# CPPGROUP PLC

## 22 AUGUST 2013

## HALF YEAR REPORT

## FOR THE SIX MONTHS ENDED 30 JUNE 2013

**CPPGroup Plc**
**Half year report for the six months ended 30 June 2013**

CPPGroup Plc ("CPP" or the "Group") today publishes its results for the six months ended 30 June 2013.

**Overview**

- Important milestones achieved from which the Group can move forward
  - Secured three-year refinancing totalling approximately £36.0 million
  - Disposal of North American business completed for a consideration of £26.1 million
  - Cost reduction programme expected to result in approximately £9.0 million annualised benefit

- As expected, challenging trading conditions continue
  - Group revenue from continuing operations of £99.7 million (H1 2012 (restated): £136.9 million)
  - Underlying operating loss from continuing operations of £3.5 million (H1 2012 (restated): profit £14.0 million)
  - Loss for the period from continuing and discontinued operations is £2.6 million (H1 2012: profit £4.4 million)

- Renewal rates have declined from 73.5% at the year end to 71.3%; although stabilised in recent months

- Live policy base reduced to 7.9 million (H1 2012: 10.1 million) impacted by our performance in the UK

- Net funds position of £38.8 million (H1 2012: £8.0 million) – see note 5 to highlights table for analysis of net funds

- Past business review programme through a proposed Scheme of Arrangement formalised with the FCA and certain of the Group's Business Partners

- Outlook: despite the short to medium term challenges that remain, particularly until redress is completed, the Group's developing markets and focused new product development initiatives are expected to provide longer term growth prospects for the Group

**Paul Stobart, Chief Executive Officer, commented:**

"In the first half of the year, the Group has made good progress. A number of milestones have been achieved against the background of the current operating environment, which continues to affect our trading performance. We have refinanced the Group, disposed of the North American business, restructured our UK business and reduced our costs for the next phase of the Group's development.

We are in the early stages of rebuilding the Group and although challenges and uncertainties remain, particularly in relation to the upcoming past business review programme, we are focused on moving the business forward with a view to realising the potential opportunities that will deliver our future growth."

As announced on 3 May 2013, the Group completed the sale of its North American business to AMT Warranty Corp. ("AmTrust"). As a result, this statement focuses on the performance of the continuing operations of the Group.

| **Highlights – Continuing Operations** | Six months ended 30 June 2013 | Six months ended 30 June 2012[1] |
|---|---|---|
| Revenue (£ millions) | 99.7 | 136.9 |
| Operating (loss)/profit (£ millions) | | |
| – Reported | (9.7) | 2.3 |
| – Underlying[2] | (3.5) | 14.0 |
| (Loss)/profit before tax (£ millions) | | |
| – Reported | (11.7) | 1.7 |
| – Underlying[2] | (5.4) | 13.4 |
| (Loss)/profit after tax (£ millions) | | |
| – Reported | (15.8) | 0.7 |
| – Underlying[3] | (9.6) | 9.6 |
| (Loss)/profit for the period[4] (£ millions) | (2.6) | 4.4 |
| Basic (loss)/earnings per share (pence) | | |
| – Reported | (9.23) | 0.44 |
| – Underlying | (5.60) | 5.65 |
| Net funds[5] (£ millions) | 38.8 | 8.0 |

1. Restated to reflect the North American operation as discontinued.
2. Underlying operating (loss)/profit and underlying (loss)/profit before tax exclude exceptional items £6.2 million (H1 2012: £11.8 million). Further detail is provided in note 4 to the condensed financial statements.
3. Underlying (loss)/profit after tax exclude exceptional items net of tax £6.2 million (H1 2012: £8.9 million). The tax effect of the exceptional items is £nil (H1 2012: £2.9 million). Further detail is provided in note 4 to the condensed financial statements.
4. (Loss)/profit for the period includes profit after tax from continuing and discontinued operations.
5. Net funds comprises cash and cash equivalents of £62.6 million (H1 2012: £51.2 million) partially offset by bank loans of £23.8 million (H1 2012: £43.2 million). Cash and cash equivalents includes cash held for regulatory purposes of £21.8 million (H1 2012: £22.8 million) and cash restricted by the terms of the VVOPs within the UK's regulated entities of £29.8 million (H1 2012: £nil). Whilst not available to the wider Group, the restricted cash is available to the regulated entity in which it exists including for operational and customer redress purposes.

A conference call for investors and analysts will be held on 22 August 2013 at 8:00 a.m. (BST). For dial in details please contact Tulchan Communications on 020 7353 4200 or via e-mail cpp@tulchangroup.com

*Note: Financial Conduct Authority ("FCA") (or, as the context may require, the Financial Services Authority as predecessor entity thereto prior to 1 April 2013)*

**Enquiries**

Investor Relations
CPPGroup Plc
Paul Stobart, Chief Executive Officer
Shaun Parker, Chief Financial Officer
Tel: +44 (0)1904 544702

Helen Spivey, Head of Corporate and Investor Communications
Tel: +44 (0)1904 544387

Media
Tulchan Communications: David Allchurch; Martin Robinson
Tel: +44 (0)20 7353 4200

This half year report is available for download at www.cppgroupplc.com

**REGISTERED OFFICE**

CPPGroup Plc
Holgate Park
York
YO26 4GA

Registered number: 07151159

**NOTES TO EDITORS**

CPPGroup Plc ("CPP" or "The Group") is an International Assistance business operating in the UK and overseas with more than 200 Business Partners worldwide. Via its Business Partners, CPP provides Life Assistance products to consumers, which includes annually renewed and packaged products that provide assistance and insurance across a wide range of market sectors designed to make everyday life easier to manage.

## CHIEF EXECUTIVE OFFICER'S REVIEW

### OVERVIEW

The Group has achieved much in the first half of 2013 to support the repositioning of the Group and stabilise the business for the future. We successfully refinanced the Group, disposed of our North American business, implemented a restructuring programme in the UK and put in place initiatives aimed at cost reduction and cash management. In parallel, we have continued the work to reposition the Group as a customer-led business as well as made further on-going improvements to our governance, compliance and risk management capabilities.

A key priority for the Group in the period has been to ensure that we have appropriate borrowing facilities in place. As announced on 31 July 2013, we have agreed new financing arrangements comprising an extended three year facility with our existing lenders and an agreement with certain Business Partners to defer future commission payments for up to four years. The new financing arrangements will support the payment of redress to customers where required and provide working capital for the Group. The redress is estimated at response rates that the Board, on advice, believes to be appropriate; however, there remains material uncertainty as to the total amount payable under the Scheme of Arrangement.

In May 2013, the Group announced its intention to reposition the business model and reduce costs substantially in order to align its cost base with its current circumstances. The resulting restructuring programme is delivering against its objectives and was completed as planned in the UK, incurring an exceptional charge of £3.9 million. The annual net reduction in costs is expected to be approximately £9.0 million. Regrettably, our people have been impacted as a result of cost-reduction initiatives, particularly in the UK, which have inevitably resulted in many long standing and valued colleagues leaving the business.

As part of the restructuring and reflecting the Group's much reduced scale, Shaun Parker, CFO, and I will step down from our respective roles once an appropriate handover period is completed. The Group is at an advanced stage to appoint successors who will lead the Group forward. In addition, as announced in June 2013, Mr Hamish Macgregor Ogston CBE, a Non-Executive Director and founder of the business stepped down from the Board with effect from 28 June 2013.

### OPERATIONAL PERFORMANCE

The Group's operating performance for the first half, as expected, continues to reflect the difficult operating environment. Group revenue from continuing operations has declined to £99.7 million (H1 2012 (restated): £136.9 million). This is primarily due to reduced Card Protection and Identity Protection renewal revenue and reduced Mobile Phone Insurance ("MPI") revenue in the UK together with adverse economic and market conditions in some of our operations overseas. This results in an underlying operating loss from continuing operations of £3.5 million (H1 2012 (restated): profit £14.0 million). The loss for the period from continuing and discontinued operations is £2.6 million (H1 2012: profit £4.4 million). Renewal rates have declined from 73.5% at the year end to 71.3% (H1 2012: 75.3%), although have stabilised in recent months. The live policy base has reduced to 7.9 million (H1 2012: 10.1 million) reflecting the decline in retail assistance policies principally due to a reduction in UK Card Protection and Identity Protection policy holders and loss of the RBS MPI contract in the UK when it expired in March 2013.

### REFINANCING

On 3 May 2013, the Group completed the sale of the North American business (CPPNA Holdings Inc. and its subsidiaries) to AmTrust for a total cash consideration of £26.1 million ($40 million). The sale allowed the Group to amend and extend its existing bank facility until 30 September 2013, subsequently leading to the refinancing agreed with our existing lenders and certain Business Partners as announced on 31 July 2013. This financing, of approximately £36.0 million, comprises a total amount available under an extended facility with our existing lenders of £13.0 million, which will fall due for repayment on 31 July 2016, together with a total amount of commission due for payment to certain Business Partners between July 2013 and June 2014 of approximately £23.0 million, which will be deferred for repayment on 31 July 2017. As previously communicated on 31 July 2013, the bank facility contains covenants and events of default. There is a significant risk that trading and customer redress uncertainties could impact the Group's ability to comply with the terms of these borrowing facilities.

**CUSTOMER REDRESS**

The Group and certain of its Business Partners have now formalised a past business review programme with the FCA. The solvent Scheme of Arrangement ("Scheme") is the proposed vehicle through which CPP and certain of its Business Partners can review claims and, where appropriate, pay redress to customers that may have been affected as a result of historical issues in the UK business, in and before 2011. The proposed Scheme requires a vote in favour from customers and approval by the Court before it becomes effective. Initial customer contact letters will be issued towards the end of August and customers will then be invited towards the end of the year to vote on the Scheme and to return their voting forms. If customers vote in favour of the Scheme it then requires approval from the High Court, expected to be in the first quarter of 2014. Only once the Scheme is approved by the Court will the claims review process commence and redress paid as appropriate to those who are entitled.

