lancashire
HOLDINGS LIMITED

Underwriting comes first

Effectively balance risk and return

Operate nimbly through the cycle

Unaudited condensed interim consolidated financial statements 30 June 2010

Financial highlights

	30 Jun 2010	30 Jun 2009	31 Dec 2009
Fully converted book value per share	$7.86	$7.58	$7.41
Return on equity [1] - ytd	7.5%	10.0%	26.5%
Operating return on equity - ytd	6.3%	10.3%	24.9%

[1] Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.

	Six months ended 30 Jun 2010	Six months ended 30 Jun 2009	Twelve months ended 31 Dec 2009
Highlights ($m)			
Gross premiums written	460.1	384.7	627.8
Net premiums written	422.2	337.9	577.1
Net profit after tax	93.0	147.1	385.4
Net operating profit	85.7	139.2	364.7
Share repurchases	100.3	-	16.9
Per share data			
Fully diluted earnings per share	$0.52	$0.80	$2.05
Fully diluted earnings per share - operating	$0.48	$0.75	$1.94
Financial ratios			
Total investment return	2.6%	1.7%	3.9%
Annualised total investment return	5.3%	3.5%	3.9%
Net loss ratio	50.9%	29.3%	16.6%
Combined ratio	77.4%	57.9%	44.6%
Accident year loss ratio	66.2%	29.8%	27.2%

Dividends

	Authorisation date	Payment date	$m
Interim dividend of $0.05 (£0.03082)	28 July 2009	7 October 2009	10.5
Special dividend of $1.25 (£0.75625)	4 November 2009	6 January 2010	263.0
Final dividend of $0.10 (£0.06658)	25 February 2010	14 April 2010	20.8
Interim dividend of $0.05 (£0.03240)	5 August 2010	13 October 2010	9.4

Richard Brindle, Group Chief Executive Officer, commented:

"2010 saw a challenging start with a number of significant industry losses, from the February Chile Maule earthquake and severe weather around the world to the total loss of the Deepwater Horizon drilling unit in April. Despite our exposure to both the Chile earthquake and Deepwater Horizon, one of the largest losses ever to hit the energy market, we are pleased to report a combined ratio of 77.4% and a return on equity of 7.5% for the first half of the year. We insured against the physical loss of the Deepwater Horizon platform and had only de minimus exposure to the casualty side of the loss, which we believe will prove complex and expensive to resolve. The positive returns on equity and investments generated in the first half of 2010 mean we have now generated a positive return on equity and investments in seventeen out of the eighteen quarters since our inception.

Following the Deepwater Horizon loss, premium rates in the worldwide energy market have increased by between 10% and 30%. Demand for Gulf of Mexico deep water energy wind coverage has strengthened, resulting in a corresponding improvement in premium rates.

As anticipated at the beginning of the year, our property catastrophe book, particularly in Florida, came under sustained rating pressure in recent weeks. We have therefore reduced our property catastrophe exposure to windstorm in the South East and Gulf regions at both the June and July renewals. Pricing pressures also led us to decline, or reduce our participation on, several of our retrocessional accounts and we have also scaled back our direct and facultative account exposures.

Since the start of the year, there has been a reduction in Lancashire's appetite for major catastrophe risk overall. Trading conditions, particularly in property, as a whole remain uninspiring and, once again, our nimble structure has allowed us to reposition ourselves rapidly towards more interesting segments. Energy has become the bright spot, with increased demand and somewhat reduced supply. We also watch events on Capitol Hill with interest, in particular the inquiries into the Deepwater Horizon catastrophe and the implications for Lancashire on future business opportunities."

Neil McConachie, President and Group Chief Financial Officer, commented:

"Since the start of the year, we have steadily generated capital in excess of requirements. We have a well-established practice of improving shareholder returns by actively managing capital, and we therefore took the opportunity to repurchase a significant number of Lancashire shares at prices that boost our return on equity. Whilst we deployed some capital towards compelling opportunities in the energy market, we reduced our risk levels overall compared to previous years and entered hurricane season with substantial capital headroom. The frequency and severity of industry loss events in the next few months will be important drivers of our 2011 capital needs, as will fast moving developments in the energy sector. As previously stated, should we fail to see material improvements in trading conditions overall, or should improvements be limited to certain classes rather than industry wide, we will still expect to return more capital to shareholders than we generate during 2010.

Lancashire Renewal Price Index for major classes

Lancashire's Renewal Price Index ("RPI") is an internal tool that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative change in price, terms, conditions and limits and is weighted by premium volume (see "Note regarding RPI tool" at the end of this section for further guidance). The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2009:

Class	**30 Jun 2010**
Aviation (AV52)	95%
Gulf of Mexico energy	103%
Energy offshore worldwide	103%
Marine	98%
Direct and facultative	93%
Property reinsurance	96%
Terrorism	95%
Combined	**97%**

Underwriting results

Gross premiums written	**Six months ended 30 Jun 2010 $m**	**Six months ended 30 Jun 2009 $m**	**Change $m**	**Change %**
Property	225.7	189.3	36.4	19.2
Energy	159.0	116.4	42.6	36.6
Marine	56.1	55.6	0.5	0.9
Aviation	19.3	23.4	(4.1)	(17.5)
Total	**460.1**	**384.7**	**75.4**	**19.6**

Gross premiums written increased by 19.6% in the first six months of 2010 compared to the same period in 2009.

The Group's four principal classes, and a discussion of the key market factors impacting them, are below.

Property gross premiums written increased by 19.2% in the first six months of 2010 compared to the first six months of 2009. At the start of 2010 price reductions in the property retrocession and catastrophe reinsurance lines were minor and, in anticipation of a declining price environment later in the year and in conjunction with the Group's planned expansion of its property catastrophe reinsurance book, a tactical decision was taken to deploy more of the Group's capital at the January reinsurance renewals than in prior years. A significant amount of new business across these lines was therefore written in the first six months of the year, including some large multi-year contracts. There were further material reductions in property catastrophe premium following the 1 July renewals which will be reflected in the financial results in the last six months of the year. Also included in the first half of 2010 was approximately $14.5 million of reinstatement premiums in connection with the Chile Maule earthquake. Within the terrorism class, premium increased due to opportunities arising from the re-commencement of construction projects around the world plus increased participation on international terror pools.

The timing of certain multi-year contract renewals was also a factor in the increase. Property direct and facultative business has continued to come under increasing pricing pressure and accordingly many risks were not renewed, and this was reflected in premium volumes being behind prior year for the year to date.

Energy gross premiums written increased by 36.6% in the first six months of 2010 compared to the first six months of 2009. Gulf of Mexico premium volume was considerably higher compared to the same period in the prior year. This was driven in part by the return of demand in the market including insureds seeking new layers and increased limits following the Deepwater Horizon loss. Premium written was also buoyed by a number of larger accounts being written or renewed on a multi-year basis. The Group also wrote some non-elemental Industry Loss Warranty covers following industry losses suffered from Deepwater Horizon. $5.4 million of premium in respect of these covers is included in the energy excess of loss class.

Marine gross premiums written increased by 0.9% in the first six months of 2010 compared to the first six months of 2009. Pricing and renewal rates have been broadly stable. The increase for the year is largely driven by the timing of certain multi-year contract renewals and some contract extensions, offset by lower yard renewals than the prior year as deferred shipbuilding projects have been slow to resume.

