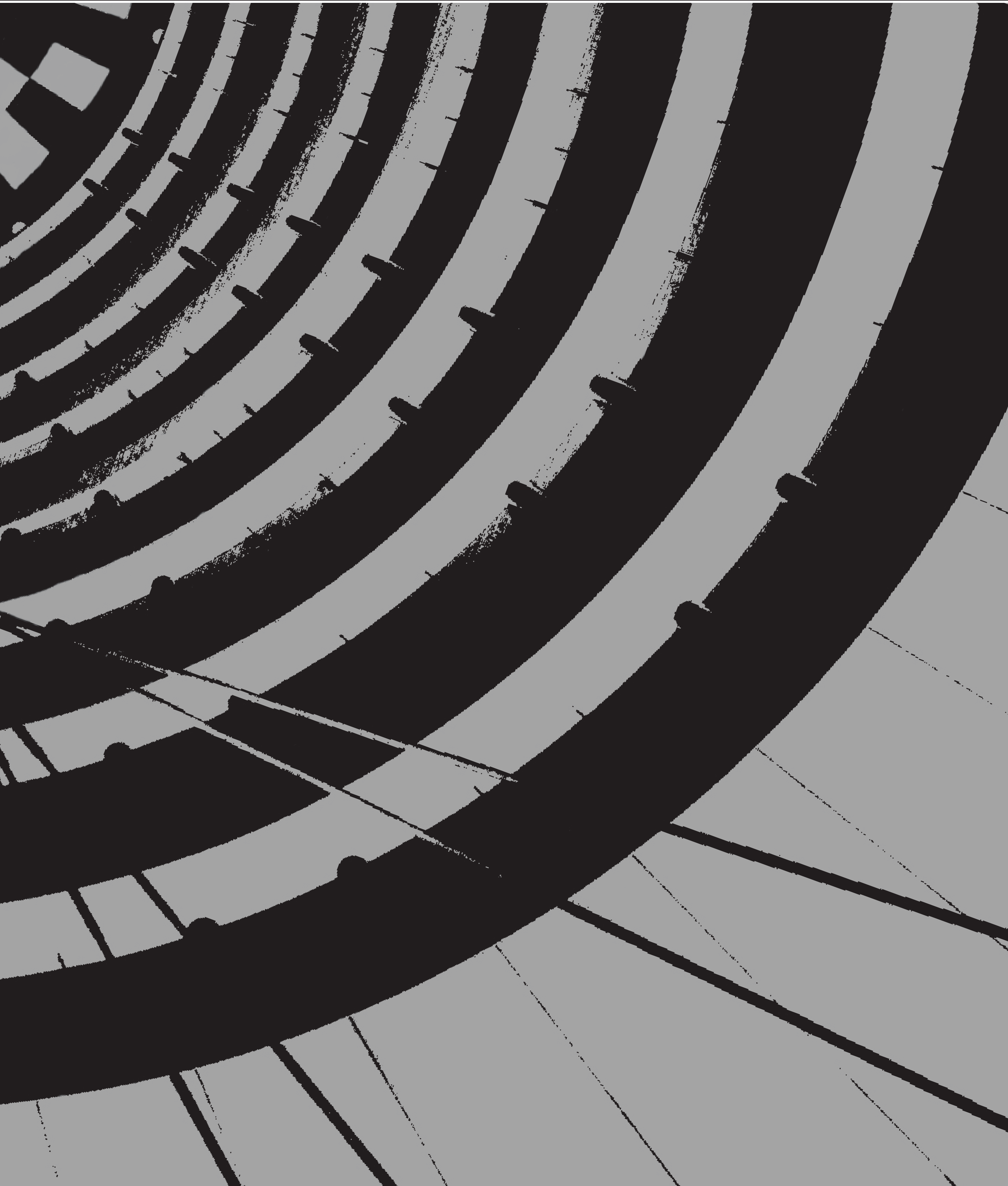
Tawa plc Interim Report 2008



- On 31 March, Tawa completed the US acquisition of PXRE Reinsurance Company ("PXRE") from Argo Group.
- The acquisition was funded by a $30 million debt facility and the issue of new shares raising $28.7 million.
- A final dividend for 2007 of 2.96 cents (1.50 pence) per share was paid on 30 June 2008.
- Profit before tax and discontinued operations for the half-year $11.7 million (30 June 2007: $39.4 million).
- Discontinued business has suffered from marking to market CX Re's bond portfolio, resulting in unrealised losses of $5 million for the half year, bringing the total unrealised losses being carried by CX Re to $10 million.
- Profit after tax and discontinued operations for the half-year $1.4 million (30 June 2007: $41.8 million).
- Net assets increased by $26.3 million to $263.4 million at 30 June 2008 – $2.33 per share (31 December 2007 – $2.33).

Tawa was formed in 2001 to acquire and manage the run-off of non-life insurance companies and portfolios of policies and to provide run-off related services.

Tawa is able to conduct nearly all activities relating to run-offs, from acquisition through to the management and to finality. Its claims-focused, accelerated run-off strategy is a key strength for the Group and is designed to protect and then create shareholder value while respecting the rights of policyholders.

Tawa's strategy is to build up and manage a portfolio of run-off businesses and by doing so become a consolidator of the non-life run-off market. Since its formation, Tawa has acquired CX Re, KX Re and PXRE and is managing the run-off of these businesses.

Summary

In 2008 Tawa continued its strategy to acquire run off companies and portfolios with the completion of its first US based acquisition PXRE on 31 March. The acquisition was funded by a $30 million debt facility and the issue of new shares raising $28.4 million (£14.2 million). All the new shares were issued to Karrick Limited at a price of $2.60 (£1.30) per share. Karrick Limited is a Guernsey registered company and is wholly-owned by Karrick Trust established for various members of the Lakshmi Mittal family.

The Group continues to seek further run-off opportunities in the market but notes that in the last six months the market has become increasingly competitive with discounts to net asset value narrowing and in some instances premiums to net asset value being paid. The Group seeks opportunities that fit its overall strategic objectives and that deliver acceptable returns to its shareholders.