The Group will only be responsible for funding redress paid under the Scheme to customers to whom it sold the products directly. Due to the uncertainty of how many customers will respond to the past business review programme through the proposed Scheme, there remains material uncertainty as to the total amount payable under the Scheme, which is currently expected to be determined in the first quarter of 2015. Consequently, the Group will continue to face uncertainty in the short to medium term.

Total costs and provisions made in the Group's financial statements have increased from £51.7 million at 31 December 2012 to £54.0 million. The fine instalment of £2.0 million, due by 1 June 2013 under the settlement agreed with the FCA, has, with FCA agreement, been deferred until April 2014, on the basis that the Scheme of Arrangement goes ahead.

**LOOKING AHEAD**

Our priorities place great emphasis on reshaping our business model and reducing our costs to reflect the Group's changed circumstances. In parallel, our commitment is to manage redress effectively through the proposed Scheme and continue to work on the initiatives and enhancements agreed with the FCA which has placed restrictions on the Group's regulated entities in the form of the Voluntary Variations of Permissions ("VVOP") agreed with the FCA in November 2012. We will also work towards developing differentiated products and service offerings as we seek to generate future revenue with particular focus on emerging and developing markets. We intend to maintain and strengthen current Business Partner relationships as well as secure new partnerships.

We are in the early stages of rebuilding the Group and there is much work ahead. Our efforts are clearly focused on moving the business forward and realising the potential opportunities which will deliver growth in the future. In the longer term and once customer redress is concluded, the Group will have a stronger position to take advantage of future opportunities. Nonetheless, challenges and uncertainties remain and performance for 2013 is expected to be significantly lower than 2012 reflecting the trends of the first half of the year. The Group, however, is expected to continue to generate operating cash flow during 2013. The Board believes that the changes we have made and the actions we are taking to reshape our business represent the right combination, providing a more stable environment from which we can accomplish our goals.

## FINANCIAL AND OPERATING REVIEW

### SUMMARY

This review includes analysis of the underlying performance of the Group, which excludes exceptional items. We believe that the underlying figures aid comparison and understanding of the Group's financial performance.

The Group completed the sale of its North American business, CPPNA Holdings Inc. and its subsidiaries to AmTrust on 3 May 2013 for a consideration of £26.1 million ($40 million). Consequently the North American business is presented as a discontinued operation within this review. This review focuses on the performance of the continuing operations of the Group.

On a constant currency basis, Group revenue has declined by 28% for the half year to £99.7 million, principally due to the UK from reduced Card Protection and Identity Protection renewals and the loss of the T-Mobile and RBS MPI contracts in October 2012 and March 2013 respectively.

Our performance in the first half of the year changed from a reported operating profit in 2012 to a reported operating loss of £9.7 million (H1 2012: profit £2.3 million). Underlying operating loss, which excludes exceptional items is £3.5 million (H1 2012: underlying operating profit £14.0 million). This has been impacted by UK factors including lower Card Protection and Identity Protection sales and increased Packaged and wholesale direct costs, partially offset by reduced overheads, which reflects the benefit of measures taken in 2012 to reduce the overhead base.

In calculating underlying operating loss, the Group's results are adjusted to arrive at measures that better reflect its underlying performance. Reported operating loss is adjusted for customer redress and associated costs for the period which are £2.4 million; this additional provision reflects our latest estimate of customer redress and associated costs to the Group. A further adjustment for restructuring costs of £3.9 million relates to redundancy costs that have been incurred as part of the Group's overall review of its cost base, along with costs associated with the closure of the Chesterfield office in the UK. Further detail of the exceptional items is provided in note 4 to the condensed financial statements.

Our performance after tax from continuing operations has moved from a reported profit after tax in 2012 to a reported loss after tax of £15.8 million (H1 2012: profit after tax £0.7 million). Underlying loss after tax, which excludes exceptional items, is £9.6 million. Underlying loss per share is 5.60 pence (H1 2012: underlying earnings per share 5.65 pence); basic loss per share is 9.23 pence (H1 2012: earnings per share 0.44 pence).

In light of current operating performance, the Group will not be declaring an interim dividend for 2013 and is unlikely to declare dividends during 2014.

Discontinued operations, which represent the Group's North American business, delivered profit after tax of £13.3 million, which includes £10.4 million profit on the disposal of the business and £2.9 million profit after tax in relation to the trading results of the segment prior to disposal. Further detail is provided in note 8 to the condensed financial statements.

The Group's reported loss for the period is £2.6 million (H1 2012: profit £4.4 million), which reflects the total of continuing and discontinued operations.

Net funds at 30 June 2013 were £38.8 million, an increase of £25.2 million from our position at 31 December 2012, due principally to the disposal of the North American business, the net proceeds of which were used to part repay the existing bank facility.

## KEY PERFORMANCE INDICATORS

| **Continuing operations** | **Six months ended 30 June 2013** | Six months ended 30 June 2012 (restated)[1] | Year ended 31 December 2012 (restated)[1] |
|---|---|---|---|
| New assistance income (£ millions) (see table below) | **14.0** | 21.6 | 43.9 |
| Annual renewal rate (%) | **71.3** | 75.3 | 73.5 |
| Live policies (millions) (see table below) | **7.9** | 10.1 | 9.1 |
| Cost/income ratio (%) | **74** | 60 | 61 |
| Operating (loss)/profit margin (%)[2] | **(3.5)** | 10.3 | 9.7 |

1. Continuing operations have been restated to reflect the North American operation as discontinued.
2. Underlying operating (loss)/profit as a percentage of revenue.

| **New assistance income (£ millions)** | **Six months ended 30 June 2013** | Six months ended 30 June 2012 | Year ended 31 December 2012 |
|---|---|---|---|
| Retail products | **5.1** | 7.2 | 14.9 |
| Packaged and wholesale | **8.9** | 14.4 | 29.0 |
| Total | **14.0** | 21.6 | 43.9 |

| **Live policies (millions)** | **Six months ended 30 June 2013** | Six months ended 30 June 2012 | Year ended 31 December 2012 |
|---|---|---|---|
| Retail assistance policies | **4.4** | 5.6 | 5.0 |
| Retail insurance policies | **0.4** | 0.6 | 0.5 |
| Packaged and wholesale policies | **3.2** | 3.9 | 3.7 |
| Total | **7.9** | 10.1 | 9.1 |

New assistance income for the half year decreased 35% to £14.0 million. The decline is principally due to reduced Packaged Account and Airport Angel sales in the UK, which reflects lost contracts in the period.

The Group annual renewal rate at 71.3%, calculated on a moving annual total basis, has declined from 73.5% at 31 December 2012. This is the result of the expected decline in Card Protection and Identity Protection renewal rates in the UK due to a combination of changes in the renewal process implemented in late 2012, continued adverse publicity surrounding the Group and general economic factors in the UK. However, notwithstanding the impact of these factors, the UK rate is beginning to stabilise.

The live policy base is 1.2 million lower than reported at 31 December 2012, mostly reflecting the loss of the RBS MPI contract in the UK when it expired in March 2013. Outside of the UK the policy base has declined marginally.

The cost/income ratio has increased from 60% to 74% due largely to the UK as a result of declining Card Protection and Identity Protection renewal revenue and increasing direct costs attached to our wholesale MPI, partly offset by a reducing overhead base following the redundancy programme in 2012.

As expected, the underlying operating margin at the half year has moved from a profit in 2012 to a loss of 3.5% (H1 2012: profit 10.3%). This movement is due to a decline in Card Protection and Identity Protection renewal revenue and reduced wholesale margins in the UK as a result of increased direct costs.

## REGIONAL PERFORMANCE

### Northern Europe

Operating in the UK, Ireland, Germany and Turkey; Northern Europe, which accounts for 79% of Group half year revenue, continued to be impacted by a challenging operating environment primarily as a result of restricted sales and reduced Card Protection and Identity Protection renewal revenues in the UK and loss of Business Partner contracts. Revenue has decreased 30% on a constant currency basis compared to the same period in 2012 to £79.2 million (H1 2012: £113.6 million) resulting in an underlying operating loss for the half year to £6.3 million (H1 2012: profit £10.4 million).

In the UK, as a consequence of the challenging operating environment revenue for the six months to 30 June 2013 declined 33% due to the impact of reduced Card Protection and Identity Protection renewal revenue and reduced MPI revenue following the loss of the T-Mobile and RBS contracts in October 2012 and March 2013 respectively. This combination has resulted in a much reduced operational scale in the UK and subsequently, a significant restructuring programme has recently been completed.

Within the UK business, we have implemented a new organisation structure in order to reduce our costs in line with our current circumstances. This has also resulted in a reduction in the number of roles in the UK, including senior management. Shaun Astley-Stone, interim UK Managing Director, has now stepped down following completion of a planned handover period. The UK operation has transitioned from our previous framework of four strategic business units to two strategic business units focused on insurance (intermediation and underwriting) and assistance products (including Airport Angel) respectively, each led by a General Manager.

The Santander (UK) contract for the provision of benefits and services relating to Packaged Accounts in the UK will cease from October 2013, as previously indicated. This will result in reduced revenue from the fourth quarter of 2013 and significantly lower revenue and profit for the Packaged Account business in the UK in 2014 and beyond.

