its own powers or legislate. We do not therefore think that there are long term implications for our public sector mutuals. In the meantime, the judgment highlighted some deficiencies in the powers of Combined Fire and Rescue Authorities as a result and pending clarification of its powers FRAML has ceased operation. Cover in respect of these members has temporarily been transferred to Charles Taylor Underwriting Agencies who are covering the business under the binding authorities referred to below.

There continues to be considerable interest in joining the existing mutuals and plans are well advanced to create another mutual for the UK public sector, once the outcome of the appeal is received.

#### Investment Management

Funds under management were in excess of \$1.3bn in the first half of 2008, following an 11% increase in 2007. In difficult investment markets, the business has performed satisfactorily. Funds under management will of course rise if new insurance or mutual management businesses are acquired or existing businesses increase in scale.

#### Charles Taylor Underwriting Agencies

This business provides the group's clients with access to various insurance facilities where the group has binding authorities. During the period binding authorities have been established with Kiln for property risks and Market Form for liability risks. Pending the outcome of the appeal in the Brent case, FRAML members are being insured under these facilities. Further expansion of these operations is anticipated.

#### Captive Management

The captive management business provided a significantly increased contribution to the division as a result of the acquisition of Allegro last year. Some new business development is being achieved but it is being hampered by the current soft US insurance markets.

#### Risk Management

The US risk management business made further good progress in expanding its business and client base.

### **Adjusting Division**

The division's business includes Charles Taylor adjusting, which is one of the leading providers of specialist claims services to insurers, and Richards Hogg Lindley, which is the leading average adjuster, a specialist adjusting service for shipowners. Although there were some strong performances across the businesses and the operating margin rose slightly from 17.2% to 17.5%, overall the result was similar to the first half of 2007. The general factors underlying this result were the constraints on the recruitment of experienced adjusters and staff turnover as a result of competition from underwriters and brokers. The process of moving all the London adjusters into their new office at 88 Leadenhall Street also had some impact on revenues in the first half, but as previously advised is expected to bring considerable benefits in the future. Amongst the businesses, Aviation and the Mexico office had a lower level of losses in the first half. Overall however, the Adjusting business has in recent months seen an upturn in the number of significant new instructions although the issues affecting Aviation will continue to have a bearing on this business in the second half of 2008.

#### *Energy: 43% of Adjusting Revenue (2007 – 43%)*

Energy Adjusting was generally busy in the first half with the London and Australian offices performing well compared with last year. Mexico was however unable to repeat the strong performance of last year, when it dealt with a considerable amount of hurricane related work.

#### *Aviation: 24% of Adjusting Revenue (2007 – 25%)*

Although some significant losses occurred over the period, the overall level of instructions to the London office fell reflecting in part the trend of decreasing frequency in Aviation losses. Aviation activity in Asia and the Arabian peninsular however continues to grow and, in order to service this increasing level of demand, a senior aviation surveyor has been posted to Dubai to join the Charles Taylor adjusting office there and further resource has been put into Singapore.

The unsatisfactory results from our general light aviation business in the USA have been mentioned previously. The decision was taken during the period to reduce substantially our exposure to this area where both the high fuel price and a weak economy have had an impact on activity levels. Additionally, we concluded that the rates achievable in this area were not sufficient to justify a continued involvement and a refocusing of our activities away from this area has led to a reduction both in head count and premises around the United States. We expect an improved performance in the future, albeit on a lower revenue base, as we concentrate on more profitable business areas. A provision to cover this reorganisation is included within the relocation and reorganisation costs charged in the period.

*Marine: 20% of Adjusting Revenue (2007 – 21%)*

Marine revenues were slightly down in the first half although there were good performances in particular from the Hong Kong and Indonesian offices. There were some costs associated with the closure of the Rotterdam office. This small office had underperformed for some time and as a result the margin on the remaining business is expected to improve slightly. Overall marine remains busy and the recent appointment as the adjuster on two significant terminal operation accounts will provide additional work for a number of offices. Marine continues to invest in developing young adjusters, particularly for average adjusting, for key offices such as London, Liverpool and Hong Kong.