Financial results

The profit for the period on continuing operations was $11.7 million and losses on discontinued operations were $10.3 million, resulting in a Group net profit of $1.4 million (6 months to 30 June 2007 $41.8 million).

Group net assets increased by $26.3 million to $263.4 million ($2.33/£1.17 per share) at 30 June 2008.

Dividend and dividend policy

In line with the Group's dividend policy a final dividend of 2.96 cents (1.50 pence) per share was paid on 30 June 2008.

Operational results

The Group's operations are underwriting run-off, run-off management and other corporate activities.

Underwriting run-off

Underwriting run-off comprises the Group's insurance subsidiaries in run-off, namely KX Re and PXRE. The objective for the Group is to reduce insurance liabilities by accelerating the natural run-off of the portfolios to enable extraction of capital with regulatory approval. The underwriting run-off profit for the period was $9.8 million and the Group reduced insurance liabilities by $19.7 million.

Run-off management

Run-off management is the results of the Group's providers of run-off management and consultancy services. The revenue comprises income from consultancy services, inspections performed, run-off fees and expenses recharged. Profit for the period was $2.4 million which was broadly in line with the business plan.

Other corporate activities

Other corporate activities summarises acquisition activity, the Group's investment in its associated undertaking CX Re, the change in the deferred consideration attributable to the sale of 87.35% of the shares of CX Re in March 2006 and the costs of developing the Group's business.

PXRE

The acquisition of PXRE was completed in the period and as a result of the acquisition $7.8 million profit has been reflected in the income statement, representing the difference between the total cost of the acquisition and the fair value of the net assets acquired.

CX Re

Through its remaining investment in CX Re and the deferred consideration, which is dependent on the ultimate earn-out of the company, the Group's results are affected by changes in the net assets of CX Re. The net assets of CX Re decreased by $11.6 million, detailed below, during the period to $80.5 million.

Net discounted claims reserves reduced in the period by $30 million to $182 million with a deterioration of $3.3 million.