Revenue reduced in our Airport Angel business due to the loss of a significant Business Partner in the period. Our focus continues to be to develop the product offering and grow the customer base to support future revenue growth. We were pleased to secure a new contract in the first half of 2013.

Our revenue performance in Ireland, Germany and Turkey has developed in line with our expectations during the period.

Home 3, the Group's joint venture with Mapfre Asistencia has developed at a slower rate than anticipated. In view of the requirement to reposition the business model and review of the Group's core propositions, the Group is currently reviewing the strategic fit of this joint venture.

### Southern Europe and Latin America

Operating in Spain, Italy, Portugal, France, Brazil and Mexico; Southern Europe & Latin America, which accounts for 17% of Group half year revenue, has continued the trends reflective of the challenging operating environment, primarily in the Eurozone. Revenue has decreased 17% on a constant currency basis compared to the same period in 2012 to £17.2 million (H1 2012: £20.0 million). Reflective of the operating environment and as a result of the UK VVOP restrictions which had an impact in Italy, Portugal and Spain, underlying operating profit has consequently declined to £3.8 million (H1 2012: £4.6 million), 20% lower on a constant currency basis. The Group has implemented changes to reduce the impact of these restrictions which has included obtaining local authorisation to sell insurance products. We were pleased to confirm relationships with new Business Partners, including Samsung in Italy providing MPI, and in addition have launched new campaigns in Spain. Our performance in Latin America has realised revenue growth in Mexico and market entry activities continued in Brazil.

## Asia Pacific

Asia Pacific, which represents 3% of Group half year revenue, operates in Hong Kong, Singapore, Malaysia, India and China. Revenue reduced marginally, by 1% on a constant currency basis compared to the same period in 2012 at £3.3 million (H1 2012: £3.3 million). Operating losses reduced on a constant currency basis by 14% to £0.7 million (H1 2012: £0.8 million), although the development of this region continues to be impacted by challenging trading conditions.

## North America

*Disposal*

On 3 May 2013 the Group completed the sale of its North American business for a total cash consideration of £26.1 million ($40 million) to AmTrust, a Delaware corporation and wholly owned subsidiary of AmTrust Financial Services, Inc.

## TOTAL CUSTOMER REDRESS AND ASSOCIATED COSTS

| | **H1 2013 £'m** | 2012 £'m | 2011 £'m | Total £'m |
|---|---|---|---|---|
| Redress of CPP direct sales | **1.4** | 8.4 | 7.7 | 17.5 |
| Other redress | **0.5** | 5.8 | 2.1 | 8.4 |
| Complaints redress | **0.5** | 2.7 | - | 3.2 |
| Regulatory penalties[1] | **-** | 8.5 | 2.0 | 10.5 |
| Advisor fees | **-** | 9.4 | 5.1 | 14.5 |
| **Total** | **2.4** | 34.8 | 16.9 | 54.0 |

1. £2.0 million of which has been paid and £8.5 million is recognised in current and non-current payables

The Group has incurred expenditure on, and provided for, customer redress and associated costs and regulatory penalties. The total cost is currently estimated to be £54.0 million, of which £51.7 million has been recognised in prior periods. £20.7 million of the provision within the balance sheet has already been utilised. The remaining provision at 30 June 2013 is £24.8 million, with £21.0 million estimated as the remaining cost of the customer redress element of the overall provision.

## TAXATION

Our effective tax rate at the half year is negative 35.9% (H1 2012: 60.1%) as a result of UK trading losses and overseas trading profits which cannot be offset. In addition to this, the de-recognition of a deferred tax asset in respect of capital allowances in the UK has further increased the charge as the Group does not expect taxable profits to arise within the UK in the immediate future. Similarly, no deferred tax asset has been recognised on surplus taxable losses arising in the period. All taxable profit has been generated in overseas territories.

**BALANCE SHEET, FINANCING AND CASH FLOW**

| | **June 2013 £'m** | December 2012 £'m |
|---|---|---|
| Non-current assets | **26.3** | 33.2 |
| Assets held for sale | **-** | 20.0 |
| Other current assets | **100.2** | 109.8 |
| | **100.2** | 129.8 |
| Provisions | **(26.5)** | (29.0) |
| Bank loan | **(23.8)** | (43.4) |
| Other current liabilities | **(66.3)** | (66.5) |
| Liabilities associated with assets held for sale | **-** | (7.1) |
| | **(116.6)** | (146.0) |
| Net current liabilities | **(16.4)** | (16.2) |
| Non-current liabilities | **(4.0)** | (7.2) |
| Total net assets | **5.9** | 9.7 |

At the balance sheet date, the Group has consolidated net assets of £5.9 million, a decrease from the position at the 31 December 2012 due to the losses recognised in the period. Net assets held for sale are £nil (31 December 2012: £12.9 million) reflecting the disposal of the North American business on 3 May 2013. Provisions of £26.5 million (31 December 2012: £29.0 million) are predominantly for customer redress and associated costs. It is anticipated that the provision will be fully utilised within twelve months. Bank loans have reduced to £23.8 million (31 December 2012: £43.4 million), reflecting an £18.5 million repayment in the period funded principally by the disposal of the North American business.

On 31 July 2013, the Group confirmed new financing arrangements totalling approximately £36.0 million. The arrangement comprises £13.0 million being provided by a three year extension of the debt facility to 31 July 2016 and approximately £23.0 million being provided through a twelve month deferral of future commission payments to certain Business Partners, with repayment due on 31 July 2017. The agreements, of which the commission deferral is subordinate to the bank facility, are subject to certain covenants and events of default as announced on 31 July 2013. There is a significant risk that trading and customer redress uncertainties could impact the Group's ability to comply with the terms of these agreements.

As a result of the financing arrangement noted above, the shape of the balance sheet is changing post 30 June 2013. The bank loan of £23.8 million (£25.0 million debt net of £1.2 million debt issue costs) disclosed in current liabilities has now been replaced by a £13.0 million non-current liability representing the three year facility. The commission deferral agreement will result in the incremental build-up of a non-current liability as the commissions are deferred on a monthly basis over a period of twelve months to June 2014. The new financing arrangements will therefore, result in current borrowings being replaced by non-current borrowings, reflecting the medium term stability the arrangement provides.

Net finance costs for the half year have increased by £1.3 million to £1.9 million, reflecting the amortisation of £1.3 million (H1 2012: £0.4 million) debt issue costs in the period and £0.3 million arrangement fee in relation to the two week facility extension in April 2013.

The Group had net funds of £38.8 million at 30 June 2013 an increase from £13.6 million at 31 December 2012, as a result of net disposal proceeds from the North American business and favourable working capital movements, partially offset by fees paid in relation to the refinancing arrangements. The Group's insurance business maintains cash deposits for solvency purposes which were £21.8 million (H1 2012: £22.8 million) at 30 June 2013. The working capital requirement has reduced by £14.2 million (H1 2012: increase £10.2 million) during the period reflecting the conclusion of certain Packaged Account and wholesale contracts and settlement of associated balances along with a reduction in the Group's insurance balances.

**CONTINGENT LIABILITIES**

There remains material uncertainty in some of the Group's operations and the industry in which it operates in the UK. The uncertainties include possible industry-wide action by the FCA with regard to products that the UK business sells together with the thematic review conducted by the FCA into MPI products, which could result in claims or other matters being raised against the Group.

The Directors have considered the above matters and have decided no definitive conclusions can be formed at this stage. Therefore, there is no provision of any related contingent liabilities. Further detail is provided in note 15 to the condensed financial statements.

**RELATED PARTY TRANSACTIONS**

Related party transactions, comprise transactions with our Home 3 joint venture, an agreement to reimburse certain costs incurred by Mr Hamish Macgregor Ogston CBE, incentive arrangements with certain North America employees in relation to the disposal of the North American business and remuneration of key management personnel. These related party transactions are disclosed in note 17 to the condensed financial statements. There have been no material changes to the related party transactions described in our 2012 Annual Report and Accounts.

**RISKS AND UNCERTAINTIES**

The Group's risk management framework is designed to identify and assess the likelihood and consequences of risk and to manage the actions necessary to mitigate their impact.

Set out below are the known principal risks and uncertainties which could have a material impact on the Group together with the corresponding mitigating actions that have been taken. Additional risks not currently known, or which are currently regarded as immaterial, could also affect future performance.

**Financial risks**

***Risk:*** Liquidity/Capital.

***Status:*** High risk; Improving from year end.

***Nature of risk and potential impact:***
There remains uncertainty as to the total amount payable under the past business review programme through the proposed Scheme. This, together with the on-going regulatory restrictions in respect of regulated sales in the UK, continues to place constraints on the Group's cash flow.

There is a risk that trading and customer redress uncertainties could impact the Group's ability to comply with the terms of the borrowing facilities. Further detail on the risk is provided in the going concern statement.

***Mitigation:***
The Group has considerably reduced its cost base following the restructure programme announced on 16 May 2013 and has introduced new controls to ensure that all expenditure is necessary and timed appropriately. These measures are to ensure that the Group is able to comply with the terms of the new financing arrangements.

**Market risks**

***Risk:*** Economic and political.

***Status:*** Medium risk; No change from year end.

***Nature of risk and potential impact:***
The Group operates in a number of countries including some in the Eurozone. This means that the Group is exposed to economic, political and business risks such as global recession, sudden regulatory change, currency controls and volatility of taxes.

***Mitigation:***
The Group Executive Committee (“GEC”) and Group Operations Committee (“GOC”) monitor macro-economic trends, industry specific and internal indicators.

Operating in diversified geographic markets mitigates the risk of over-exposure to any one country.