Aviation gross premiums written decreased by 17.5% in the first six months of 2010 compared to the first six months of 2009. The reduction was driven primarily by a reduction in the number of flights flown and passengers travelling in the recent recessionary environment.

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Ceded premiums decreased by $8.9 million, or 19.0%, for the six-month period to 30 June 2010 compared to the same period in 2009. The reduction in reinsurance spending for the year to date was helped by improved pricing compared to 2009 and by a re-structuring of the Group's cover.

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Net premiums earned as a proportion of net premiums written were 74.9% in the six months to 30 June 2010, compared to 83.8% in the same period in 2009. The significant increase in premium written volumes in the first half of 2010 as compared to 2009 has resulted in a comparatively large deferral of earnings to later in 2010 and partially into 2011, giving a reduced proportion of earned premium in 2010 as compared to 2009. Significant multi-year contracts within the property catastrophe reinsurance and energy Gulf of Mexico classes of approximately $30.3 million and $33.4 million respectively also drive material deferrals of earning of written premium.

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The Group's net loss ratio was 50.9% for the six month period to 30 June 2010 compared to 29.3% for 2009. The increase in the ratio was driven by the impact of the February Chile Maule earthquake and the total loss of the Deepwater Horizon drilling unit. The Chile earthquake has a net recorded loss of $97.5 million after reinstatement premiums. The Group's expected net loss range is $80.0 - $115.0 million, however significant uncertainty continues to exist on the eventual ultimate loss. Lancashire's net claim on Deepwater Horizon was $25.0 million. The proportion of casualty exposure within the net claim is less than $2.0 million, and this represents the full limit of Lancashire's exposure to casualty losses from the event. Excluding the Chile earthquake and Deepwater, the net loss ratio for the six months to 30 June 2010 would have been 7.7%. The six months to 30 June 2010 had a lower number of reported losses than expected, in addition to experiencing favourable development on all prior accident year reserves. The net loss ratio of 29.3% for the same period in 2009 includes 14.0% from reserve strengthening in respect of claims from Hurricane Ike.

The table below provides further detail of loss development by class, excluding the impact of foreign exchange revaluations.

	Six months ended 30 Jun 2010 $m	Six months ended 30 Jun 2009 $m
Property	28.3	29.0
Energy	16.9	(33.9)
Marine	6.1	2.5
Aviation	4.8	3.3
Total [(1)]	**56.1**	**0.9**

[(1)] Positive numbers denote favourable development and negative numbers denote adverse development.

Net prior year reserve releases were $56.1 million for the six months to 30 June 2010 compared to $0.9 million for the same period in 2009. The favourable development in 2010 arises primarily from IBNR releases due to fewer than expected reported losses. In the first half of 2009 there was $39.8 million of adverse development on Hurricane Ike, which was subsequently reduced by $22.7 million in the second half of 2009 based on further loss adjustment reports and some negotiated settlements. The final net adverse development on Ike in 2009 was $17.1 million. To date in 2010, Ike has developed favourably by $2.1 million.

The year to date accident year loss ratio, including the impact of foreign exchange revaluations, was 66.2% compared to 29.8% for the six months to 30 June 2009. Deepwater Horizon contributed 8.8% of the year to date net loss ratio. Excluding the impact of foreign exchange revaluations, during the first half of 2010 previous accident years' ultimate losses developed as follows:

- 2006 - favourable development of $0.9 million (2009 - $3.5 million);
- 2007 - favourable development of $1.3 million (2009 - $17.0 million);
- 2008 - favourable development of $26.3 million (2009 - $19.6 million adverse development); and
- 2009 - favourable development of $27.6 million (2009 - N/A).

The ratio of IBNR to total net reserves was 35.6% compared to 43.8% at 31 December 2009.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $27.6 million for the six months to 30 June 2010, in line with the same period in the prior year. The low yield environment continues. The Group's invested asset base is broadly consistent with prior periods in terms of size, with the asset mix and duration changing modestly within the overall unchanged conservative strategy.

Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $53.2 million for the 2010 year to date versus $36.4 million for the same period in 2009. The increased returns in 2010 are as a result of tactically re-balancing the managed investment portfolio towards slightly higher yielding assets, in particular the allocation of assets to emerging market debt. The significant decrease in Treasury yields in June also boosted fixed income total investment returns, contributing to a net increase in unrealised gains for the first six months of 2010 of $12.8 million versus a net decrease in unrealised gains of $1.7 million in the first six months of 2009. There were no impairments recorded in the first half of 2010 compared to $0.4 million for the first half of 2009.

The Group continues to hold a conservative investment portfolio, consistent with its long-held philosophy, with a strong emphasis on preserving capital. The corporate bond allocation, excluding Federal Deposit Insurance Corporation guaranteed bonds, represents 27.7% of managed invested assets compared to 23.6% at 31 December 2009. At 30 June 2010, the managed portfolio comprised 88.3% fixed income securities, 0.1% other investments and 11.6% cash and cash equivalents compared to 92.9% fixed income securities and 7.1% cash and cash equivalents at 31 December 2009. The emerging market debt allocation is 4.5% of managed investments. The Group is not currently invested in equities, hedge funds or other alternative investments. Key investment portfolio statistics are:

	30 Jun 2010	**31 Dec 2009**
Duration	2.4 years	2.3 years
Credit quality	AA	AA+
Book yield	2.8%	2.8%
Market yield	1.9%	2.2%

Other operating expenses

Other operating expenses, excluding the cost of equity based compensation, are broadly consistent compared to the same period in 2009, reflecting the Group's stable operating platform. Total employment costs, excluding equity based compensation, were $14.3 million in the six months to 30 June 2010 compared to $14.5 million in the first half of 2009.

Equity based compensation was $10.6 million for the six months to 30 June 2010 compared to $5.6 million in the same period last year. The increased 2010 expense reflects the maturing restricted share awards program plus an increase in the proportion of employees' variable compensation provided as deferred shares compared to prior years. The restricted share program began in 2008.

Capital

At 30 June 2010, total capital was $1.487 billion, comprising shareholders' equity of $1.361 billion and $126.3 million of long-term debt. Leverage was 8.5%. Total capital at 31 December 2009 was $1.510 billion.

Repurchase program

At the Annual General Meeting held on 4 May 2010 the Group's Shareholders approved a renewal of the share repurchase program (the "Repurchase Program') authorising the repurchase of a maximum of 18,250,306 shares, with such authority to expire on the conclusion of the 2011 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the Repurchase Program was passed.

The Group continues to repurchase its own shares by way of on and off market purchases utilising the current Repurchase Program, which had 9,875,822 shares remaining to be purchased at 30 July 2010 (approximately $82.9 million at the 30 July 2010 share price). $100.3 million of shares were repurchased in the six months to 30 June 2010 compared to $nil in the same period in the prior year.

During the six months to 30 June 2010 the Group agreed to purchase a total of $37.0 million of shares from Crestview Partners L.P., Crestview Offshore Holdings (Cayman) L.P., Crestview Holdings (TE) L.P., Crestview Partners ERISA L.P., and Crestview Partners (PF) L.P. (collectively, "Crestview") for cancellation. Also as announced on 1 July 2010, an additional $3.7 million of shares were purchased from Crestview and cancelled. All of these shares were repurchased in off-market transactions at a discount to the then prevailing market price.