During the first quarter an exercise was undertaken to review CX Re's future resource requirements. This resulted in the reduction of some 28 staff positions and the redundancy costs associated with this review were $1.5 million.

As reported in CX Re's 2007 annual accounts, the company continues to be exposed to the underperformance of the spread products market. The overall return as a result of the continuing global uncertainty surrounding spread products was a mark to market loss of $5 million on CX Re's portfolio, which resulted in an overall $1.5 million loss on portfolio performance for the period. CX Re continues to be affected by the effects of the credit spread on a mark to market basis. During the period CX Re has not had to make any write downs for impairment and the company will, in the context of liquidity requirements, continue to retain those securities with unrealised losses until the improvement of market conditions or the maturity of such investments. Cumulative unrealised losses in CX Re's balance sheet amount to $10 million which are expected to unwind as the investments approach maturity. The average credit rating of CX Re's investment portfolio remains at AA+.

Future prospects

As noted earlier in this report the market for acquiring business in run-off has seen increased competition and keen prices being paid. The Group's focus is moving away from the acquisition of UK risk carriers with more attention being given to the US and Continental Europe. In addition, the consulting business is receiving investment in new products and there are some innovative projects in sight. In the second half of 2008 and first half of 2009 considerable effort is being directed to consolidating the Group's UK run-offs into one risk carrier with a significant saving in costs and the release of surplus regulatory capital.

Tawa plc Condensed consolidated income statement

	Notes	**6 months 30 Jun 2008 $m**	6 months 30 Jun 2007 $m	12 months 31 Dec 2007 $m
Continuing operations				
Insurance premium revenue		**0.1**	–	–
Insurance premium ceded to reinsurers		**(0.1)**	–	–
Net earned premium revenue		**–**	–	–
Revenue		**11.9**	13.0	30.6
Investment return		**2.6**	1.2	11.5
Income		**14.5**	14.2	42.1
Insurance claims and loss adjustment expenses		**6.4**	0.4	5.0
Insurance claims and loss adjustment expenses recovered from reinsurers		**0.4**	(0.2)	1.2
Net insurance claims		**6.8**	0.2	6.2
Cost of services		**(7.0)**	(12.4)	(27.3)
Administrative expenses		**(6.4)**	(3.9)	(12.9)
Expenses		**(13.4)**	(16.3)	(40.2)
Results of operating activities		**7.9**	(1.9)	8.1
Share of results of associate		**(1.5)**	0.3	(0.8)
Negative goodwill recognised	11	**7.8**	41.5	41.3
Profit before finance costs		**14.2**	39.9	48.6
Finance costs		**(2.5)**	(0.5)	(2.8)
Profit before tax		**11.7**	39.4	45.8
Taxation		**–**	–	–
Profit for the year from continuing operations		**11.7**	39.4	45.8
Net (loss)/profit attributable to discontinued operations	4	**(10.3)**	2.4	(2.9)
Profit for the period		**1.4**	41.8	42.9
Attributable to:				
Equity holders of the Group		**1.4**	41.8	42.9
Earnings per share				
From continuing and discontinued operations	5			
Basic: Ordinary shares ($ per share)		**0.01**	0.41	0.42
Diluted: Ordinary shares ($ per share)		**0.01**	0.41	0.42
From continuing operations	5			
Basic: Ordinary shares ($ per share)		**0.11**	0.39	0.45
Diluted: Ordinary shares ($ per share)		**0.11**	0.39	0.45