***Risk:*** Competitive markets.

***Status:*** Medium risk; No change from year end.

***Nature of risk and potential impact:***
The Group operates in a very competitive market place where customer decisions are typically based on quality, price and service. On-going media speculation may also result in customers seeking alternative suppliers for their insurance and assistance service requirements.

***Mitigation:***
The GEC closely monitors market activity.

The Group’s strategy is to place the customer at the heart of its consideration of any potential developments.
The Group constantly seeks new distribution partners and conducts research and strategy planning towards innovative product development.

**Operational risks**

***Risk:*** Regulatory.

***Status:*** High risk; Reduced from year end.

***Nature of risk and potential impact:***
Although the Group has worked closely to address issues identified by the FCA, there can be no certainty the FCA will not seek to pursue further action against parts of the Group.

Improved controls in our UK business have identified further areas for improvement around systems, processes and business rules. It is possible that as our improved governance process and policies are rolled out across our overseas territories, similar weaknesses to those already known in the UK may be identified.

***Mitigation:***
The management are in constant communication with the FCA with a view to concluding the necessary outstanding actions.

The UK business has worked closely with the FCA on a series of agreed improvement activities and continues to work on an improvement programme that is expected to extend into 2014.

At the same time the Board recognises the need to continue to improve its oversight of activities in the territories outside the UK and has already taken steps to ensure that it has improved management information. During the second half of 2013, a new self-certification programme will be introduced to demonstrate compliance with a set of Group wide operational standards.

***Risk:*** Key Supplier Contracts.

***Status:*** Medium risk; Reduced from year end.

***Nature of risk and potential impact:***
The Group places considerable reliance on external suppliers for the fulfilment of services. Due to the nature of the operations there are occasions where the Group has an exposure to, and is at risk from the failure of a single supplier.

***Mitigation:***
The Group has taken the opportunity to improve its controls and where possible consider ways to mitigate the risks posed by exposure to a single supplier. This has included identifying and contracting with alternative suppliers.

***Risk:*** Business Partner Retention/Attraction.

***Status:*** High risk; No change from year end.

***Nature of risk and potential impact:***
The reputational damage arising from the publicity of the regulatory actions in the UK and in addition, the sales restrictions as a result of the VVOP in the UK and its impact on EEA jurisdictions may result in increased difficulty to retain commercial relationships or create new partnerships. This may have a detrimental impact on anticipated future revenue.

***Mitigation:***
With three year refinancing secured, the Board and senior management team are working on a new strategy for the UK that includes the development of new innovative products, new market sectors and diversified channels to market.

***Risk:*** Data Security.

***Status:*** Medium risk; No change from year end.

***Nature of risk and potential impact:***
The nature of the Group's business means that either the Group or its key Business Partners retain a considerable amount of sensitive data on behalf of its customers. Any breach of data security may result in a significant adverse impact on customers and damage to the reputation of the Group.

***Mitigation:***
The Group has a programme of work to support the implementation of solutions which meet PCI DSS standards.

***Risk:*** People & Resources.

***Status:*** High risk; Increased from year end.

***Nature of risk and potential impact:***
In order to reduce costs and align resources to the restructured business model, the Group has implemented a redundancy programme in the first half of 2013. This, together with attrition due to uncertainty around the future of the Group, has placed increased workload on those people who remain. In addition, changes to the Board and senior management may result in a period of uncertainty and further loss of business knowledge.

***Mitigation:***
The Directors have in place a monitoring system to understand the impact on the Group and its employees to ensure that the Group continues to improve its customer centricity and improved operational efficiency.

**GOING CONCERN**

In reaching their view on the preparation of the Group's financial statements on a going concern basis, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The Group has made progress since the release of the Annual Report and Accounts in April 2013. The Group has agreed new financing arrangements for a total of approximately £36 million, with £13 million being provided by a three year extension of the debt facility to 31 July 2016 and approximately £23 million being provided through a twelve month deferral of commission payments to certain Business Partners, with repayment due on 31 July 2017. The disposal of the North American business has been completed with the net disposal proceeds being used to repay part of the debt facility. Additionally measures taken by the Group to address its cost base, such as redundancy programmes in the UK in 2012 and 2013, closure of the Chesterfield site in the UK in May 2013, a streamlining of the Group's organisational structure and other cost saving initiatives, such as reductions in capital expenditure, have had and will continue to have a beneficial impact on the Group's overhead base.

Nevertheless, in spite of this progress a level of uncertainty remains. The Directors have considered the risks and uncertainties facing the Group, which include trading, customer redress and liquidity, together with actions taken by the Directors to address them. In this assessment the Directors have, amongst other things, taken the following into consideration:

Operational and trading matters

- The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's review. The trading results, particularly in the UK have been and will continue to be adversely affected by the agreement of the Group's subsidiaries Card Protection Plan Ltd ("CPPL") and Homecare Insurance Limited ("HIL") with the FCA to the VVOPs in November 2012. Amongst other requirements, the VVOPs do not permit CPPL or HIL to make new sales of regulated retail products. CPPL and HIL make up the majority of the Group's sales in the UK and in certain EEA countries specifically Italy, Ireland and Portugal. In addition, the CPPL past business review exercise agreed with the FCA, together with the associated publicity, will have an adverse impact on the Group's ability to generate new business and renew business with existing customers.

- As noted above, the Group has taken a number of actions to align its operations with the reduced size of its business, particularly in the UK. There is a risk that following implementation of these initiatives, operational resources may be impacted adversely in the short term, preventing the business from continuing to operate effectively.

Regulatory issues and customer redress uncertainties

- The potential impact of customer redress on the continued resources which may be required by the business, including a number of assumptions around the customer response rates within a past business review exercise. There is a risk that the response rates may reach a level which cannot be funded under the revised funding arrangements. Although the Scheme has been formalised, it is not certain that the Scheme will proceed.

- The Directors have identified and disclosed contingent liabilities which are detailed in note 15 of the condensed financial statements. These contingencies relate to uncertainty in some of the Group's operations and the industry in which it operates in the UK. These include possible industry-wide action by the FCA with regard to products that the UK business sells together with a thematic review conducted by the FCA into Mobile Phone Insurance products which could result in other claims or matters being raised against the Group. However, at present the FCA has not expressed any final view and as a result the Directors have determined that no definitive conclusions can be formed at this stage.

Uncertainties relating to liquidity

- As noted above, the Group has agreed to a financing arrangement for approximately £36 million, comprising a £13 million extension to the bank debt facility and approximately £23 million debt via future Business Partner commission deferral. The extended debt facility is subject to a number of financial covenants, which include a covenant relating to a maximum level of response rates in a past business review exercise. The Business Partner commission deferral agreement, although subordinate, provides substantially the same security as that granted under the bank debt facility. There is a risk that response rates in a past business review exercise or continued business performance result in the Group being unable to satisfy the covenants, which could lead to the lending banks or Business Partners seeking repayment of the facility or exercising their right to security over assets.

- The financial position of the Group, its cash flows and liquidity position are described in the Financial and Operating Review. The Group's liquidity has been impacted by the requirement to fund redress and the CPPL and HIL VVOPs which restrict the disposition of their assets, which has resulted in significant cash balances being held and maintained in these entities.

Given the possible impact of trading and customer redress uncertainties, and the effect this could have on compliance with the terms of the borrowing facilities, there is material uncertainty that casts significant doubt as to the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

However, having considered the above uncertainties and all the available information, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly the Directors have continued to adopt the going concern basis in preparing the condensed financial statements.

On behalf of the Board

**Paul Stobart**
**Chief Executive Officer**
21 August 2013

**Shaun Parker**
**Chief Financial Officer**

## CONDENSED FINANCIAL STATEMENTS
## CONSOLIDATED INCOME STATEMENT

| | Note | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 restated (note 2) £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Revenue | | **99,705** | 136,904 | 269,869 |
| Cost of sales | | **(63,871)** | (81,083) | (162,295) |
| **Gross profit** | | **35,834** | 55,821 | 107,574 |
| **Administrative expenses** | | | | |
| Exceptional items | 4 | **(6,231)** | (11,788) | (43,942) |
| Other administrative expenses | | **(39,101)** | (41,617) | (80,902) |
| **Total administrative expenses** | | **(45,332)** | (53,405) | (124,844) |
| Share of loss of joint venture | | **(226)** | (156) | (477) |
| **Operating (loss)/profit** | | | | |
| Operating (loss)/profit before exceptional items | | **(3,493)** | 14,048 | 26,195 |
| **Operating (loss)/profit after exceptional items** | | **(9,724)** | 2,260 | (17,747) |
| Investment revenues | | **185** | 298 | 580 |
| Other gains and losses | | **-** | - | (891) |
| Finance costs | | **(2,113)** | (897) | (1,869) |
| **(Loss)/profit before taxation** | | **(11,652)** | 1,661 | (19,927) |
| Taxation | 5 | **(4,181)** | (999) | (1,474) |
| **(Loss)/profit for the period from continuing operations** | | **(15,833)** | 662 | (21,401) |
| **Discontinued operations** | | | | |
| Profit for the period from discontinued operations | 8 | **13,257** | 3,786 | 4,171 |
| **(Loss)/profit for the period** | | **(2,576)** | 4,448 | (17,230) |
| **Attributable to:** | | | | |
| Equity holders of the Company | | **(2,576)** | 4,535 | (17,118) |
| Non-controlling interests | | - | (87) | (112) |
| | | **(2,576)** | 4,448 | (17,230) |
| **Basic (loss)/earnings per share:** | | | | |
| Continuing operations | 7 | **(9.23)** | 0.44 | (12.42) |
| Discontinued operations | 7 | **7.73** | 2.21 | 2.43 |
| | | **(1.50)** | 2.65 | (9.98) |
| **Diluted (loss)/earnings per share:** | | | | |
| Continuing operations | 7 | **(9.23)** | 0.43 | (12.42) |
| Discontinued operations | 7 | **7.73** | 2.16 | 2.43 |
| | | **(1.50)** | 2.60 | (9.98) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| (Loss)/profit for the period | **(2,576)** | 4,448 | (17,230) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translation of foreign operations | **264** | (8) | (616) |
| Currency translation differences reclassified on disposal | **(1,618)** | - | - |
| **Other comprehensive expenses for the period net of taxation** | **(1,354)** | (8) | (616) |
| **Total comprehensive (expense)/income for the period** | **(3,930)** | 4,440 | (17,846) |
| **Attributable to:** | | | |
| Equity holders of the Company | **(3,930)** | 4,527 | (17,734) |
| Non-controlling interests | - | (87) | (112) |
| | **(3,930)** | 4,440 | (17,846) |