*Non-marine: 13% of Adjusting Revenue (2007 – 11%)*

Non marine performed well in the first half with good performances in particular from London and Dubai and the recently opened Doha office. Significant instructions include a large financial institution loss, the appointment on several complex UK property losses and the successful tender to be the adjuster for an international drinks company.

### **Run-off Division**

CTC's run-off businesses advise, manage and own insurance companies closed to new business in both the Life and Non-life sectors.

#### **Run-off Services**

The run-off services businesses experienced a reduced level of third-party revenue from the London market in the first half of 2008, as a number of existing run-off contracts have been concluded and have not been replaced with new business. There has been a dearth of new run-off in the UK and the level of liabilities in run-off has been reducing in amount as claims have been commuted or otherwise settled. As a result, profitability has been significantly lower than in the equivalent period of 2007. However, the third party administration operation on the Isle of Man has continued to perform satisfactorily, although revenue was slightly below prior year levels because no new third party contracts have so far been secured in 2008 and therefore no new contract implementation fees have recurred. The outlook for significant new run-off services contracts in London and elsewhere from life and non-life acquisitions appears rather more positive than in 2007.

#### **Property & Casualty Business**

Bestpark International Limited's run-off is continuing well, on a stable but narrow margin of solvency, and the result for the first half of 2008 was better than in the first half of 2007. The 2008 underwriting result was an improvement despite lower revenue (the 2007 favourable premium adjustments did not recur), reflecting claims payments at close to reserved figures overall and lower expenses as claims run off.

There has been significant activity to an advanced stage on a specific acquisition opportunity, although its ultimate completion is still not completely certain.

#### Life Business

The downturn in investment markets has adversely affected the result of LCL International Life Assurance, since fees charged to policyholders are based on the market value of assets. However, some realistic acquisition opportunities have recently arisen.

#### Results

Revenue for the six months to 30 June 2008 was £39.9m, 2% lower than in the equivalent period of 2007, and adjusted profit before tax was £6.4m, 5% lower than in 2007. The reason for the revenue and profit reductions year-on-year is principally the weak performance of the run-off services business, which the board believes continues to offer broader and more significant prospects for growth than many other group activities.

Adjusted earnings per share were 14.51p (2007 – 16.83p). This reduction of 14% arises principally because a net tax credit was reported in the 2007 half-year period, arising from the utilisation of tax losses, whereas the 2008 period includes a net tax charge.

Unadjusted profits have been affected by certain non-recurring costs, namely a £1.1m charge relating to London premises changes and £0.4m of office closure and reorganisation costs arising in the US and Rotterdam adjusting businesses, both of which have been explained further above.

Because of the non-recurring nature and significance of these items they have been added back in reporting adjusted profit and adjusted earnings per share figures. As in 2007, adjusted profit and adjusted earnings per share also add back the amortisation of acquired customer relationship intangibles and goodwill charges, both of which have been deducted in the calculation of the respective unadjusted figures.

Associates and joint ventures have overall made a loss of £0.1m in the period, £0.3m below the profit made in the first half of 2007. This was principally due to the performance of a subsidiary of Crescendo, our joint venture with RINA (the Italian Classification Society). The reason for the underperformance, have now been addressed and the business is in the process of being merged into a larger unit, the prospects for which look promising.

Whilst the income statement is unaffected by the balance sheet pension scheme values at 30 June 2008, it is worth noting that higher inflation, weak investment markets and a slightly lower discount rate have combined to increase the reported retirement benefit obligation to £20.8m, compared to £9.6m at year end. The group's four defined benefit pension schemes are being funded on a long-term basis, so the latest balance sheet values have no direct impact on the business's cash flow. One of the major schemes will determine its valuation for statutory funding purposes in the second half of 2008.

#### Dividends and earnings per share

The proposed interim dividend for 2008 is 5.28p (2007 – 4.80p), an increase of 10%. This will be paid on 26 November 2008 to shareholders on the share register at close of business on 10 October 2008.

#### Treasury

The average rate for the US Dollar against Sterling for the period was 1.98, the same as in the first half of 2007.

The group manages its exposure to foreign currency fluctuations and has a number of forward contracts and options in place. These can only average out exchange rate movements but they do provide a degree of certainty over future cash flows.