Tawa plc Condensed consolidated balance sheet

	Notes	**30 Jun 2008 $m**	30 Jun 2007 $m	31 Dec 2007 $m
Assets				
Cash and cash equivalents		**53.9**	74.2	38.5
Investments: Debt and equity securities		**328.5**	123.1	165.0
Loans and receivables including insurance receivables		**40.4**	10.5	18.8
Reinsurers' share of technical provisions		**48.7**	19.2	18.1
Property, plant and equipment		**1.4**	0.7	0.1
Deferred assets	7	**94.4**	109.2	104.3
Interests in associate		**10.2**	12.9	11.8
Goodwill		**18.2**	18.2	18.2
Total assets		**595.7**	368.0	374.8
Equity				
Share capital	8	**22.2**	57.2	20.0
Share premium	8	**111.4**	–	85.2
Other reserve		**0.6**	–	–
Retained earnings		**129.2**	129.6	131.9
Total equity attributable to equity holders		**263.4**	186.8	237.1
Liabilities				
Creditors arising out of reinsurance operations		**68.7**	2.7	4.5
Other liabilities		**8.2**	6.8	6.8
Financial liabilities – borrowings	9	**66.0**	70.0	35.0
Technical provisions		**189.4**	101.7	91.4
Total liabilities		**332.3**	181.2	137.7
Total liabilities and equity		**595.7**	368.0	374.8

Tawa plc Condensed consolidated statement of changes in equity

	Issued capital $m	Share premium reserve $m	Other reserve $m	Retained earnings $m	Total $m
Balance at 1 January 2007	57.2	–	–	85.3	142.5
Currency translation differences	–	–	–	2.5	2.5
Profit for the period	–	–	–	41.8	41.8
Balance at 30 June 2007	57.2	–	–	129.6	186.8
Balance at 1 July 2007	57.2	–	–	129.6	186.8
Share capital restructure	(37.2)	–	–	–	(37.2)
Premium arising on issue of equity	–	90.9	–	–	90.9
Expenses on issue of equity	–	(5.7)	–	–	(5.7)
Currency translation differences	–	–	–	1.2	1.2
Profit for the period	–	–	–	1.1	1.1
Balance at 31 December 2007	20.0	85.2	–	131.9	237.1
Balance at 1 January 2008	20.0	85.2	–	131.9	237.1
Share issue	2.2	–	–	–	2.2
Premium arising on issue of equity shares	–	26.5	–	–	26.5
Expenses on issue of equity	–	(0.3)	–	–	(0.3)
Share based payments	–	–	0.6	–	0.6
Currency translation differences	–	–	–	(0.8)	(0.8)
Profit for the period	–	–	–	1.4	1.4
Dividends	–	–	–	(3.3)	(3.3)
Balance at 30 June 2008	**22.2**	**111.4**	**0.6**	**129.2**	**263.4**

Tawa plc Condensed consolidated cash flow statement

	Notes	**6 months 30 Jun 2008 $m**	6 months 30 Jun 2007 $m	12 months 31 Dec 2007 $m
Net cash from operations	10	**(8.4)**	(0.4)	(12.1)
Cash payments to acquire equity and debt securities		**(494.2)**	(19.2)	(256.5)
Cash receipts from sale of equity and debt securities		**515.3**	9.9	85.9
Cash transferred from investing activities		**(7.5)**	(37.9)	81.4
Cash receipts from interest		**4.5**	1.1	6.5
Acquisition of subsidiary net of cash and cash equivalents	11	**(49.4)**	45.0	44.6
Cash used in investing activities		**(31.3)**	(1.1)	(38.1)
Dividends paid		**(3.3)**	–	–
Proceeds from issue of equity shares	8	**28.4**	–	48.0
Proceeds from financial borrowings	9	**30.0**	70.0	70.0
Repayments of financial borrowings		**–**	–	(35.0)
Cash flows generated from financing activities		**55.1**	70.0	83.0
Net increase in cash and cash equivalents		**15.4**	68.5	32.8
Cash and cash equivalents at beginning of period		**38.5**	5.7	5.7
Cash and cash equivalents at end of period		**53.9**	74.2	38.5

1 General information

Tawa plc (the "Company") and its subsidiaries (together the "Group") are engaged in two principal business activities:

- The acquisition and run-off of insurance companies that have ceased underwriting, and
- The provision of run-off management services to acquired insurance companies.

The interim consolidated financial statements do not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and should be read in conjunction with the Company's consolidated financial statements for the year ended 31 December 2007. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not include a reference to any matters to which the auditors draw attention by way of emphasis without qualifying the report, and did not contain any statements under section 237(2) or (3) of the Companies Act 1985.