## CONSOLIDATED BALANCE SHEET

| | Note | **30 June 2013 £'000 (Unaudited)** | 30 June 2012 £'000 (Unaudited) | 31 December 2012 £'000 (Audited) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 9 | **1,478** | 16,362 | 1,478 |
| Other intangible assets | 9 | **12,664** | 19,475 | 15,458 |
| Property, plant and equipment | 9 | **12,186** | 13,640 | 13,316 |
| Investment in joint venture | | - | - | - |
| Deferred tax asset | | **7** | 1,961 | 2,902 |
| | | **26,335** | 51,438 | 33,154 |
| **Current assets** | | | | |
| Insurance assets | | **9,774** | 36,143 | 27,241 |
| Inventories | | **312** | 331 | 299 |
| Trade and other receivables | | **27,517** | 36,895 | 29,034 |
| Cash and cash equivalents | 10 | **62,554** | 51,205 | 53,198 |
| | | **100,157** | 124,574 | 109,772 |
| Assets classified as held for sale | 8 | - | - | 20,007 |
| | | **100,157** | 124,574 | 129,779 |
| **Total assets** | | **126,492** | 176,012 | 162,933 |
| **Current liabilities** | | | | |
| Insurance liabilities | | **(6,823)** | (8,276) | (7,525) |
| Income tax liabilities | | **(2,817)** | (2,467) | (2,379) |
| Trade and other payables | | **(56,665)** | (68,836) | (56,587) |
| Bank loans | 11 | **(23,768)** | (43,225) | (43,408) |
| Provisions | 12 | **(26,532)** | (20,339) | (28,967) |
| | | **(116,605)** | (143,143) | (138,866) |
| Liabilities directly associated with assets held for sale | 8 | - | - | (7,130) |
| | | **(116,605)** | (143,143) | (145,996) |
| **Net current liabilities** | | **(16,448)** | (18,569) | (16,217) |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | | **(745)** | (832) | (716) |
| Trade and other payables | | **(3,250)** | - | (6,500) |
| | | **(3,995)** | (832) | (7,216) |
| **Total liabilities** | | **(120,600)** | (143,975) | (153,212) |
| **Net assets** | | **5,892** | 32,037 | 9,721 |
| **Equity** | | | | |
| Share capital | 13 | **17,118** | 17,109 | 17,111 |
| Share premium account | | **33,293** | 33,299 | 33,297 |
| Merger reserve | | **(100,399)** | (100,399) | (100,399) |
| Translation reserve | | **486** | 2,448 | 1,840 |
| Equalisation reserve | | **8,140** | 7,188 | 7,984 |
| ESOP reserve | | **11,708** | 11,856 | 11,638 |
| Retained earnings | | **35,546** | 60,787 | 38,250 |
| **Total equity attributable to equity holders of the company** | | **5,892** | 32,288 | 9,721 |
| Non-controlling interests | | - | (251) | - |
| **Total equity** | | **5,892** | 32,037 | 9,721 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital £'000 | Share premium account £'000 | Merger reserve £'000 | Translation reserve £'000 | Equalisation reserve £'000 | ESOP reserve £'000 | Retained earnings £'000 | Total £'000 | Non-controlling interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **6 months ended 30 June 2013 (Unaudited)** | | | | | | | | | | |
| At 1 January 2013 | 17,111 | 33,297 | (100,399) | 1,840 | 7,984 | 11,638 | 38,250 | 9,721 | - | 9,721 |
| Total comprehensive income | - | - | - | (1,354) | - | - | (2,576) | (3,930) | - | (3,930) |
| Movement on equalisation reserve | - | - | - | - | 156 | - | (156) | - | - | - |
| Current tax charge on equalisation reserve movement | - | - | - | - | - | - | 36 | 36 | - | 36 |
| Equity settled share based payment charge | - | - | - | - | - | 70 | - | 70 | - | 70 |
| Exercise of share options | 7 | (4) | - | - | - | - | (8) | (5) | - | (5) |
| **At 30 June 2013** | 17,118 | 33,293 | (100,399) | 486 | 8,140 | 11,708 | 35,546 | 5,892 | - | 5,892 |
| **6 months ended 30 June 2012 (Unaudited)** | | | | | | | | | | |
| At 1 January 2012 | 17,106 | 32,300 | (100,399) | 2,456 | 6,423 | 11,606 | 56,824 | 27,316 | (164) | 27,152 |
| Total comprehensive income | - | - | - | (8) | - | - | 4,535 | 4,527 | (87) | 4,440 |
| Movement on equalisation reserve | - | - | - | - | 765 | - | (765) | - | - | - |
| Current tax charge on equalisation reserve movement | - | - | - | - | - | - | 193 | 193 | - | 193 |
| Equity settled share based payment | - | - | - | - | - | 253 | - | 253 | - | 253 |
| Exercise of share options | 3 | (1) | - | - | - | (3) | - | (1) | - | (1) |
| **At 30 June 2012** | 17,109 | 33,299 | (100,399) | 2,448 | 7,188 | 11,856 | 60,787 | 32,288 | (251) | 32,037 |
| **Year ended 31 December 2012 (Audited)** | | | | | | | | | | |
| At 1 January 2012 | 17,106 | 33,300 | (100,399) | 2,456 | 6,423 | 11,606 | 56,824 | 27,316 | (164) | 27,152 |
| Total comprehensive income | - | - | - | (616) | - | - | (17,118) | (17,734) | (112) | (17,846) |
| Movement on equalisation reserve | - | - | - | - | 1,561 | - | (1,561) | - | - | - |
| Current tax charge on equalisation reserve movement | - | - | - | - | - | - | 382 | 382 | - | 382 |
| Equity settled share based payment charge | - | - | - | - | - | 34 | - | 34 | - | 34 |
| Deferred tax on share based payment charge | - | - | - | - | - | - | (1) | (1) | - | (1) |
| Exercise of share options | 5 | (3) | - | - | - | (2) | - | - | - | - |
| Adjustment arising from change in non-controlling interest | - | - | - | - | - | - | (276) | (276) | 276 | - |
| **At 31 December 2012** | 17,111 | 33,297 | (100,399) | 1,840 | 7,984 | 11,638 | 38,250 | 9,721 | - | 9,721 |

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|---|
| **Net cash from operating activities** | 14 | **11,279** | 509 | 11,086 |
| **Investing activities** | | | | |
| Interest received | | **196** | 303 | 589 |
| Purchases of property, plant and equipment | | **(240)** | (1,028) | (2,485) |
| Purchases of intangible assets | | **(1,677)** | (2,461) | (3,807) |
| Cash consideration in respect of sale of discontinued operations | | **26,086** | - | - |
| Costs associated with disposal of discontinued operations | | **(4,841)** | - | (905) |
| Cash disposed of with discontinued operations | | **(3,731)** | - | - |
| Investment in joint venture | | **(226)** | (156) | (477) |
| **Net cash generated by / (used in) investing activities** | | **15,567** | (3,342) | (7,085) |
| **Financing activities** | | | | |
| Repayment of bank loans | | **(18,500)** | - | - |
| Interest paid | | **(529)** | (735) | (1,520) |
| Cost of refinancing | | **(2,724)** | - | - |
| Issue of ordinary share capital | | **3** | 2 | 2 |
| **Net cash used in financing activities** | | **(21,750)** | (733) | (1,518) |
| **Net increase / (decrease) in cash and cash equivalents** | | **5,096** | (3,566) | 2,438 |
| Effect of foreign exchange rate changes | | **423** | (153) | (372) |
| Cash and cash equivalents at start of period | | **57,035** | 54,924 | 54,924 |
| **Cash and cash equivalents at end of period** | | **62,554** | 51,205 | 57,035 |
| Analysed as: | | | | |
| Continuing operations | 10 | **62,544** | 46,704 | 53,198 |
| Discontinued operations | | **-** | 4,501 | 3,837 |
| | | **62,544** | 51,205 | 57,035 |

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 1 General information

The information for the year ended 31 December 2012 does not constitute statutory accounts as defined under Section 434 of the Companies Act 2006. A copy of the statutory financial accounts for that year has been delivered to the Registrar of Companies. The Auditor, Deloitte LLP, reported on these financial statements; their report was unqualified, but contained an emphasis of matter paragraph referring to material uncertainties relating to the Group's ability to continue as a going concern in the light of operational and trading uncertainties; regulatory issues and customer redress uncertainties; and uncertainties relating to liquidity and funding; as well as material uncertainties in relation to the quantification of the provision in relation to customer redress and possible future contingent expenditures. The report of the auditors on these financial statements did not contain statements under s498 (2) or (3) of the Companies Act 2006.

## 2 Accounting policies

### Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

This condensed consolidated financial information should be read in conjunction with the Annual Report and Financial Statements ("the Financial Statements") for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial information was approved for release on 21 August 2013.