Dividends

The Lancashire Board has declared an interim dividend of 5.0 cents per common share (approximately 3.15 pence per common share at the current exchange rate), which results in an aggregate payment of approximately $7.6 million (the "Interim Dividend"). The Interim Dividend will be paid in Pounds Sterling on 13 October 2010 (the "Interim Dividend Payment Date") to shareholders of record on 3 September 2010 (the "Record Date") using the GBP£/US$ spot market exchange rate at the close of business in London on the Record Date.

In accordance with the terms of Lancashire's warrants, a payment equivalent to the Interim Dividend to shareholders will also be paid in Pounds Sterling on 13 October 2010 to those warrant holders listed on the Company's Warrant Register as of the Record Date. The warrant payment will be made in respect of the number of common shares for which each Warrant is exercisable as at the Record Date (approximately $1.8 million in aggregate).

The Group will continue to review the appropriate level and composition of capital for the Group with the intention of managing capital to enhance risk-adjusted returns on equity.

Outlook

The Group aims to achieve a cross-cycle return of 13% including dividends above a risk free rate. This is unchanged from previous guidance.

Note regarding RPI tool

Lancashire's renewal price index ("RPI") is an internal tool that its management uses to track trends in premium rates of a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative changes in price, terms, conditions and limits and is weighted by premium volume. The calculation involves a degree of judgement in relation to comparability of contracts and the assessment noted above. To enhance the RPI tool, management of Lancashire may revise the methodology and assumptions underlying the RPI, so the trends in premium rates reflected in the RPI may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in Lancashire's portfolio. The future profitability of the portfolio of contracts within the RPI is dependent upon many factors besides the trends in premium rates.

Condensed interim consolidated statement of comprehensive income

For the six months ended 30 June 2010

	Notes	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Gross premiums written	1	460.1	384.7	627.8
Outwards reinsurance premiums	1	(37.9)	(46.8)	(50.7)
Net premiums written		**422.2**	**337.9**	**577.1**
Change in unearned premiums	1	(120.4)	(70.5)	22.0
Change in unearned premiums on premiums ceded	1	14.6	15.9	(4.4)
Net premiums earned		**316.4**	**283.3**	**594.7**
Net investment income	2	27.6	27.5	56.0
Net other investment income	2	-	0.3	0.3
Net realised gains (losses) and impairments	2, 13	12.8	10.3	23.8
Net foreign exchange (losses) gains		(3.6)	0.7	3.4
Total net revenue		**353.2**	**322.1**	**678.2**
Insurance losses and loss adjustment expenses	1, 11	192.6	95.6	104.4
Insurance losses and loss adjustment expenses recoverable	1, 11	(31.7)	(12.6)	(5.7)
Net insurance losses		**160.9**	**83.0**	**98.7**
Insurance acquisition expenses	1, 3	55.2	56.4	112.6
Insurance acquisition expenses ceded	1, 3	(0.9)	(2.8)	(6.6)
Other operating expenses	4, 5, 6, 16	40.0	33.0	76.9
Total expenses		**255.2**	**169.6**	**281.6**
Results of operating activities		**98.0**	**152.5**	**396.6**
Financing costs	13	3.4	4.3	8.1
Profit before tax		**94.6**	**148.2**	**388.5**
Tax charge	7, 8	1.6	1.1	3.1
Profit for the period attributable to equity shareholders		**93.0**	**147.1**	**385.4**
Net change in unrealised gains (losses) on investments	2, 10	13.3	(1.8)	2.7
Tax (expense) benefit on net change in unrealised gains (losses) on investments	7, 10	(0.5)	0.1	0.1
Other comprehensive income (loss)		**12.8**	**(1.7)**	**2.8**
Total comprehensive income attributable to equity shareholders		**105.8**	**145.4**	**388.2**
Earnings per share				
Basic	15	$0.56	$0.85	$2.23
Diluted	15	$0.52	$0.80	$2.05

Condensed interim consolidated balance sheet

As at 30 June 2010

	Notes	30 Jun 2010 $m	30 Jun 2009 $m	31 Dec 2009 $m
Assets				
Cash and cash equivalents	9, 12	268.7	343.1	440.0
Accrued interest receivable		12.9	9.2	12.0
Investments				
- Fixed income securities, available for sale	10, 12	1,836.9	1,813.1	1,892.5
- Other investments	10	1.1	-	-
Reinsurance assets				
- Unearned premiums on premiums ceded	11	20.2	25.9	5.6
- Reinsurance recoveries	11	47.8	49.2	35.8
- Other receivables	11	2.0	2.2	4.3
Deferred acquisition costs		74.8	68.9	52.9
Other receivables		14.0	26.3	4.3
Inwards premiums receivable from insureds and cedants		285.4	255.4	178.2
Deferred tax asset	8	3.7	2.9	3.3
Property, plant and equipment		8.0	1.0	8.2
Total assets		**2,575.5**	**2,597.2**	**2,637.1**
Liabilities				
Insurance contracts				
- Losses and loss adjustment expenses	11	583.7	543.6	488.9
- Unearned premiums	11	438.0	410.1	317.6
- Other payables	11	19.6	16.9	15.8
Amounts payable to reinsurers	11	12.7	13.3	4.2
Deferred acquisition costs ceded		2.8	1.5	2.7
Other payables		26.8	55.3	291.4
Corporation tax payable	7	2.3	2.3	2.4
Interest rate swap	13	2.2	4.4	3.6
Accrued interest payable		0.2	0.3	0.2
Long-term debt		126.3	130.7	131.4
Total liabilities		**1,214.6**	**1,178.4**	**1,258.2**
Shareholders' equity				
Share capital	14	86.7	91.2	91.2
Own shares	14	(117.1)	(59.0)	(76.4)
Share premium		2.4	2.4	2.4
Contributed surplus		699.1	757.3	757.0
Accumulated other comprehensive income	10	43.2	25.9	30.4
Other reserves		65.4	56.8	65.3
Retained earnings		581.2	544.2	509.0
Total shareholders' equity attributable to equity shareholders	18	**1,360.9**	**1,418.8**	**1,378.9**
Total liabilities and shareholders' equity		**2,575.5**	**2,597.2**	**2,637.1**

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors on 5 August 2010 and signed on its behalf by:

MARTIN THOMAS
CHAIRMAN

NEIL McCONACHIE
PRESIDENT & CHIEF FINANCIAL OFFICER

Condensed interim consolidated statement of changes in shareholders' equity

For the six months ended 30 June 2010

	Notes	Share capital $m	Own shares $m	Share premium $m	Contributed surplus $m	Accumulated other comprehensive income $m	Other reserves $m	Retained earnings $m	Total $m
Balance as at 31 December 2008		**91.1**	**(58.0)**	**2.4**	**758.2**	**27.6**	**54.3**	**397.1**	**1,272.7**
Total comprehensive (loss) income for the period	2,7,10	-	-	-	-	(1.7)	-	147.1	145.4
Shares repurchased and held	14	-	(4.9)	-	-	-	-	-	(4.9)
Shares distributed	14	-	3.9	-	(3.9)	-	-	-	-
LTIP - option exercises		-	-	-	3.1	-	(3.1)	-	-
Warrant exercises - founders		0.1	-	-	(0.1)	-	-	-	-
Equity based compensation	4, 5	-	-	-	-	-	5.6	-	5.6
Balance as at 30 June 2009		**91.2**	**(59.0)**	**2.4**	**757.3**	**25.9**	**56.8**	**544.2**	**1,418.8**
Total comprehensive income for the period	2,7,10	-	-	-	-	4.5	-	238.3	242.8
Shares repurchased and held	14	-	(20.0)	-	-	-	-	-	(20.0)
Shares distributed by trust	14	-	2.6	-	(2.6)	-	-	-	-
Dividends	14	-	-	-	-	-	-	(273.5)	(273.5)
LTIP - option exercises		-	-	-	2.3	-	(2.3)	-	-
Equity based compensation	4, 5	-	-	-	-	-	10.8	-	10.8
Balance as at 31 December 2009		**91.2**	**(76.4)**	**2.4**	**757.0**	**30.4**	**65.3**	**509.0**	**1,378.9**
Total comprehensive income for the period	2,7,10	-	-	-	-	12.8	-	93.0	105.8
Shares repurchased and held	14	-	(49.5)	-	-	-	-	-	(49.5)
Shares repurchased and cancelled	14	(4.5)	-	-	(59.3)	-	-	-	(63.8)
Shares distributed by trust	14	-	8.8	-	(8.8)	-	-	-	-
Dividends	14	-	-	-	-	-	-	(20.8)	(20.8)
RSS - exceptional vesting		-	-	-	1.0	-	(1.0)	-	-
LTIP - option exercises		-	-	-	3.0	-	(3.0)	-	-
Warrants - ordinary and performance exercises		-	-	-	6.5	-	(6.5)	-	-
Equity based compensation	4, 5	-	-	-	(0.3)	-	10.6	-	10.3
Balance as at 30 June 2010		**86.7**	**(117.1)**	**2.4**	**699.1**	**43.2**	**65.4**	**581.2**	**1,360.9**

Condensed interim statement of consolidated cash flows

For the six months ended 30 June 2010

	Notes	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Cash flows from operating activities				
Profit before tax		94.6	148.2	388.5
Tax paid		(2.7)	(0.3)	(2.7)
Depreciation	6	1.3	0.5	0.8
Interest expense		2.7	3.5	6.4
Interest and dividend income		(34.2)	(31.9)	(64.7)
Accretion of fixed income securities		4.7	2.9	5.3
Equity based compensation	4, 5	10.6	5.6	16.4
Foreign exchange losses (gains)		2.4	(1.6)	(2.3)
Net other investment income	2	-	(0.3)	(0.3)
Net realised (gains) losses and impairments	2	(12.8)	(10.3)	(23.8)
Net unrealised (gain) loss on interest rate swaps		(1.4)	(0.5)	(1.3)
Changes in operational assets and liabilities				
- Insurance and reinsurance contracts		77.2	(1.0)	(32.6)
- Other assets and liabilities		(14.1)	(8.6)	(11.3)
Net cash flows from operating activities		**128.3**	**106.2**	**278.4**
Cash flows used in investing activities				
Interest and dividends received		33.3	32.8	62.8
Net purchase of property, plant and equipment		(1.3)	-	(7.6)
Purchase of fixed income securities		(1,368.5)	(1,488.5)	(2,711.6)
Proceeds on maturity and disposal of fixed income securities		1,443.5	1,283.2	2,440.8
Proceeds on disposal of equity securities		-	4.8	4.8
Net proceeds from (purchases of) other investments	17	0.6	(1.6)	0.1
Net cash flows from (used in) investing activities		**107.6**	**(169.3)**	**(210.7)**
Cash flows used in financing activities				
Interest paid		(2.7)	(3.6)	(6.4)
Dividends paid	17	(283.8)	-	(10.5)
Shares repurchased	17	(112.1)	(3.9)	(24.9)
Net cash flows used in financing activities		**(398.6)**	**(7.5)**	**(41.8)**
Net (decrease) increase in cash and cash equivalents		**(162.7)**	**(70.6)**	**25.9**
Cash and cash equivalents at beginning of period		440.0	413.6	413.6
Effect of exchange rate fluctuations on cash and cash equivalents		(8.6)	0.1	0.5
Cash and cash equivalents at end of period	9	**268.7**	**343.1**	**440.0**

Summary of significant accounting policies

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of Lancashire Holdings Limited ("LHL") and its subsidiaries' (collectively "the Group") condensed interim consolidated financial statements are those that the Group expects to apply for the year ending 31 December 2010. These will be consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2009.

Basis of preparation

The Group's condensed interim consolidated financial statements are prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements.

All amounts, excluding share data or where otherwise stated, are in millions of United States ("U.S.") dollars.

While a number of new or amended IFRS and International Financial Reporting Interpretations Committee standards have been issued, there are none that either require adoption by the Group or that have a material impact.

IFRS 9, Financial Instruments: Classification and Measurement, which has been issued but is not yet effective, has not been early adopted by the Group. The Group continues to apply IAS 39, Financial Instruments: Recognition and Measurement and classifies most of its fixed income securities as available for sale. The new standard is not expected to have a material impact on the results and disclosures reported in the condensed interim consolidated financial statements, but would result in a re-classification of fixed income securities from available for sale to fair value through profit or loss and a re-classification of the net change in unrealised gains and losses on investments from other comprehensive income to profit or loss.

The condensed interim consolidated balance sheet of the Group is presented in order of decreasing liquidity.

Seasonality of interim operations

The Group underwrites worldwide short-tail insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, amongst other factors. The Group's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premium sufficient to meet likely losses and expenses.

The Group's most significant exposures to catastrophe losses on certain lines of business is greater during the second half of the fiscal year. There is therefore potential for significantly greater volatility in earnings during that period. This is broadly in line with the most active period of the North American windstorm season which is typically June to November. The Group is also exposed to Japanese and European windstorm seasons which are typically June to November and November to March, respectively. The majority of the premiums for these lines of business are written during the first half of the fiscal year. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, from risk losses throughout the year and from war, terrorism and political risk.

Details of annual gross premiums written for the last two years are as follows:

	2009	**%**	**2008**	**%**
January to June	384.7	61.3	383.4	60.1
July to December	243.1	38.7	254.7	39.9
Total	**627.8**	**100.0**	**638.1**	**100.0**

The Group's exposure to certain events, as a percentage of capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance.

		30 Jun 2010		**30 Jun 2009**		**31 Dec 2009**	
Zones	**Perils**	**$m**	**% of capital**	**$m**	**% of capital**	**$m**	**% of capital**
		100 year return period estimated net loss					
Gulf of Mexico [1]	Hurricane	253.2	17.0	252.7	16.3	278.5	18.4
California	Earthquake	128.6	8.6	203.8	13.2	190.1	12.6
Pan-European	Windstorm	132.9	8.9	139.7	9.0	163.2	10.8
Japan	Earthquake	123.5	8.3	145.2	9.4	138.2	9.2
Japan	Typhoon	84.4	5.7	95.9	6.2	86.3	5.7

[1] Landing hurricane from Florida to Texas.