The interim results have been reviewed by the Group's auditors, Deloitte & Touche LLP, and their review report is set out on page 18.

2 Accounting policies

The annual financial statements of Tawa plc are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this interim report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2007.

3 Segmental information

Primary segment information – operating results by operating segment

The Group has 3 primary segments:

- Underwriting run-off;
- Run-off management services; and
- Other corporate activities.

3 Segmental information continued

Primary segment information – operating results by operating segment continued

Six months ended 30 June 2008

	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	Eliminations $m	**Total $m**
Continuing operations					
Insurance premium revenue	0.1	–	–	–	**0.1**
Insurance premium ceded to reinsurers	(0.1)	–	–	–	**(0.1)**
Net earned premium revenue	–	–	–	–	**–**
Revenue	–	21.1	0.6	(9.8)	**11.9**
Investment return	2.2	–	0.4	–	**2.6**
Income	2.2	21.1	1.0	(9.8)	**14.5**
Insurance claims and loss adjustment expenses	6.6	(1.1)	0.6	0.3	**6.4**
Insurance claims and loss adjustment expenses recovered from reinsurers	0.4	–	–	–	**0.4**
Net insurance claims	7.0	(1.1)	0.6	0.3	**6.8**
Cost of services	(0.1)	(16.4)	–	9.5	**(7.0)**
Administrative expenses	0.7	(1.2)	(5.9)	–	**(6.4)**
Expenses	0.6	(17.6)	(5.9)	9.5	**(13.4)**
Results of operating activities	9.8	2.4	(4.3)	–	**7.9**
Share of results of associate	–	–	(1.5)	–	**(1.5)**
Negative goodwill recognised	–	–	7.8	–	**7.8**
Profit before finance costs	9.8	2.4	2.0	–	**14.2**
Finance costs	–	–	(2.5)	–	**(2.5)**
Profit/(loss) before tax	9.8	2.4	(0.5)	–	**11.7**
Taxation	–	–	–	–	**–**
Profit/(loss) for the period from continuing operations	9.8	2.4	(0.5)	–	**11.7**
Loss for the year from discontinued operations	–	–	(10.3)	–	**(10.3)**
Profit/(loss) for the period	9.8	2.4	(10.8)	–	**1.4**

3 Segmental information continued

Primary segment information – operating results by operating segment continued

Six months ended 30 June 2007

	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	Eliminations $m	Total $m
Continuing operations					
Revenue	–	15.2	–	(2.2)	13.0
Investment return	0.7	0.3	0.2	–	1.2
Income	0.7	15.5	0.2	(2.2)	14.2
Insurance claims and loss adjustment expenses	0.1	–	–	0.3	0.4
Insurance claims and loss adjustment expenses recovered from reinsurers	(0.2)	–	–	–	(0.2)
Net insurance claims	(0.1)	–	–	0.3	0.2
Cost of services	–	(13.4)	(0.8)	1.8	(12.4)
Administrative expenses	(0.2)	(0.3)	(2.0)	(1.4)	(3.9)
Expenses	(0.2)	(13.7)	(2.8)	0.4	(16.3)
Results of operating activities	0.4	1.8	(2.6)	(1.5)	(1.9)
Share of results of associate	–	–	0.3	–	0.3
Negative goodwill recognised	–	–	41.5	–	41.5
Profit/(loss) before finance costs	0.4	1.8	39.2	(1.5)	39.9
Finance costs	–	–	(0.5)	–	(0.5)
Profit/(loss) before tax	0.4	1.8	38.7	(1.5)	39.4
Taxation	–	–	–	–	–
Profit/(loss) for the period from continuing operations	0.4	1.8	38.7	(1.5)	39.4
Profit for the period from discontinued operations	–	–	2.4	–	2.4
Profit/(loss) for the period	0.4	1.8	41.1	(1.5)	41.8