UK base interest rates during 2008 have not been materially different from those in the first half of 2007 and, although lenders' response to the 'credit crunch' has resulted in a small increase in lending margins applicable to the group's working capital facilities, this change has been small and therefore the impact on the group's interest payments has been insignificant. While LIBOR rates, on which the bulk of the group's loan interest payments are based, have been slightly higher in 2008, the impact has not been material and has in any event been mitigated by the group's 5.5% interest rate cap, which covered over half of group loans at 30 June 2008. The average level of borrowings has been higher in 2008 than in 2007 as a result of the non-recurring relocation and reorganisation costs as well as lower cash receipts from LCLI and less run off services revenue. Free cash flow for the period of £2.1m was affected by the same factors and represents 42% of adjusted profit from operations, compared to £4.5m and 67% in the first half of 2007. Free cash flow is defined as net cash from operating activities excluding movement in client monies, plus interest received less expenditure on acquisition of tangible and intangible assets plus disposal proceeds.

### **Taxation**

The effective tax rate on current year profits before goodwill and intangibles charges is 13.5%. Full UK tax relief is continuing during 2008 as a result of Bestpark International Limited's losses and, as previously, there is a related deferred tax credit (£0.4m) in the six months to 30 June 2008. The deferred tax credit is lower than in 2007 because the company which owns the minority interest in Bestpark International Limited is not expected to have further material taxable profits to be offset by tax losses.

The UK media have given a high profile to HMRC's policy, practice and possible future intentions in relation to UK corporation tax during 2008 and to certain UK companies' changes of residence. CTC is monitoring the situation carefully and intends to continue to manage its affairs in the most tax-efficient manner possible.

### **Principal risks and uncertainties**

The nature of the principal risks and uncertainties for the second half of 2008 remains unchanged from the types of risks and uncertainties explained in the 2007 Annual Report. They include risks and uncertainties relating to the legal and regulatory environment and compliance, commercial risks (for instance the insurance cycle, the level of insured losses in the market, business continuity, the speed of collecting invoiced fees, etc), tax, accounting, pensions, future acquisitions, business development and insurance.

### **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.

## Condensed Consolidated Income Statement

For the six months ended 30 June 2008

	Note	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Continuing operations</b>				
Revenue		37,727	37,263	75,884
Revenue from insurance contracts acquired		3,235	3,979	7,844
Outward reinsurance premiums		(1,049)	(523)	(2,224)
Net revenue from insurance contracts acquired		<u>2,186</u>	<u>3,456</u>	<u>5,620</u>
Total revenue	2	39,913	40,719	81,504
Claims from insurance contracts acquired		1,439	(11,614)	(17,400)
Reinsurance recoveries		(558)	1,036	3,342
Expenses of managing insurance companies		(1,256)	(3,377)	(5,908)
Other (losses)/gains from insurance activities		(1,334)	11,032	16,020
Net expenses from insurance contracts acquired		<u>(1,709)</u>	<u>(2,923)</u>	<u>(3,946)</u>
Amounts written off goodwill		(363)	(1,676)	(4,961)
Relocation and reorganisation costs	13	(1,515)	–	–
Administrative expenses		(31,320)	(30,785)	(63,008)
Share of results of associates		–	96	116
Share of results of joint ventures		(100)	148	129
<b>Profit from operations</b>		<u>4,906</u>	<u>5,579</u>	<u>9,834</u>
Investment and other income from non-insurance activities		604	800	1,503
Finance costs		(1,266)	(1,422)	(3,039)
<b>Profit before tax</b>		<u>4,244</u>	<u>4,957</u>	<u>8,298</u>
Income tax (expense)/credit	3	(601)	382	(667)
<b>Profit for the period from continuing operations</b>		<u>3,643</u>	<u>5,339</u>	<u>7,631</u>
Attributable to:				
Equity holders of the parent		3,700	4,939	7,370
Minority interest		(57)	400	261

<u>3,643</u>	<u>5,339</u>	<u>7,631</u>
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**Earnings per share from  
continuing operations**

Basic (p)	5	9.24	12.43	18.52
Diluted (p)	5	<u>9.24</u>	<u>12.37</u>	<u>18.43</u>
Basic adjusted (p)	5	<u>14.51</u>	<u>16.83</u>	<u>31.76</u>
Diluted adjusted (p)	5	<u>14.50</u>	<u>16.74</u>	<u>31.60</u>