Zones	Perils	30 Jun 2010 $m	30 Jun 2010 % of capital	30 Jun 2009 $m	30 Jun 2009 % of capital	31 Dec 2009 $m	31 Dec 2009 % of capital
		250 year return period estimated net loss					
Gulf of Mexico [1]	Hurricane	362.5	24.4	361.3	23.3	391.2	25.9
California	Earthquake	204.8	13.8	289.7	18.7	292.6	19.4
Pan-European	Windstorm	208.2	14.0	271.3	17.5	261.7	17.3
Japan	Earthquake	214.5	14.4	229.9	14.8	236.1	15.6
Japan	Typhoon	172.7	11.6	189.9	12.3	170.8	11.3

[1] Landing hurricane from Florida to Texas.

There can be no guarantee that the modeled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodeled loss which exceeds these figures. In addition, any modeled loss scenario could cause a larger loss to capital than the modeled expectation.

Risk disclosures

The Group's risk management and risk appetite remains broadly consistent with those disclosed on pages 81 to 100 in the Annual Report and Accounts for the year ended 31 December 2009. The risks that were discussed on those pages were:

- Insurance risk;
- Market risk;
- Liquidity risk;
- Credit risk;
- Operational risk; and
- Strategic risk.

These remain the most relevant risks and uncertainties for the Group.

1. Segmental reporting

Management and the Board of Directors review the Group's business primarily by its four principal classes: property, energy, marine and aviation. These classes are therefore deemed to be the Group's operating segments for the purposes of segment reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 84 to 86 of the Group's Annual Report and Accounts for the year ended 31 December 2009. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties. There are no inter-segmental transactions presented and there are no insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

Revenue and expense by operating segment - for the six months ended 30 June 2010

	$m	$m	$m	$m	$m
Gross premiums written	**Property**	**Energy**	**Marine**	**Aviation**	**Total**
(Analysed by geographical region)					
Worldwide offshore	0.9	154.1	56.0	-	211.0
U.S. and Canada	90.8	0.4	-	-	91.2
Worldwide, including the U.S. and Canada [(1)]	32.6	3.3	(0.1)	19.3	55.1
Worldwide, excluding the U.S. and Canada [(2)]	33.5	0.1	0.1	-	33.7
Europe	32.1	0.1	-	-	32.2
Far East	12.2	0.1	0.1	-	12.4
Middle East	2.0	0.6	-	-	2.6
Rest of world	21.6	0.3	-	-	21.9
Total	**225.7**	**159.0**	**56.1**	**19.3**	**460.1**
Outwards reinsurance premiums	(18.5)	(12.7)	(1.2)	(5.5)	(37.9)
Change in unearned premiums	(46.1)	(64.2)	(20.9)	10.8	(120.4)
Change in unearned premiums ceded	11.4	1.5	(0.4)	2.1	14.6
Net premiums earned	**172.5**	**83.6**	**33.6**	**26.7**	**316.4**
Insurance losses and loss adjustment expenses	(106.3)	(67.3)	(23.6)	4.6	(192.6)
Insurance losses recoverable	-	31.7	-	-	31.7
Insurance acquisition expenses	(20.0)	(19.8)	(9.2)	(6.2)	(55.2)
Insurance acquisition expenses ceded	0.3	0.5	-	0.1	0.9
Net underwriting profit	**46.5**	**28.7**	**0.8**	**25.2**	**101.2**
Unallocated income and expenses					(6.6)
Profit before tax					**94.6**
Loss ratio	61.6%	42.6%	70.2%	(17.2%)	50.9%
Acquisition cost ratio	11.4%	23.1%	27.4%	22.8%	17.2%
Expense ratio	-	-	-	-	9.3%
Combined ratio	**73.0%**	**65.7%**	**97.6%**	**5.6%**	**77.4%**

[(1)] Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
[(2)] Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Revenue and expense by operating segment - for the six months ended 30 June 2009

	$m	$m	$m	$m	$m
Gross premiums written	**Property**	**Energy**	**Marine**	**Aviation**	**Total**
(Analysed by geographical region)					
Worldwide offshore	0.8	104.8	53.2	-	158.8
U.S. and Canada	92.0	0.4	-	-	92.4
Worldwide, including the U.S. and Canada (1)	23.5	5.6	0.4	23.2	52.7
Worldwide, excluding the U.S. and Canada (2)	26.3	-	0.4	-	26.7
Europe	18.7	0.6	1.5	0.2	21.0
Far East	8.0	1.5	0.1	-	9.6
Middle East	6.6	2.5	-	-	9.1
Rest of world	13.4	1.0	-	-	14.4
Total	**189.3**	**116.4**	**55.6**	**23.4**	**384.7**
Outwards reinsurance premiums	(20.5)	(11.2)	(8.0)	(7.1)	(46.8)
Change in unearned premiums	(58.0)	(23.0)	(8.1)	18.6	(70.5)
Change in unearned premiums ceded	9.0	(0.5)	4.0	3.4	15.9
Net premiums earned	**119.8**	**81.7**	**43.5**	**38.3**	**283.3**
Insurance losses and loss adjustment expenses	4.2	(80.8)	(19.0)	-	(95.6)
Insurance losses recoverable	-	12.6	-	-	12.6
Insurance acquisition expenses	(15.7)	(19.5)	(13.2)	(8.0)	(56.4)
Insurance acquisition expenses ceded	0.5	2.0	0.2	0.1	2.8
Net underwriting profit	**108.8**	**(4.0)**	**11.5**	**30.4**	**146.7**
Unallocated income and expenses					1.5
Profit before tax					**148.2**
Loss ratio	(3.5%)	83.5%	43.7%	-	29.3%
Acquisition cost ratio	12.7%	21.4%	29.9%	20.6%	18.9%
Expense ratio	-	-	-	-	9.7%
Combined ratio	**9.2%**	**104.9%**	**73.6%**	**20.6%**	**57.9%**

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Revenue and expense by operating segment - for the twelve months ended 31 December 2009

	$m	$m	$m	$m	$m
Gross premiums written	**Property**	**Energy**	**Marine**	**Aviation**	**Total**
(Analysed by geographical region)					
Worldwide offshore	1.0	154.9	71.4	-	227.3
U.S. and Canada	156.0	2.2	0.1	-	158.3
Worldwide, including the U.S. and Canada (1)	51.5	7.4	(0.6)	60.9	119.2
Worldwide, excluding the U.S. and Canada (2)	35.1	-	0.4	0.1	35.6
Europe	30.3	3.5	2.1	0.3	36.2
Far East	10.9	2.1	0.2	-	13.2
Middle East	8.6	3.3	-	-	11.9
Rest of world	23.9	2.1	0.1	-	26.1
Total	**317.3**	**175.5**	**73.7**	**61.3**	**627.8**
Outwards reinsurance premiums	(17.2)	(13.5)	(9.3)	(10.7)	(50.7)
Change in unearned premiums	(14.8)	14.9	9.8	12.1	22.0
Change in unearned premiums ceded	(1.8)	(4.3)	1.7	-	(4.4)
Net premiums earned	**283.5**	**172.6**	**75.9**	**62.7**	**594.7**
Insurance losses and loss adjustment expenses	8.9	(82.6)	(29.4)	(1.3)	(104.4)
Insurance losses recoverable	-	5.7	-	-	5.7
Insurance acquisition expenses	(37.8)	(37.8)	(23.1)	(13.9)	(112.6)
Insurance acquisition expenses ceded	2.0	2.9	0.7	1.0	6.6
Net underwriting profit	**256.6**	**60.8**	**24.1**	**48.5**	**390.0**
Unallocated income and expenses					(1.5)
Profit before tax					**388.5**
Loss ratio	(3.1%)	44.6%	38.7%	2.1%	16.6%
Acquisition cost ratio	12.6%	20.2%	29.5%	20.6%	17.8%
Expense ratio	-	-	-	-	10.2%
Combined ratio	**9.5%**	**64.8%**	**68.2%**	**22.7%**	**44.6%**