Primary segment information – balance sheet by operating segment

As at 30 June 2008

	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	**Total $m**
Investments, cash and cash equivalents	379.7	1.1	1.6	**382.4**
Reinsurers' share of technical provisions	45.6	–	3.1	**48.7**
Property, plant and equipment	–	1.4	–	**1.4**
Other assets	32.7	7.4	123.1	**163.2**
Total assets	458.0	9.9	127.8	**595.7**
Technical provisions	174.2	–	15.2	**189.4**
Financial liabilities – borrowings	–	–	66.0	**66.0**
Other liabilities and equity	69.3	5.8	265.2	**340.3**
Total liabilities and equity	243.5	5.8	346.4	**595.7**

3 Segmental information continued

Primary segment information – balance sheet by operating segment continued

As at 30 June 2007

	Underwriting run-off $m	Run-off management $m	Other corporate activities $m	Total $m
Investments, cash and cash equivalents	187.5	9.1	0.7	197.3
Reinsurers' share of technical provisions	19.2	–	–	19.2
Property, plant and equipment	–	0.7	–	0.7
Other assets	8.7	0.9	141.2	150.8
Total assets	215.4	10.7	141.9	368.0
Technical provisions	93.0	–	8.7	101.7
Financial liabilities – borrowings	–	–	70.0	70.0
Other liabilities and equity	2.7	–	193.6	196.3
Total liabilities and equity	95.7	–	272.3	368.0

Secondary segment information – geographical analysis

The Group's operations are located in the United Kingdom and the United States of America. The underwriting run-off segment is located in both countries; run-off management and other corporate activities are all carried out in the United Kingdom. All of the Group's revenue is derived from providing services within the United Kingdom irrespective of the origin of services. The following is an analysis of the assets and liabilities on a geographical basis.

	30 Jun 2008 $m	30 Jun 2007 $m	31 Dec 2007 $m
United Kingdom			
Assets	**349.6**	368.0	374.8
Liabilities	**162.5**	181.2	137.7
Assets and liabilities in the United Kingdom	**187.1**	186.8	237.1
United States of America			
Assets	**246.1**	–	–
Liabilities	**169.8**	–	–
Assets and liabilities in the United States of America	**76.3**	–	–

4 Discontinued operations

On 21 March 2006, the Company sold a significant proportion (87.35%) of its "A" shareholding in CX Reinsurance Company Limited to a consortium in which the Company participates. The majority of the consideration receivable is in the form of deferred consideration. The results of the discontinued operation which have been included in the consolidated income statement, are as follows:

	30 Jun 2008 $m	30 Jun 2007 $m	31 Dec 2007 $m
(Loss)/profit on sale of investment	**(10.3)**	2.4	(5.1)
Other income on sale of investment (see below)	**–**	–	2.2
Net (loss)/profit attributable to discontinued operations	**(10.3)**	2.4	(2.9)

Other income on the sale of investment relates to the receipt of a transaction facilitation fee by the Company with regards to the sale of shares in CX Reinsurance Company Limited. No tax is payable on the profit on sale of investment or other income on the sale of investment.

5 Earnings per share

	30 Jun 2008 $m	30 Jun 2007 $m	31 Dec 2007 $m
Earnings			
Earnings for the purposes of basic earnings per share from continuing and discontinued operations being net profit attributable to equity holders of the Group	**1.4**	41.8	42.9
Earnings for the purposes of basic earnings per share from continuing operations being net profit attributable to equity holders of the Group	**11.7**	39.4	45.8
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**105,589,733**	101,891,017	101,891,017
Effect of dilutive potential ordinary shares:			
Share options	**1,740,000**	–	1,015,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**107,329,733**	101,891,017	102,906,017
From continuing and discontinued operations			
Basic: Ordinary shares ($ per share)	**0.01**	0.41	0.42
Diluted: Ordinary shares ($ per share)	**0.01**	0.41	0.42
From continuing operations			
Basic: Ordinary shares ($ per share)	**0.11**	0.39	0.45
Diluted: Ordinary shares ($ per share)	**0.11**	0.39	0.45

6 Dividends

During the interim period a final dividend of 2.96 cents per share was paid to the shareholders.