**Condensed Consolidated Balance Sheet**

At 30 June 2008

	Note	At 30 June 2008 £000	At 30 June 2007 £000	At 31 December 2007 £000
<b>Non-current assets</b>				
Goodwill		34,346	37,058	34,713
Intangible assets		9,732	10,546	11,276
Property, plant and equipment		4,362	3,868	4,023
Interests in associates		936	1,001	936
Interests in joint ventures		534	599	633
Investments		30	30	30
Deferred tax assets		6,344	3,768	3,208
		<u>56,284</u>	<u>56,870</u>	<u>54,819</u>
<b>Current assets</b>				
Total assets in insurance businesses		256,491	306,537	284,261
Trade and other receivables		51,672	46,988	48,013
Cash and cash equivalents		38,652	32,810	35,254
		<u>346,815</u>	<u>386,335</u>	<u>367,528</u>
<b>Total assets</b>		<u>403,099</u>	<u>443,205</u>	<u>422,347</u>
<b>Current liabilities</b>				
Total liabilities in insurance businesses		246,461	292,564	275,120
Trade and other payables		18,110	19,001	15,662
Tax liabilities		3,392	3,279	3,566
Obligations under finance leases		258	131	242
Bank overdrafts and loans	6	21,853	19,671	17,914
Client funds		30,792	23,068	26,701
		<u>320,866</u>	<u>357,714</u>	<u>339,205</u>
<b>Net current assets</b>		<u>25,949</u>	<u>28,621</u>	<u>28,323</u>
<b>Non-current liabilities</b>				
Bank loans	6	16,868	22,538	20,471
Retirement benefit obligation	11	20,791	11,963	9,572
Provisions		653	1,825	456
Obligations under finance leases		809	203	575
Deferred consideration – LCL acquisition		5,870	5,958	6,185
Deferred consideration – other		162	464	337
		<u>45,153</u>	<u>42,951</u>	<u>37,596</u>

<b>Total liabilities</b>		366,019	400,665	376,801
		<hr/>	<hr/>	<hr/>
<b>Net assets</b>		37,080	42,540	45,546
		<hr/>	<hr/>	<hr/>
<b>Equity</b>				
Share capital	7, 8	401	400	400
Share premium account	8	29,895	29,649	29,769
Merger reserve	8	6,872	6,872	6,872
Capital reserve	8	662	662	662
Own shares	8	(310)	(233)	(309)
Retained earnings	8	(1,148)	4,101	7,316
		<hr/>	<hr/>	<hr/>
Equity attributable to equity holders of the parent		36,372	41,451	44,710
Minority interest	8	708	1,089	836
		<hr/>	<hr/>	<hr/>
<b>Total equity</b>		37,080	42,540	45,546
		<hr/>	<hr/>	<hr/>

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

		Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Net cash from operating activities</b>	9	6,799	6,947	17,453
<b>Investing activities</b>				
Interest received		293	277	718
Proceeds on disposal of property, plant and equipment		255	72	111
Purchases of property, plant and equipment		(1,006)	(289)	(509)
Acquisition of intangible assets		(145)	(206)	(371)
Purchases of investments		(1)	(21)	(97)
Acquisition of subsidiaries		1	–	(2,255)
Disposal of subsidiary		–	545	545
Payment of deferred consideration		(168)	(155)	(228)
Net cash acquired with subsidiary		–	–	527
Net cash disposed of with subsidiary		–	–	(178)
<b>Net cash (used in)/from investing activities</b>		<u>(771)</u>	<u>223</u>	<u>(1,737)</u>
<b>Financing activities</b>				
Proceeds from issue of shares		126	757	878
Dividends paid		(3,357)	(3,037)	(4,952)
Repayments of borrowings		(3,899)	(4,148)	(8,396)
Repayments of obligations under finance leases		(201)	(80)	(317)
New bank loans raised		491	–	2,259
Increase/(decrease) in bank overdrafts		3,766	1,220	(800)
<b>Net cash used in financing activities</b>		<u>(3,074)</u>	<u>(5,288)</u>	<u>(11,328)</u>
<b>Net increase in cash and cash equivalents</b>		<u>2,954</u>	<u>1,882</u>	<u>4,388</u>
<b>Cash and cash equivalents at beginning of year</b>		35,254	30,922	30,922
Effect of foreign exchange rate changes		444	6	(56)
<b>Cash and cash equivalents at end of period</b>	9	<u>38,652</u>	<u>32,810</u>	<u>35,254</u>