In preparing the condensed consolidated interim financial information the comparative amounts for the six months ended 30 June 2012 have been restated to reflect the North American operation as discontinued.

In the current financial year, the Group has adopted the amendments to IAS 1 "Presentation of Items of Other Comprehensive Income", IAS 19 (revised 2011) "Employee Benefits" and IFRS 13 "Fair Value Measurement". The adoption of these standards has not had any material impact on the Group. Otherwise, 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.

The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified, together with their associated income tax. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income has been restated to reflect the change. The effect of these changes is evident from the condensed consolidated statement of comprehensive income.

### Going concern

The Directors have considered the Group's business activities and financial resources, together with the principal risks, uncertainties and other factors likely to affect its future development, performance and position. Having taken account of these factors the Directors have, at the time of approving the condensed financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the condensed financial statements. Further details of the Directors' assessment are set out in the Financial and Operating Review.

### 3 Segmental analysis

Segment revenues and performance for the current and comparative periods have been as follows:

| | **Northern Europe** | **Southern Europe and Latin America** | **Asia Pacific** | **Total** |
|---|---|---|---|---|
| **Six months ended 30 June 2013 (Unaudited)** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Continuing operations** | | | | |
| Revenue - external sales | **79,186** | **17,236** | **3,283** | **99,705** |
| Regional operating (loss)/profit before exceptional items and joint ventures | **(6,343)** | **3,814** | **(738)** | **(3,267)** |
| Exceptional items (note 4) | | | | **(6,231)** |
| Share of loss of joint venture | | | | **(226)** |
| **Operating loss after exceptional items and joint ventures** | | | | **(9,724)** |
| Investment revenues | | | | **185** |
| Finance costs | | | | **(2,113)** |
| **Loss before taxation** | | | | **(11,652)** |
| Taxation | | | | **(4,181)** |
| Loss for the period from continuing operations | | | | **(15,833)** |
| **Discontinued operations** | | | | |
| Profit for the period from discontinued operations (note 8) | | | | **13,257** |
| **Loss for the period** | | | | **(2,576)** |

| | Northern Europe | Southern Europe and Latin America | Asia Pacific | Total |
|---|---|---|---|---|
| **Six months ended 30 June 2012 –restated (note 2) (Unaudited)** | £'000 | £'000 | £'000 | £'000 |
| **Continuing operations** | | | | |
| Revenue - external sales | 113,566 | 20,043 | 3,295 | 136,904 |
| Regional operating profit / (loss) before exceptional items and joint ventures | 10,443 | 4,574 | (813) | 14,204 |
| Exceptional items (note 4) | | | | (11,788) |
| Share of loss of joint venture | | | | (156) |
| **Operating profit after exceptional items and joint ventures** | | | | 2,260 |
| Investment revenues | | | | 298 |
| Finance costs | | | | (897) |
| **Profit before taxation** | | | | 1,661 |
| Taxation | | | | (999) |
| Profit for the period from continuing operations | | | | 662 |
| **Discontinued operations** | | | | |
| Profit for the period from discontinued operations (note 8) | | | | 3,786 |
| **Profit for the period** | | | | 4,448 |

### 3 Segmental analysis (continued)

| Year ended 31 December 2012 (Audited) | Northern Europe £'000 | Southern Europe and Latin America £'000 | Asia Pacific £'000 | Total £'000 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Revenue - external sales | 225,775 | 37,550 | 6,544 | 269,869 |
| Regional operating profit / (loss) before exceptional items and joint ventures | 19,669 | 8,110 | (1,107) | 26,672 |
| Exceptional items (note 4) | | | | (43,942) |
| Share of loss of joint venture | | | | (477) |
| **Operating loss after exceptional items and joint ventures** | | | | (17,747) |
| Investment revenues | | | | 580 |
| Other gains and losses | | | | (891) |
| Finance costs | | | | (1,869) |
| **Loss before taxation** | | | | (19,927) |
| Taxation | | | | (1,474) |
| Loss for the year from continuing operations | | | | (21,401) |
| **Discontinued operations** | | | | |
| Profit for the year from discontinued operations (note 8) | | | | 4,171 |
| **Loss for the year** | | | | (17,230) |

For the purposes of resource allocation and assessing performance, operating costs and revenues are allocated to the regions in which they are earned or incurred. The above does not reflect additional annual net charges of central costs of £1,542,000 presented within Northern Europe in the tables above which has been charged to other regions for statutory purposes.

**Segmental assets**

| | **30 June 2013 £'000 (Unaudited)** | 30 June 2012 £'000 (Unaudited) | 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| Northern Europe | **115,715** | 138,347 | 127,732 |
| Southern Europe and Latin America | **6,886** | 7,947 | 8,244 |
| Asia Pacific | **2,406** | 1,873 | 2,570 |
| **Total segment assets** | **125,007** | 148,167 | 138,546 |
| Assets relating to discontinued operations | **-** | 9,522 | 7,783 |
| Unallocated assets | **1,485** | 18,323 | 16,604 |
| **Consolidated total assets** | **126,492** | 176,012 | 162,933 |

Goodwill, deferred tax and investments in joint ventures are not allocated to segments.

## 3 Segmental analysis (continued)

### Revenues from major products

| | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| **Continuing operations** | | | |
| Retail assistance policies | **61,801** | 86,237 | 163,766 |
| Retail insurance policies | **16,411** | 20,751 | 41,174 |
| Packaged and wholesale policies | **20,719** | 26,279 | 56,649 |
| Non-policy revenue | **774** | 3,637 | 8,280 |
| Total continuing operations | **99,705** | 136,904 | 269,869 |
| **Discontinued operations** | **15,634** | 26,005 | 49,802 |
| | **115,339** | 162,909 | 319,671 |

Major product streams are disclosed on the basis monitored by the Board of Directors. For the purpose of this product analysis, "retail assistance policies" are those which may be insurance backed but contain a bundle of assistance and other benefits; "retail insurance policies" are those which protect against a single insurance risk; "packaged and wholesale policies" are those which are provided by Business Partners to their customers in relation to an on-going product or service which is provided for a specified period of time; "non-policy revenue" are those which are not in connection with providing an on-going service to policyholders for a specified period of time.

### Geographical information

The Group operates across a wide number of territories, of which the UK and Spain are considered individually material. Revenue from external customers and non-current assets (excluding investments in joint ventures and deferred tax) by geographical location are detailed below.

| | **External revenues** | | | **Non-current assets** | | |
|---|---|---|---|---|---|---|
| | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
| **Continuing operations** | | | | | | |
| UK | **71,637** | 106,290 | 211,186 | **24,328** | 34,999 | 28,159 |
| Spain | **10,650** | 11,896 | 21,620 | **508** | 510 | 529 |
| Other | **17,418** | 18,718 | 37,063 | **1,492** | 990 | 1,564 |
| Total continuing operations | **99,705** | 136,904 | 269,869 | **26,328** | 36,499 | 30,252 |
| **Discontinued operations** | **15,634** | 26,005 | 49,802 | **-** | 12,978 | 12,481 |
| | **115,339** | 162,909 | 319,671 | **26,328** | 49,477 | 42,733 |

## 4 Exceptional items

| | 6 months ended 30 June 2013 £'000 (Unaudited) | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| Customer redress and associated costs | **2,350** | 7,495 | 26,273 |
| Regulatory penalties | **-** | - | 8,500 |
| Restructuring costs | **3,926** | 4,097 | 4,874 |
| Strategic project costs | **(45)** | - | 388 |
| Impairment of goodwill and intangible assets | **-** | - | 3,711 |
| Legacy scheme share based payments | **-** | 196 | 196 |
| **Exceptional items included in operating (loss)/profit** | **6,231** | 11,788 | 43,942 |
| Tax on exceptional items | **-** | (2,851) | (5,663) |
| **Total exceptional items after tax** | **6,231** | 8,937 | 38,279 |

The £2,350,000 customer redress and associated costs in the six month period relate to the further costs estimated to compensate customers and professional fees associated with a customer redress exercise.

The £3,926,000 restructuring costs in the six month period relate to redundancy programmes and associated costs across the Group, along with costs associated with the closure of the Chesterfield office. The majority of this cost is recognised in the UK.

The tax credit arising in respect of these items is £nil (H1 2012: £2,851,000) as a result of no tax relief being available due to surplus tax losses existing in the UK Group.

## 5 Taxation

Tax for the six month period is charged at negative 35.9% (six months ended 30 June 2012; 60.1%, year ended 31 December 2012: negative 7.4%), a result of UK trading losses and overseas trading profits which cannot be offset. In addition to this, the de-recognition of a deferred tax asset in respect of capital allowances in the UK has further increased the charge as the Group does not expect taxable profits to arise within the UK in the immediate future. No deferred tax asset has been recognised on surplus taxable losses arising in the period. The 2013 full year rate may vary from this due to the territory mix of future 2013 profits.

## 6 Dividends

The Directors have not proposed an interim dividend for 2013.