7 Deferred assets

Deferred assets relate to the consideration outstanding on the disposal of a subsidiary CX Reinsurance Company Limited, as described in note 4. Part of the deferred consideration is related to the net asset value of CX Reinsurance Company Limited and is subject to net asset value adjustments through the income statement. Deferred consideration consists of $24.0 million (Jun 2007: $20.6 million, Dec 2007: $23.8 million) in respect of a transaction facilitation fee and $70.4 million (Jun 2007: $88.6 million, Dec 2007: $80.5 million) of proceeds on the disposal of CX Reinsurance Company Limited, a total of $94.4 million (Jun 2007: $109.2 million, Dec 2007; $104.3 million).

8 Share capital

Share capital as at 30 June 2008 amounted to $22.2 million. During the period the Group issued 11,096,147 £0.10 shares, increasing the shares in issue from 101,891,017 shares to 112,987,164 shares. The shares were issued at a premium of £1.20 per share increasing the premium reserves by $26.5 million. Against this was offset costs of raising capital of $0.3 million.

9 Financial liabilities – borrowings

The Group obtained an additional bank loan of $30 million on 27 March 2008. The loan bears interest at LIBOR plus 3.75% – 4.75% and is repayable by 31 March 2012. The proceeds were used to acquire subsidiary PXRE Reinsurance Company.

10 Net cash from operations

	6 months 30 Jun 2008			6 months 30 Jun 2007			12 months 31 Dec 2007		
	Continuing $m	**Discontinued $m**	**Total $m**	Continuing $m	Discontinued $m	Total $m	Continuing $m	Discontinued $m	Total $m
(Loss)/profit for the period	**11.7**	**(10.3)**	**1.4**	39.4	2.4	41.8	45.8	(2.9)	42.9
Adjustments for:									
– share of results of associate	**1.5**	**–**	**1.5**	(0.3)	–	(0.3)	0.8	–	0.8
– discontinued operations	**–**	**10.3**	**10.3**	–	(2.4)	(2.4)	–	2.9	2.9
– depreciation	**0.2**	**–**	**0.2**	(0.1)	–	(0.1)	0.7	–	0.7
– share based payment expense	**0.3**	**–**	**0.3**	–	–	–	0.3	–	0.3
– additions to fixed assets	**(1.5)**	**–**	**(1.5)**	–	–	–	–	–	–
– negative goodwill	**(7.8)**	**–**	**(7.8)**	(41.5)	–	(41.5)	(41.3)	–	(41.3)
– amortisation of risk premium	**(0.6)**	**–**	**(0.6)**	–	–	–	(4.0)	–	(4.0)
– investment return for the period transferred to investing activities	**(2.6)**	**–**	**(2.6)**	(1.5)	–	(1.5)	(11.5)	–	(11.5)
– (loss)/profit on foreign exchange	**(0.8)**	**–**	**(0.8)**	4.6	–	4.6	2.5	–	2.5
Change in operating assets and liabilities	**0.4**	**–**	**0.4**	0.6	–	0.6	(6.7)	–	(6.7)
Net decrease in insurance receivables and liabilities	**(12.4)**	**–**	**(12.4)**	(0.7)	–	(0.7)	(2.7)	–	(2.7)
Net increase/(decrease) in loans and receivables	**0.5**	**–**	**0.5**	(1.8)	–	(1.8)	(4.2)	–	(4.2)
Net increase in other operating liabilities	**1.4**	**–**	**1.4**	1.5	–	1.5	1.5	–	1.5
Cash used in operations	**(10.1)**	**–**	**(10.1)**	(0.4)	–	(0.4)	(12.1)	–	(12.1)
Interest paid	**1.7**	**–**	**1.7**	–	–	–	–	–	–
Net cash from operations	**(8.4)**	**–**	**(8.4)**	(0.4)	–	(0.4)	(12.1)	–	(12.1)