## Condensed Consolidated Statement of Recognised Income and Expense

For the six months ended 30 June 2008

	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
Unrealised (losses)/gains on available-for-sale investments	(272)	(404)	490
Exchange differences on translation of foreign operations	440	16	368
Actuarial (losses)/gains on defined benefit pension schemes	(12,190)	6,932	8,539
Tax on items taken directly to equity	3,155	(2,532)	(2,806)
Net (expense)/income recognised directly in equity	<u>(8,867)</u>	<u>4,012</u>	<u>6,591</u>
Profit for the period	3,643	5,339	7,631
<b>Total recognised income and expense for the period</b>	<u>(5,224)</u>	<u>9,351</u>	<u>14,222</u>
Attributable to:			
Equity holders of the parent	(5,167)	8,951	13,961
Minority interests	(57)	400	261
	<u>(5,224)</u>	<u>9,351</u>	<u>14,222</u>

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

### 1. Basis of preparation

#### General information

The financial information for the year ended 31 December 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on these accounts was not qualified and did not contain statements under s237(2) or (3) of the Companies Act 1985.

#### Accounting policies

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 Standards 34 'Interim Financial Reporting', as adopted by the European Union.

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

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 accounts.

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.

### 2. Segmental information

For management purposes, the group is currently organised into three operating divisions – Management, Adjusting and Run-off Services.

Principal activities are as follows:

Management – Mutual management, captive management, investment management and risk management.

Adjusting – Energy, Aviation, Non-marine and Marine (including Average) adjusting.

Run-off Services – Insurance company acquisition and run-off services. The results of the insurance companies have been shown separately in the segmental information so as to reconcile to the Interim Statement.

Segmental information about these businesses is presented below:

Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
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<b>Revenue</b>			
Management	18,142	17,048	36,088
Adjusting	19,031	18,820	37,533
Run-off Services	2,376	3,306	6,152
Insurance companies – life and non-life	2,185	3,456	5,620
Intercompany eliminations	(1,821)	(1,911)	(3,889)
	<u>39,913</u>	<u>40,719</u>	<u>81,504</u>
<b>Result</b>			
Management	2,917	2,556	6,766
Adjusting	3,325	3,240	5,044
Run-off Services	38	501	781
Insurance companies – life and non-life	477	533	1,675
	<u>6,757</u>	<u>6,830</u>	<u>14,266</u>
Amounts written off goodwill	(363)	(1,676)	(4,961)
Relocation and reorganisation costs	(1,515)	–	–
Unallocated foreign exchange	127	181	284
Share of results of associates and joint ventures	(100)	244	245
	<u>4,906</u>	<u>5,579</u>	<u>9,834</u>
Profit from operations	4,906	5,579	9,834
Investment income	604	800	1,503
Finance costs	(1,266)	(1,422)	(3,039)
	<u>4,244</u>	<u>4,957</u>	<u>8,298</u>
Profit before tax	4,244	4,957	8,298
Tax	(601)	382	(667)
	<u>3,643</u>	<u>5,339</u>	<u>7,631</u>
Profit after tax	3,643	5,339	7,631

Associates and joint ventures would be included in the Adjusting division but for the requirement to show their result separately where the equity method of accounting has been adopted which is the case in these accounts.

Segmental information on a geographical basis is shown below:

	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Revenue</b>			
United Kingdom	11,522	13,966	25,783
Other Europe	3,111	3,496	6,533
North America	6,390	6,140	12,357
Asia Pacific	4,342	3,911	8,353
Bermuda	14,548	13,206	28,478
	<u>39,913</u>	<u>40,719</u>	<u>81,504</u>

### 3. Income tax (expense)/credit

	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
Current tax:			
UK corporation tax	(363)	(160)	(3,869)
Foreign tax	(601)	(1,134)	(1,066)
	<u>(964)</u>	<u>(1,294)</u>	<u>(4,935)</u>
Deferred tax:			
Current period	363	1,676	4,268
	<u>(601)</u>	<u>382</u>	<u>(667)</u>

Current corporation tax for the interim period is charged at 13.5% (to 30 June 2007 – 15.0%; full year 2007 – 14.0%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year calculated on profit before goodwill charges and amortisation of customer relationship intangibles. Deferred tax movement in the interim period represents additional value recognised in respect of insurance company tax losses.