## 7 (Loss)/earnings per share

Basic and diluted (loss)/earnings per share have been calculated in accordance with IAS 33 "Earnings per Share". Underlying (loss)/earnings per share have also been presented in order to give a better understanding of the performance of the business.

| **Six months ended 30 June 2013 (Unaudited)** | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| **(Loss)/earnings** | £'000 | £'000 | £'000 |
| (Loss)/earnings for the purposes of basic and diluted earnings per share | (15,833) | 13,257 | (2,576) |
| Exceptional items (net of tax) | 6,231 | (10,398) | (4,167) |
| **(Loss)/earnings for the purposes of underlying basic and diluted earnings per share** | (9,602) | 2,859 | (6,743) |

| **Number of shares** | Number (thousands) |
|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share | 171,515 |

| **(Loss)/earnings per share** | Continuing operations Pence | Discontinued operations Pence | Total Pence |
|---|---|---|---|
| Basic and diluted (loss)/earnings per share: | | | |
| Basic and diluted shares | (9.23) | 7.73 | (1.50) |
| Basic and diluted underlying (loss)/earnings per share: | | | |
| Basic and diluted shares | (5.60) | 1.67 | (3.93) |

## 7 (Loss)/earnings per share (continued)

| Six months ended 30 June 2012 (Unaudited) | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| **Earnings** | £'000 | £'000 | £'000 |
| Earnings for the purposes of basic and diluted earnings per share | 749 | 3,786 | 4,535 |
| Exceptional items (net of tax) | 8,937 | - | 8,937 |
| **Earnings for the purposes of underlying basic and diluted earnings per share** | 9,686 | 3,786 | 13,472 |

| **Number of shares** | Number (thousands) |
|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 171,439 |
| Effect of dilutive potential ordinary shares: share options | 3,112 |
| **Weighted average number of ordinary shares for the purposes of diluted earnings per share** | 174,551 |

| **Earnings per share** | Continuing operations Pence | Discontinued operations Pence | Total Pence |
|---|---|---|---|
| Basic and diluted earnings per share: | | | |
| Basic shares | 0.44 | 2.21 | 2.65 |
| Diluted shares | 0.43 | 2.16 | 2.60 |
| Basic and diluted underlying earnings per share: | | | |
| Basic shares | 5.65 | 2.21 | 7.86 |
| Diluted shares | 5.55 | 2.16 | 7.72 |

| Year ended 31 December 2012 (Audited) | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| **(Loss)/earnings** | £'000 | £'000 | £'000 |
| (Loss)/earnings for the purposes of basic and diluted earnings per share | (21,289) | 4,171 | (17,118) |
| Exceptional items (net of tax) | 38,279 | 2,608 | 40,887 |
| **Earnings for the purposes of underlying basic and diluted earnings per share** | 16,990 | 6,779 | 23,769 |

| **Number of shares** | Number (thousands) |
|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share | 171,457 |
| Effect of dilutive potential ordinary shares on underlying earnings: share options | 4,095 |
| **Weighted average number of ordinary shares for the purposes of underlying diluted earnings per share** | 175,552 |

| **(Loss)/earnings per share** | Continuing operations Pence | Discontinued operations Pence | Total Pence |
|---|---|---|---|
| Basic and diluted (loss)/earnings per share: | | | |
| Basic and diluted shares | (12.42) | 2.43 | (9.98) |
| Basic and diluted underlying earnings per share: | | | |
| Basic shares | 9.91 | 3.95 | 13.86 |
| Diluted shares | 9.68 | 3.86 | 13.54 |

## 8 Discontinued operations

On 3 May 2013, the Group completed the sale of CPPNA Holdings Inc. and its subsidiaries, which carried out all of the Group's North American operations. The gross consideration on disposal was fixed at £26.1 million ($40 million). The effect of the disposal is as follows:

| | **6 months ended 30 June 2013 £'000 (Unaudited)** |
|---|---|
| Proceeds | **26,086** |
| Net assets sold | **(14,042)** |
| Costs associated with disposal | **(3,264)** |
| Currency translation differences reclassified on disposal | **1,618** |
| Profit on disposal | **10,398** |

Profit from discontinued operations comprises the following:

| | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| Revenue | **15,634** | 26,005 | 49,802 |
| Cost of sales | **(7,962)** | (14,139) | (26,578) |
| Gross profit | **7,672** | 11,866 | 23,224 |
| Administrative expenses | **(3,902)** | (6,708) | (13,138) |
| Operating profit | **3,770** | 5,158 | 10,086 |
| Investment revenues | **10** | 5 | 9 |
| Finance costs | **-** | (18) | (18) |
| Profit before taxation | **3,780** | 5,145 | 10,077 |
| Taxation | **(921)** | (1,359) | (3,191) |
| Profit after tax | **2,859** | 3,786 | 6,886 |
| Profit/(loss) on disposal | **10,398** | - | (2,715) |
| Total profit | **13,257** | 3,786 | 4,171 |

Operating results for the 6 months ended 30 June 2013 reflects the trading performance of the North American business up to the disposal date, being 3 May 2013. Comparative information reflects a complete six month and twelve month period respectively.

## 8 Discontinued operations (continued)

Following the sale of the North American operation, the Group has no assets or liabilities classified as held for sale. The major classes of assets and liabilities of the North American operation held for sale at 31 December 2012 were as follows:

| | Year ended 31 December 2012 £'000 (Audited) |
|---|---|
| **Assets** | |
| **Non-current assets** | |
| Goodwill | 11,934 |
| Other intangible assets | 204 |
| Property, plant and equipment | 343 |
| Deferred tax asset | 290 |
| | 12,771 |
| **Current assets** | |
| Trade and other receivables | 3,399 |
| Cash and cash equivalents | 3,837 |
| | 7,236 |
| **Total assets held for sale** | 20,007 |
| | |
| **Liabilities** | |
| **Current liabilities** | |
| Trade and other payables | (6,530) |
| Income tax liabilities | (469) |
| | (6,999) |
| **Non-current liabilities** | |
| Other creditors | (131) |
| | (131) |
| **Total liabilities held for sale** | (7,130) |
| **Net Assets held for sale** | 12,877 |

## 9 Tangible and intangible assets

| | Goodwill £'000 | Other intangible assets £'000 | Property, plant and equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Six months ended 30 June 2013 (Unaudited)** | | | | |
| Carrying amount at 1 January 2013 | **1,478** | **15,458** | **13,316** | **30,252** |
| Additions | **-** | **810** | **131** | **941** |
| Disposals | **-** | **(113)** | **(45)** | **(158)** |
| Depreciation / amortisation | **-** | **(3,486)** | **(1,285)** | **(4,771)** |
| Exchange adjustments | **-** | **(5)** | **69** | **64** |
| **Carrying amount at 30 June 2013** | **1,478** | **12,664** | **12,186** | **26,328** |
| **Six months ended 30 June 2012 (Unaudited)** | | | | |
| Carrying amount at 1 January 2012 | 16,521 | 22,626 | 14,473 | 53,620 |
| Additions | - | 1,360 | 687 | 2,047 |
| Disposals | - | (64) | (2) | (66) |
| Depreciation / amortisation | - | (4,458) | (1,543) | (6,001) |
| Exchange adjustments | (159) | 11 | 25 | (123) |
| **Carrying amount at 30 June 2012** | 16,362 | 19,475 | 13,640 | 49,477 |
| **Year ended 31 December 2012 (Audited)** | | | | |
| Carrying amount at 1 January 2012 | 16,521 | 22,626 | 14,473 | 53,620 |
| Additions | - | 3,549 | 2,177 | 5,726 |
| Disposals | - | (519) | (28) | (547) |
| Depreciation / amortisation | - | (8,750) | (2,898) | (11,648) |
| Exchange adjustments | (539) | (103) | (65) | (707) |
| Impairment | (2,570) | (1,141) | - | (3,711) |
| Transfer to assets classified as held for sale | (11,934) | (204) | (343) | (12,481) |
| **Carrying amount at 31 December 2012** | 1,478 | 15,458 | 13,316 | 30,252 |

### 10 Cash and cash equivalents

Cash and cash equivalents of £62,554,000 includes cash deposits maintained by the Group’s insurance businesses for solvency purposes of £21,779,000 (H1 2012: £22,839,000). The terms of the VVOPs agreed with the FCA restrict the disposition of assets within the UK’s regulated entities CPPL and HIL. Cash balances held within CPPL and HIL which cannot be distributed to the wider Group, without FCA approval, amounts to £29,829,000. This restricted cash although unavailable to distribute to the wider Group, is available to the regulated entity in which it exists including for operational and customer redress purposes. Since the balance sheet date the Group’s restricted cash balances have reduced following FCA approval to release £12,000,000 of the balance held in CPPL to part repay the extended bank facility.

### 11 Bank loans

| | **30 June 2013** | 30 June 2012 | 31 December 2012 |
|---|---|---|---|
| | **£'000** | £'000 | £'000 |
| | **(Unaudited)** | (Unaudited) | (Audited) |
| Repayments due within one year | **25,000** | 43,500 | 43,500 |
| Less: unamortised issue costs | **(1,232)** | (275) | (92) |
| **Bank loans due within one year** | **23,768** | 43,225 | 43,408 |

The Group has extended the term of the existing bank facility for a period of three years to 31 July 2016, further details are provided in note 16.

The bank facility is secured by fixed and floating charges on certain assets of the Group.

## 12 Provisions

| | Cash settled share based payments | Customer redress and associated costs | Restructuring costs | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Six months ended 30 June 2013 (Unaudited)** | | | | |
| At 1 January 2013 | **-** | **28,967** | **-** | **28,967** |
| Charged to the income statement | **-** | **2,350** | **1,750** | **4,100** |
| Customer redress and associated costs paid in the period | **-** | **(6,535)** | **-** | **(6,535)** |
| **At 30 June 2013** | **-** | **24,782** | **1,750** | **26,532** |
| **Six months ended 30 June 2012 (Unaudited)** | | | | |
| At 1 January 2012 | 894 | 14,778 | - | 15,672 |
| Charged to the income statement | 3 | 7,495 | - | 7,498 |
| Customer redress and associated costs paid in the period | - | (1,934) | - | (1,934) |
| Loan notes repaid in the period | (897) | - | - | (897) |
| **At 30 June 2012** | - | 20,339 | - | 20,339 |
| **Year ended 31 December 2012 (Audited)** | | | | |
| At 1 January 2012 | 894 | 14,778 | - | 15,672 |
| Charged to the income statement | 3 | 26,273 | - | 26,276 |
| Customer redress and associated costs paid in the period | - | (12,084) | - | (12,084 ) |
| Loan notes repaid in the period | (897) | - | - | (897) |
| **At 31 December 2012** | - | 28,967 | - | 28,967 |

Provisions in respect of cash settled share based payments represent loan notes issued by employees to the Group. The loan notes became fully vested in March 2012 and were redeemed in full at that time.