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.
(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

2. Investment return

The total investment return for the Group is as follows:

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Net investment income			
- Interest on fixed income securities	33.7	30.8	62.6
- Net amortisation	(4.7)	(2.8)	(5.2)
- Interest income on cash and cash equivalents	0.5	1.1	2.1
- Investment management and custodian fees	(1.9)	(1.6)	(3.5)
Net investment income	**27.6**	**27.5**	**56.0**
Net other investment income	**-**	**0.3**	**0.3**
Net realised gains (losses) and impairments			
- Fixed income securities	12.2	12.9	24.7
- Equity securities	-	(1.0)	(1.0)
- Derivative financial instruments	0.6	(1.6)	0.1
Net realised gains (losses) and impairments	**12.8**	**10.3**	**23.8**
Net change in unrealised gains (losses) recognised in other comprehensive income (loss) - fixed income securities			
- Net unrealised gains released	(9.2)	(13.6)	(21.8)
- Net unrealised gains (losses) recorded	22.5	11.4	24.1
- Net unrealised losses released for impairments	-	0.4	0.4
Net change in unrealised gains (losses)	**13.3**	**(1.8)**	**2.7**
Total investment return	**53.7**	**36.3**	**82.8**

Net realised gains (losses) and impairments included an impairment loss of $0.4 million at both 30 June 2009 and 31 December 2009 recognised on fixed income investments held by the Group.

3. Net insurance acquisition expenses

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Insurance acquisition expenses	77.1	64.4	104.6
Changes in deferred insurance acquisition expenses	(21.9)	(8.0)	8.0
Insurance acquisition expenses ceded	(1.0)	(2.4)	(5.2)
Changes in deferred insurance acquisition expenses ceded	0.1	(0.4)	(1.4)
Total net insurance acquisition expenses	**54.3**	**53.6**	**106.0**

4. Other operating expenses

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Operating expenses unrelated to underwriting	29.4	27.4	60.5
Equity based compensation	10.6	5.6	16.4
Total other operating expenses	**40.0**	**33.0**	**76.9**

5. Employee benefits

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Wages and salaries	9.3	7.5	15.7
Pension costs	0.7	0.7	1.5
Bonus and other benefits	4.3	6.3	18.4
Total cash compensation	**14.3**	**14.5**	**35.6**
RSS - ordinary	6.3	1.2	6.8
RSS - exceptional	0.1	0.2	0.5
LTIP	3.8	2.3	5.7
Warrants - performance	0.4	1.9	3.4
Total equity based compensation	**10.6**	**5.6**	**16.4**
Total employee benefits	**24.9**	**20.1**	**52.0**

The Group's primary equity based compensation scheme is its restricted stock scheme ("RSS"). Previously the Group also administered a warrant plan and a long term incentive plan ("LTIP").

6. Results of operating activities

Results of operating activities are stated after charging the following amounts:

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Depreciation on owned assets	1.3	0.5	0.8
Operating lease charges	1.5	0.7	1.6
Auditors' remuneration			
- Group audit fees	0.6	0.6	1.2
- Other services	0.1	0.6	0.6
Total	**3.5**	**2.4**	**4.2**

Fees paid to the Group's auditors for other services are approved by the Group's Audit Committee. Such fees comprise the following amounts:

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Tax advice	-	0.1	0.1
Other	0.1	0.5	0.5
Total	**0.1**	**0.6**	**0.6**

7. Tax

Bermuda

LHL, Lancashire Insurance Company ('LICL") and Lancashire Insurance Company (UK) Limited ("LUK") have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 28 March 2016. At the present time no such taxes are levied in Bermuda.

United States

The Group does not consider itself to be engaged in trade or business in the U.S. and, accordingly, does not expect to be subject to U.S. taxation on its income or capital gains.

United Kingdom

The UK subsidiaries are subject to normal UK corporation tax on all their profits.

Tax charge	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Corporation tax charge for the period	2.0	2.1	4.8
Adjustments in respect of prior period corporation tax	-	0.7	0.4
Deferred tax credit for the period	(0.4)	(1.1)	(1.5)
Adjustments in respect of prior period deferred tax	-	(0.6)	(0.6)
Total tax charge	**1.6**	**1.1**	**3.1**

Tax reconciliation	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Profit before tax	94.6	148.2	388.5
Less profit not subject to tax	(86.4)	(139.5)	(372.9)
Profits subject to tax	**8.2**	**8.7**	**15.6**
UK corporation tax	2.3	2.4	4.4
Adjustments in respect of prior period	-	0.1	(0.2)
Other expense temporary differences	(0.8)	(1.4)	(1.2)
Other expense permanent differences	0.1	-	0.1
Total tax charge	**1.6**	**1.1**	**3.1**

The standard rate of corporation tax in the UK is 28%. The current tax charge as a percentage of the Group's profit before tax is 1.8% (30 June 2009 - 0.7%; 31 December 2009 - 0.8%) due to the different tax paying jurisdictions throughout the Group.

A current corporation tax expense of $0.5 million was charged to other comprehensive income during the period (30 June 2009 - $0.1 million; 31 December 2009 - $0.1 million), which relates to unrealised investment gains and losses included in accumulated other comprehensive income within shareholders' equity. Refer to note 10 for further details.

Taxation	30 Jun 2010 $m	30 Jun 2009 $m	31 Dec 2009 $m
UK corporation tax payable	2.3	2.3	2.4

8. Deferred tax

	30 Jun 2010 $m	30 Jun 2009 $m	31 Dec 2009 $m
Deferred tax assets	4.8	3.3	3.9
Deferred tax liabilities	(1.1)	(0.4)	(0.6)
Net deferred tax asset	**3.7**	**2.9**	**3.3**

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that the Lancashire UK group of companies will be profitable in 2010, thus the entire deferred tax asset is recognised.

The deferred tax asset relates to the RSS, warrant and option employee benefit schemes. The deferred tax liability relates to claims equalisation reserves. All deferred tax assets and liabilities are classified as non-current.

The movement on the total net deferred tax asset is as follows:

	30 Jun 2010 $m	**30 Jun 2009 $m**	**31 Dec 2009 $m**
As at beginning of period	3.3	1.2	1.2
Statement of comprehensive income credit	0.4	1.7	2.1
As at end of period	**3.7**	**2.9**	**3.3**

The UK Government has announced proposals to reduce the standard rate of corporation tax over the next five years. The proposals have not yet been enacted. The Group estimates the long term cost in respect of future taxes already recognised on the net deferred tax asset will be insignificant.