### 4. Dividends paid

	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
Amounts recognised as distributions to equity holders in the period:			
Final dividend paid (2007 – 8.40p; 2006 – 7.64p per share)	3,357	3,037	3,037
Interim dividend paid (2007 – 4.80p per share)	–	–	1,915
	<u>3,357</u>	<u>3,037</u>	<u>4,952</u>

The proposed interim dividend for the six months ended 30 June 2008 of 5.28p (to 30 June 2007 – 4.80p) per share was approved by the board on 28 August 2008 and in accordance with IFRS, has not been included as a liability at 30 June 2008.

### 5. 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 basic, diluted and adjusted earnings per share is based on the following data:

	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
<b>Earnings</b>			
Earnings for the purposes of adjusted earnings per share	5,809	6,685	12,638
Amounts written off goodwill	(363)	(1,676)	(4,961)
Amortisation of acquired customer relationship intangible assets	(231)	(70)	(307)
Relocation and reorganisation costs	(1,515)	–	–
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	3,700	4,939	7,370
	Number	Number	Number
<b>Number of shares</b>			
Weighted average number of ordinary shares for the purposes of basic and adjusted earnings per share	40,045,182	39,720,813	39,789,213
Effect of dilutive potential ordinary shares: Share options	14,606	204,602	198,402
Weighted average number of ordinary shares for the purposes of diluted earnings per share	40,059,788	39,925,415	39,987,615

## 6. Bank overdrafts and loans

Loans raised during the period amounted to £491,000 (to 30 June 2007 – £nil, full year 2007 – £2,259,000) and repayments on loans amounted to £3,899,000 (to 30 June 2007 – £4,148,000, full year 2007 – £8,396,000).

## 7. Share capital

58,514 ordinary 1p shares were issued during the period (to 30 June 2007 – 258,120, full year 2007 – 311,039). The consideration above 1p per share is reflected in the share premium account and amounts to £126,000 (to 30 June 2007 – £825,000, full year 2007 – £945,000).

## 8. Condensed consolidated statement of changes in equity

	Share capital £000	Share premium account £000	Merger reserve £000	Capital reserve £000	Own shares £000	Profit & loss account £000	Minority interest £000	Total £000
Balance at 31 December 2007	400	29,769	6,872	662	(309)	7,316	836	45,546
Issue of share capital	1	–	–	–	–	–	–	1
Share premium arising on issue of share capital	–	126	–	–	–	–	–	126
Profit for the financial period	–	–	–	–	–	3,700	(57)	3,643
Dividends paid (note 4)	–	–	–	–	–	(3,357)	–	(3,357)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(12,190)	–	(12,190)

Tax on items taken to equity	-	-	-	-	-	3,155	-	3,155
Unrealised losses on available-for-sale investments	-	-	-	-	-	(272)	-	(272)
Foreign exchange translation differences	-	-	-	-	-	440	-	440
Movement in own shares	-	-	-	-	(1)	-	-	(1)
Other movements	-	-	-	-	-	60	(71)	(11)
Balance at 30 June 2008	401	29,895	6,872	662	(310)	(1,148)	708	37,080

	Share capital £000	Share premium account £000	Merger reserve £000	Capital reserve £000	Own shares £000	Profit & loss account £000	Minority interest £000	Total £000
Balance at 31 December 2006	397	28,824	6,872	662	(211)	(1,804)	689	35,429
Issue of share capital	3	-	-	-	-	-	-	3
Share premium arising on issue of share capital	-	825	-	-	-	-	-	825
Profit for the financial period	-	-	-	-	-	4,939	400	5,339
Dividends paid (note 4)	-	-	-	-	-	(3,037)	-	(3,037)
Actuarial gains on defined benefit pension schemes	-	-	-	-	-	6,932	-	6,932
Tax on items taken to equity	-	-	-	-	-	(2,532)	-	(2,532)
Unrealised losses on available-for-sale investments	-	-	-	-	-	(404)	-	(404)
Foreign exchange translation differences	-	-	-	-	-	16	-	16
Movement in own shares	-	-	-	-	(22)	-	-	(22)
Other movements	-	-	-	-	-	(9)	-	(9)
Balance at 30 June 2007	400	29,649	6,872	662	(233)	4,101	1,089	42,540