The customer redress and associated cost provision comprises anticipated compensation payable to customers through a redress exercise and professional fees associated with the customer redress exercise. Customer redress and associated costs are expected to be settled within one year of the balance sheet date.

The restructuring cost provision relates to costs associated with restructuring programmes.

## 13 Share capital

Share capital at 30 June 2013 amounted to £17,118,000, having increased from £17,111,000 at 31 December 2012. During the period the Company issued 75,847 ordinary shares for cash consideration of £3,000 to option holders under its share option schemes.

## 14 Reconciliation of operating cash flows

| | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| (Loss)/profit for the period | **(2,576)** | 4,448 | (17,230) |
| **Adjustment for:** | | | |
| Depreciation and amortisation | **4,771** | 6,001 | 11,648 |
| Equity settled share based payment expense | **70** | 253 | 34 |
| Impairment loss on goodwill and intangible assets | **-** | - | 3,711 |
| Loss on disposal of property, plant and equipment | **158** | 62 | 135 |
| (Profit)/loss associated with disposal of discontinued operation | **(10,398)** | - | 2,715 |
| Share of loss of joint venture | **226** | 156 | 477 |
| Investment revenues | **(196)** | (303) | (589) |
| Other gains and losses | **-** | - | 891 |
| Finance costs | **2,113** | 915 | 1,887 |
| Income tax expense | **5,102** | 2,358 | 4,665 |
| **Operating cash flows before movement in working capital** | **(730)** | 13,890 | 8,344 |
| (Increase) / decrease in inventories | **(13)** | (2) | 30 |
| Decrease / (increase) in receivables | **1,575** | (6,393) | (2,063) |
| Decrease / (increase) in insurance assets | **17,467** | (11,591) | (2,689) |
| (Decrease) / increase in payables | **(1,677)** | 2,819 | 916 |
| Decrease in insurance liabilities | **(702)** | (602) | (1,353) |
| (Decrease) / Increase in provisions | **(2,435)** | 5,564 | 14,192 |
| **Cash generated by operations** | **13,485** | 3,685 | 17,377 |
| Exercise of share options | **-** | (897) | (899) |
| Income taxes paid | **(2,206)** | (2,279) | (5,392) |
| **Net cash from operating activities** | **11,279** | 509 | 11,086 |

### 15 Contingent liabilities

There can be no guarantee that the proposed solvent scheme of arrangement to redress customers will be approved by CPPL's creditors or sanctioned by the High Court, and what the consequences of this will be in relation to UK sales of the Group's Card Protection and Identity Protection products that are not within the scope of the Group's past business review.

It is unclear what, if any, action the FCA may wish to take in respect of any similar products available to the market from other providers. There can be no guarantee that the FCA will not seek to take action on a wider industry basis. Until such time as the FCA makes a determination on these issues, and the repercussions are understood for the industry as a whole, it is possible that other claims or matters may arise against the Group which could take a number of forms and therefore have a financial effect that cannot presently be estimated.

The FCA has undertaken a thematic review in relation to the sale of MPI products and the Group co-operated with the FCA as part of this project in relation to sales of MPI products by one of its companies. The thematic review considered if MPI is designed with the consumers interests in mind, and evaluated the sales, administration and claims handling process across a population of firms who have a significant market share. The FCA has not at present indicated that it will seek to take any regulatory action against the Group. Although the thematic review is now complete, the Directors cannot be certain that the FCA may not seek to take steps against the Group in the future relating to sales of MPI products and seek to require redress for customers who purchased MPI products.

In addition, the Group commissioned an independent report on the process used by one of its companies to sell MPI policies through voice channels. This report identified some potential failings and areas to improve in the sales process. The Group is in discussions with the FCA on this matter, but no conclusion can yet be formed on the outcome of these discussions.

The Directors have considered the probability of such claims or matters crystallising, and as a result do not deem them probable enough to recognise a provision.

### 16 Events after the balance sheet date

On the 31 July 2013 the Group announced that it had agreed new borrowing facilities to refinance the Group for a period of three years with its existing lenders and an agreement with certain Business Partners to defer payment of commission that would otherwise become due over the twelve months up to 30 June 2014 for a period of up to four years. The new financing arrangements together represent a value of approximately £36 million to the Group.

The total amount available under the extended bank facility has been reduced to £13 million and has been agreed for a term of three years falling due for repayment on 31 July 2016. The extended facility contains covenants and events of default, as announced on 31 July 2013. In addition to this the Group has granted security in favour of the lenders on substantially similar terms to the previous facility.

The total amount of commission to be deferred under the commission deferral agreement is expected to be approximately £23 million by 30 June 2014, with repayment due on 31 July 2017. This agreement, although subordinate to the bank facility, provides the participating Business Partners with security over CPPL in substantially similar form and terms as the extended bank facility.

## 17 Related party transactions

### Transactions with joint ventures

The Group has undertaken the following transactions with its joint venture entity, Home 3 Assistance Limited ("Home 3"):

| | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| Costs rechargeable to Home 3 incurred by the Group | **139** | 163 | 743 |
| Balance receivable from Home 3 | **1,789** | 1,945 | 2,565 |

Amounts receivable from Home 3 include £1,700,000 (H1 2012: £1,700,000) of subordinated loan notes, £1,200,000 of which fall due for repayment on 30 December 2013 and £500,000 falls due for repayment on 31 May 2014. The subordinated loan notes have been accounted for as an investment in Home 3 with losses fully recognised against the balance.

On 23 March 2013 the Group entered into an agreement with Mr Hamish Macgregor Ogston CBE to reimburse on demand any legal fees, costs and expenses which Mr Hamish Macgregor Ogston CBE has incurred or may be incurred on his behalf in relation to the refinancing activities of the Group. The aggregate amount of costs to be reimbursed by the Group is limited to £470,000.

In contemplation of the disposal of CPPNA Holdings Inc., and in order to incentivise and retain certain key employees of the North American companies, agreements were entered into with certain key employees in October 2012 ("the Arrangements"). The key employees who entered into the Arrangements included David Pearce and Gregory Mazza who are directors of CPP North America LLC, a subsidiary of CPPNA Holdings Inc.

The Arrangements provided (amongst other things) for the payment of a 'sale' retention bonus of approximately 1.5 times annual salary in the event the disposal was consummated prior to 1 July 2013. Under the terms of the Arrangements, the aggregate amount payable is $465,000 in the case of David Pearce and $312,000 in the case of Gregory Mazza.

### Remuneration of key management personnel

The remuneration of the Directors and Senior Management Team, who are the key management personnel of the Group, is set out below:

| | **6 months ended 30 June 2013 £'000 (Unaudited)** | 6 months ended 30 June 2012 £'000 (Unaudited) | Year ended 31 December 2012 £'000 (Audited) |
|---|---|---|---|
| Short term employee benefits | **2,149** | 2,220 | 3,782 |
| Post employment benefits | **90** | 128 | 229 |
| Termination benefits | **977** | 323 | 684 |
| Share based payments | **(69)** | 58 | (91) |
| | **3,147** | 2,729 | 4,603 |

## DIRECTORS' RESPONSIBILITIES STATEMENT

We confirm that to the best of our knowledge:

a) The condensed financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting"

b) The Chief Executive Officer's report and Financial and Operating report together include 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 Financial and Operating 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

| | |
|---|---|
| Paul Stobart | Shaun Parker |
| Chief Executive Officer | Chief Financial Officer |

21 August 2013

## CAUTIONARY STATEMENT

This Half Year Report has been prepared solely to provide additional information to shareholders as a body to meet the relevant requirements of the UK Listing Authority's Disclosure and Transparency Rules. The Half Year Report should not be relied on by any other party or for any other purpose.

The Half Year Report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of approval of the Half Year Report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Subject to the requirements of the UK Listing Authority's Disclosure and Transparency Rules and Listing Rules, CPP undertakes no obligation to update these forward-looking statements and it will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this Half Year Report.

The Half Year Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to CPPGroup Plc and its subsidiary undertakings when viewed as a whole.

## INDEPENDENT REVIEW REPORT TO CPPGROUP 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 2013 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 17. 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 it 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 Conduct 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 2013 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 Conduct Authority.

In forming our review conclusion on the condensed financial statements in the Half Year Report, we have considered the adequacy of the disclosure made on pages 14 and 15 of the Financial and Operating Review, and in notes 1 and 15 to the condensed financial statements concerning operational and trading uncertainties; regulatory issues and customer redress uncertainties; uncertainties relating to liquidity and funding; and the Group's ability to continue as a going concern in the light of these factors. This disclosure includes material uncertainties in relation to the quantification of the provision in relation to customer redress and possible future contingent expenditures for which reliable estimates cannot be made.

The total financial impact of these matters is subject to significant uncertainty in that they are dependent upon certain factors outside the control of the Group. These conditions indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Having considered these matters, the directors have concluded that it is appropriate to prepare these financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern. Our opinion is not qualified in respect of these matters.

**Deloitte LLP**
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
21 August 2013