9. Cash and cash equivalents

	30 Jun 2010 $m	**30 Jun 2009 $m**	**31 Dec 2009 $m**
Cash at bank and in hand	46.7	9.7	288.9
Cash equivalents	222.0	333.4	151.1
Total cash and cash equivalents	**268.7**	**343.1**	**440.0**

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Included in cash at bank and in hand at 31 December 2009 is $232.5 million of cash held on deposit by LHL's share registrar to fund the special dividend payment disclosed in note 14.

Refer to note 12 for the cash and cash equivalent balances on deposit as collateral.

10. Investments

As at 30 June 2010	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities				
- Short-term investments	99.5	-	-	99.5
- U.S. treasuries	401.9	8.0	-	409.9
- Other government bonds	142.2	2.9	(0.7)	144.4
- U.S. municipal bonds	10.9	0.3	-	11.2
- U.S. government agency debt	35.5	1.0	-	36.5
- Asset backed securities	4.6	-	-	4.6
- U.S. government agency mortgage backed securities	370.8	14.9	-	385.7
- Non-agency mortgage backed securities	5.8	0.1	-	5.9
- Non-agency commercial mortgage backed securities	19.1	0.4	-	19.5
- Corporate bonds	563.3	16.5	(3.0)	576.8
- Corporate bonds - FDIC guaranteed [1]	139.7	3.2	-	142.9
Total fixed income securities - available for sale	**1,793.3**	**47.3**	**(3.7)**	**1,836.9**
Other investments - at fair value through profit and loss	**-**	**1.9**	**(0.8)**	**1.1**
Total investments	**1,793.3**	**49.2**	**(4.5)**	**1,838.0**

As at 30 June 2009	$m Cost or amortised cost	$m Gross unrealised gain	$m Gross unrealised loss	$m Estimated fair value
Fixed income securities				
- Short-term investments	336.8	-	-	336.8
- U.S. treasuries	160.5	2.7	(0.5)	162.7
- Other government bonds	43.5	0.8	-	44.3
- U.S. municipal bonds	5.3	0.1	-	5.4
- U.S. government agency debt	178.6	2.1	(0.6)	180.1
- U.S. government agency mortgage backed securities	588.3	12.8	(0.4)	600.7
- Corporate bonds	270.5	6.6	(0.6)	276.5
- Corporate bonds - FDIC guaranteed [1]	203.2	3.5	(0.1)	206.6
Total investments - available for sale	**1,786.7**	**28.6**	**(2.2)**	**1,813.1**

[1] FDIC guaranteed corporate bonds are protected by the Federal Deposit Insurance Corporation, an independent agency of the U.S. government.

As at 31 December 2009	$m	$m	$m	$m
	Cost or amortised cost	Gross unrealised gain	Gross unrealised loss	Estimated fair value
Fixed income securities				
- Short-term investments	288.8	-	-	288.8
- U.S. treasuries	251.9	4.1	(1.2)	254.8
- Other government bonds	72.5	1.5	(0.2)	73.8
- U.S. municipal bonds	2.5	-	-	2.5
- U.S. government agency debt	114.1	1.0	(0.1)	115.0
- U.S. government agency mortgage backed securities	473.7	11.6	(0.9)	484.4
- Corporate bonds	467.1	13.3	(0.6)	479.8
- Corporate bonds - FDIC guaranteed [1]	191.0	2.6	(0.2)	193.4
Total investments - available for sale	**1,861.6**	**34.1**	**(3.2)**	**1,892.5**

[1] FDIC guaranteed corporate bonds are protected by the Federal Deposit Insurance Corporation, an independent agency of the U.S. government.

Accumulated other comprehensive income is in relation to the fixed income investment portfolio and is as follows:

	$m	$m	$m	$m	$m
	Unrealised investment gains (losses) [1]	Net foreign exchange (gains) losses included in profit	Unrealised investment gains (losses)	Tax benefit (expense)	Accumulated other comprehensive income
As at 31 December 2008	**28.2**	**-**	**28.2**	**(0.6)**	**27.6**
Change	(1.8)	-	(1.8)	0.1	(1.7)
As at 30 June 2009	**26.4**	**-**	**26.4**	**(0.5)**	**25.9**
Change	4.5	-	4.5	-	4.5
As at 31 December 2009	**30.9**	**-**	**30.9**	**(0.5)**	**30.4**
Change	12.7	0.6	13.3	(0.5)	12.8
As at 30 June 2010	**43.6**	**0.6**	**44.2**	**(1.0)**	**43.2**

[1] Movements in unrealised investment gains (losses) are shown inclusive of movements in foreign exchange gains (losses).

Refer to note 12 for the investment balances in trusts in favour of ceding companies and on deposit as collateral.

11. Insurance and reinsurance contracts

Insurance liabilities	$m	$m	$m
	Unearned premiums	Other payables	Total
As at 31 December 2008	**339.6**	**17.6**	**357.2**
Net deferral for:			
Prior years	(181.8)	-	(181.8)
Current year	252.3	-	252.3
Other	-	(0.7)	(0.7)
As at 30 June 2009	**410.1**	**16.9**	**427.0**
Net deferral for:			
Prior years	(93.0)	-	(93.0)
Current year	0.5	-	0.5
Other	-	(1.1)	(1.1)
As at 31 December 2009	**317.6**	**15.8**	**333.4**
Net deferral for:			
Prior years	(186.1)	-	(186.1)
Current year	306.5	-	306.5
Other	-	3.8	3.8
As at 30 June 2010	**438.0**	**19.6**	**457.6**

Losses and loss adjustment expenses	**$m**	**$m**	**$m**
	Losses and loss adjustment expenses	**Reinsurance recoveries**	**Net losses and loss adjustment expenses**
As at 31 December 2008	**528.8**	**(42.1)**	**486.7**
Net incurred losses for:			
Prior years	10.9	(11.8)	(0.9)
Current year	84.7	(0.8)	83.9
Exchange adjustments	1.0	-	1.0
Incurred losses and loss adjustment expenses	**96.6**	**(12.6)**	**84.0**
Net paid losses for:			
Prior years	81.1	(5.5)	75.6
Current year	0.7	-	0.7
Paid losses and loss adjustment expenses	**81.8**	**(5.5)**	**76.3**
As at 30 June 2009	**543.6**	**(49.2)**	**494.4**
Net incurred losses for:			
Prior years	(70.4)	7.8	(62.6)
Current year	79.2	(0.9)	78.3
Exchange adjustments	(1.4)	(0.1)	(1.5)
Incurred losses and loss adjustment expenses	**7.4**	**6.8**	**14.2**
Net paid losses for:			
Prior years	56.7	(6.6)	50.1
Current year	5.4	-	5.4
Paid losses and loss adjustment expenses	**62.1**	**(6.6)**	**55.5**
As at 31 December 2009	**488.9**	**(35.8)**	**453.1**
Net incurred losses for:			
Prior years	(58.1)	2.0	(56.1)
Current year	250.7	(33.7)	217.0
Exchange adjustments	(9.0)	-	(9.0)
Incurred losses and loss adjustment expenses	**183.6**	**(31.7)**	**151.9**
Net paid losses for:			
Prior years	42.5	(2.6)	39.9
Current year	46.3	(17.1)	29.2
Paid losses and loss adjustment expenses	**88.8**	**(19.7)**	**69.1**
As at 30 June 2010	**583.7**	**(47.8)**	**535.9**