11 Business combinations

On 31 March 2008, 100% of the issued share capital of PXRE Reinsurance Company, an insurer in run-off, was acquired by WT Holdings Inc, a wholly owned subsidiary. This transaction has been accounted for by the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Book value $m	Fair value adjustments $m	Fair value on acquisition $m
Assets			
Cash and cash equivalents	10.3	–	10.3
Investments: Debt and equity securities	187.5	–	187.5
Loans and receivables including insurance receivables	22.6	–	22.6
Reinsurers' share of technical provisions	31.1	0.4	31.5
Liabilities			
Creditors arising out of reinsurance operations	62.8	2.8	65.6
Technical provisions	118.1	0.7	118.8
	70.6	(3.1)	67.5
Negative goodwill on acquisition			7.8
Consideration paid			59.7
Consideration paid net of cash and cash equivalents			49.4

In determining the fair value of PXRE Reinsurance Company's assets and liabilities acquired, the technical provisions have been increased to include an insurance risk premium which reflects managements' assessment of the uncertainty of the technical provisions acquired. At acquisition the risk premium was assessed at $8 million.

The acquisition was funded by a $30 million debt facility and the issue of new shares raising $28.4 million.

Since acquisition PXRE Reinsurance Company has contributed profits of $8.3 million after the elimination of intra-group income and expenses. If the acquisition of PXRE Reinsurance Company had been completed on the first day of the financial year, Group profit attributable to equity holders of the parent would have been $12.6 million.

12 Related party transactions

Associate – CX Reinsurance Company Limited

Two of the Company's subsidiaries, Tawa Management Limited and Tawa Consulting Limited, provide insurance run-off management services to CX Reinsurance Company Limited an associate of the Group in which the company has a 12.65% share interest and a 49.95% voting interest.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length. Run-off management expenses are recharged at cost by Tawa Management Limited and at an hourly charge out rate by Tawa Consulting Limited.

For the interim period to 30 June 2008 a run-off management fee of $2 million was charged to CX Reinsurance Company Limited by Tawa Management Limited and expenses recharged at cost amounted to $9.0 million. $0.1 million was charged by Tawa Consulting Limited.

On 18 June 2008 a sale and repurchase agreement was entered into between CX Reinsurance Company Limited and the Company's subsidiary, KX Reinsurance Company Limited. CX Reinsurance Company Limited sold a bond to KX Reinsurance Company Limited for $23.5 million with the option to repurchase this bond on 18 December 2008.

Key management personnel

The Group considers its key management personnel to include its executive and non executive Directors.

Remuneration of key management personnel

The remuneration of the Directors is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. For the period to 30 June 2008 this included 9 individuals (30 Jun 2007: 9, 31 Dec 2007: 9).

	30 Jun 2008 $m	30 Jun 2007 $m	31 Dec 2007 $m
Short-term employee benefits	**2.2**	0.3	1.6
Post-employment benefits	**0.4**	–	0.3
Management remuneration	**2.6**	0.3	1.9

Share and loan transactions with members of key management

As at 30 June 2008, the Group had no travel loans outstanding to key management (30 Jun 2007: $0.1 million, 31 Dec 2007: $0.1 million). Share based payments granted to the Directors in the period were $0.2 million (30 Jun 2007: $nil, 31 Dec 2007: $0.2 million).

Immediate and ultimate parent company

In the opinion of the Directors, the immediate and ultimate parent is Financière Pinault S.C.A., a Société en commandite par actions incorporated in France. The group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004 Paris, France.

13 Contingent liabilities

Certain of the Group's subsidiaries and its associate are routinely involved in litigation or potential litigation related to primarily the settlement of insurance claims liabilities. However, none of such actual or proposed litigation that had not been provided for met the definition of a contingent liability. Consequently, the Group had no insurance related, or other, contingent liabilities as at 30 June 2008 (30 Jun 2007 and 31 Dec 2007: no contingent liabilities).

14 Post balance sheet events

There are no post balance sheet events that require adjustment to, or disclosure in, the financial statements.

Introduction

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 consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 14. 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 AIM Rules of the London Stock Exchange.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRS 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 AIM Rules of the London Stock Exchange.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditor
London, UK
22 September 2008

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Chief Executive Officer

Colin Graham Bird
Chief Financial Officer

David Andrew Vaughan
Chief Operating Officer

Anthony John Hamilton
Independent Non-executive Director

John Joseph Hendrickson
Independent Non-executive Director

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