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

	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
Profit from operations	4,906	5,579	9,834
Profit from insurance companies	(477)	(533)	(1,674)
Profit from operations (excluding insurance compounds)	4,429	5,046	8,160
Adjustments for:			
Depreciation of property, plant and equipment	673	551	1,315
Amortisation of intangibles	871	1,928	5,674
Other non-cash items	85	61	171
Decrease in provisions	(378)	(652)	(1,488)
Share of results of associates and joint ventures	100	(244)	(245)
Operating cash flows before movements in working capital	5,780	6,690	13,587

Increase in receivables	(3,722)	(2,349)	(2,844)
Increase/(decrease) in payables	2,456	2,193	(2,089)
Cash generated by operations	4,514	6,534	8,654
Income taxes paid	(494)	(438)	(759)
Interest paid	(1,312)	(1,427)	(3,034)
Dividends from insurance companies	–	–	6,596
Net cash from operating activities	2,708	4,669	11,457
Movement in client monies	4,091	2,278	5,996
Net cash after movement in client monies	6,799	6,947	17,453

Additions to tangible fixed assets during the period amounting to £530,000 (to 30 June 2007 – £nil, full year 2007 – £685,000) 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 statements exclude the cash flows within the group's insurance companies.

Cash includes client monies of £30,792,000 (30 June 2007 – £23,068,000, 31 December 2007 – £26,701,000).

## 10. Net interest bearing liabilities

	Six months to 30 June 2008 £000	Six months to 30 June 2007 £000	Year to 31 December 2007 £000
Cash and cash equivalents	38,652	32,810	35,254
Bank overdrafts and current loans	(21,853)	(19,671)	(17,914)
Non-current bank loans	(16,868)	(22,538)	(20,471)
Loan stock	(30)	(73)	(74)
Finance leases	(1,067)	(334)	(817)
	(1,166)	(9,806)	(4,022)
Client monies	(30,792)	(23,068)	(26,701)
	(31,958)	(32,874)	(30,723)

## 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 2008 has been arrived at by recalculating the 31 December 2007 liabilities using the financial assumptions at 30 June 2008 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 2008 plus cash balances held.

The increase in the retirement benefit obligation during the period from £9,572,000 to £20,791,000 is principally the result of a reduction in investment values of £5,104,000 and an increase in the inflation assumption.

The Charles Taylor & Co Ltd Retirement Benefits Scheme valuation as at 1 July 2007 is currently being prepared and is expected to be finalised by the end of 2008.

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

	As at 30 June 2008 %	As at 30 June 2007 %	As at 31 December 2007 %
Rate of increase in salaries	4.1	3.4	3.3
Rate of increase in pensions in payment	4.1	3.4	3.3
Discount rate	6.0	6.0	6.1
Inflation assumption	4.1	3.4	3.3

The effect of changes in assumptions is reflected in the Condensed Consolidated Statement of Recognised Income and Expense. Other movements in the retirement benefit obligation arise from the difference between amounts recognised in the Condensed Consolidated Income Statement and contributions made to and benefits paid by the schemes.

## 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. Transactions between the group and its associates and its joint ventures are not material and so have not been disclosed.

## 13. Relocation and reorganisation costs

Relocation and reorganisation costs of £1,515,000 (to 30 June 2007 – £nil, full year 2007 – £nil) have been incurred during the period comprising £1,100,000 in the UK for dilapidations, asset write-offs and other property move related costs and £415,000 relating to office closure and reorganisation costs arising in the US and Rotterdam adjusting businesses.

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 2008 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of recognised income and expense, the condensed consolidated 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 2410 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 1, 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 2008 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 & Touche LLP**

Chartered Accountants and Registered Auditors

London  
United Kingdom  
28 August 2008