Reinsurance assets and liabilities	$m	$m	$m	$m
	Unearned premiums ceded	Amounts payable to reinsurers	Other receivables	Total
As at 31 December 2008	**10.0**	**(2.0)**	**3.2**	**11.2**
Net deferral for:				
Prior years	(9.4)	-	-	(9.4)
Current year	25.3	-	-	25.3
Other	-	(11.3)	(1.0)	(12.3)
As at 30 June 2009	**25.9**	**(13.3)**	**2.2**	**14.8**
Net deferral for:				
Prior years	(0.3)	-	-	(0.3)
Current year	(20.0)	-	-	(20.0)
Other	-	9.1	2.1	11.2
As at 31 December 2009	**5.6**	**(4.2)**	**4.3**	**5.7**
Net deferral for:				
Prior years	(4.6)	-	-	(4.6)
Current year	19.2	-	-	19.2
Other	-	(8.5)	(2.3)	(10.8)
As at 30 June 2010	**20.2**	**(12.7)**	**2.0**	**9.5**

The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20% increase in estimated losses would lead to a $116.7 million (30 June 2009 - $108.7 million; 31 December 2009 - $97.8 million) increase in loss reserves. There was no change to the Group's reserving methodology during the reporting periods.

The split of gross losses and loss adjustment expenses between notified outstanding losses, additional case reserves assessed by management and losses incurred but not reported is shown below:

	30 Jun 2010		30 Jun 2009		31 Dec 2009	
	$m	%	$m	%	$m	%
Outstanding losses	234.1	40.1	298.6	54.9	258.6	52.9
Additional case reserves	156.9	26.9	28.8	5.3	22.9	4.7
Losses incurred but not reported	192.7	33.0	216.2	39.8	207.4	42.4
Total	**583.7**	**100.0**	**543.6**	**100.0**	**488.9**	**100.0**

It is estimated that the duration of the Group's reserve for unpaid losses and loss adjustment expenses is approximately two years.

Claims development

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable or adverse development on net losses and loss adjustment expenses from prior years, excluding the impact of foreign exchange revaluations, was as follows:

	30 Jun 2010 $m	30 Jun 2009 $m	31 Dec 2009 $m
2006 accident year	0.9	3.5	4.4
2007 accident year	1.3	17.0	25.2
2008 accident year	26.3	(19.6)	33.9
2009 accident year	27.6	-	-
Total favourable development	**56.1**	**0.9**	**63.5**

The favourable development in 2010 arises primarily from IBNR releases due to fewer than expected reported losses. Excluding the adverse development of $39.8 million on Hurricane Ike in the first six months of 2009, prior year development to 30 June 2009 was a favourable $40.7 million. In the last six months of 2009 favourable development of $22.7 million was recorded on Hurricane Ike, bringing the net adverse development for the year in relation to that hurricane to $17.1 million. Excluding this adverse development on Hurricane Ike for the year ended 31 December 2009, prior year development was a favourable $80.6 million.

In the six months to 30 June 2010 the Group was impacted by significant losses in relation to the Chile Maule earthquake and subsequent aftershocks as follows:

	$m
Insurance losses and loss adjustment expenses	112.0
Reinstatement premium	(14.5)
Net ultimate loss as at 30 June 2010	**97.5**

The Group has exposure to risks in Chile in the following classes: property retrocession, property direct and facultative, property catastrophe, marine and onshore energy. Loss information after a severe earthquake can take longer to obtain than for other events, particularly in the property retrocession portfolio which accounts for the majority of the Group's exposure. As additional information emerges the actual ultimate net loss from the earthquake could be materially different from this estimate. The 90th percentile of the loss distribution for this estimate is $116.7 million with the 95th percentile being $123.2 million.

In September 2008, Hurricane Ike passed through the Gulf of Mexico oil fields, making landfall in the U.S. Hurricane Ike was a very destructive storm, causing damage to and destruction of a significant number of oil platforms. The estimated net ultimate financial impact on the Group of Hurricane Ike is as follows:

	$m
Net ultimate financial impact as at 31 December 2008	**150.8**
Change in insurance losses and loss adjustment expenses	49.4
Change in insurance losses and loss adjustment expenses recoverable	(9.6)
Change in other deductions	(1.4)
Net ultimate financial impact as at 30 June 2009	**189.2**
Change in insurance losses and loss adjustment expenses	(28.4)
Change in insurance losses and loss adjustment expenses recoverable	5.0
Change in reinstatement premium	0.7
Change in other deductions	0.1
Net ultimate financial impact as at 31 December 2009	**166.6**
Change in insurance losses and loss adjustment expenses	(3.1)
Change in insurance losses and loss adjustment expenses recoverable	0.5
Change in reinstatement premium	0.5
Change in other deductions	(0.4)
Net ultimate financial impact as at 30 June 2010	**164.1**

Estimation of the ultimate liability of offshore losses is complex. Loss assessments require skilled loss adjusters. The availability of loss adjusters with the necessary expertise is scarce and large events put a further strain on this resource. A substantial degree of judgement is involved in assessing the ultimate cost of Hurricane Ike, and the final amount could be materially different from that currently reported. Management's best estimate of the ultimate liability for Hurricane Ike is $176.7 million. The 90th percentile of the loss distribution for this estimate is $196.9 million with the 95th percentile being $203.7 million.

12. Letters of credit

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide letters of credit to policyholders as collateral. On 23 April 2010, LHL and LICL entered into a bi-lateral collateralised two year credit facility in the amount of $200.0 million with LloydsTSB Bank PLC. This is in addition to the existing $200.0 million syndicated collateralised five year credit facility with $75.0 million loan sub-limit that has been in place since 16 July 2007. There was no outstanding debt under this facility at any reporting date.

The facilities are available for the issue of letters of credit ("LOCs") to ceding companies. The facilities are also available for LICL to issue LOCs to LUK to collateralise certain insurance balances.

The terms of both facilities also include standard default and cross default provisions which require certain covenants to be adhered to. These include the following:

(i) a financial strength rating of at least B++; and
(ii) a maximum debt to capital ratio of 30%, where the current long-term debt issuance is excluded from this calculation.

As at all reporting dates the Group was in compliance with all covenants under these facilities.

The following LOCs have been issued:

	30 Jun 2010 $m	30 Jun 2009 $m	31 Dec 2009 $m
Issued to affiliates	-	61.9	-
Issued to third parties	17.7	25.4	25.7

Trusts
The Group has several trust agreements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

The following cash and cash equivalents and investment balances were held in trust and other collateral accounts in favour of third parties:

As at 30 June 2010	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
In various trust accounts for policyholders	24.0	207.7
In favour of letters of credit	10.3	29.3
In favour of interest rate swaps	0.2	-
In favour of futures contracts	0.2	-
Total	**34.7**	**237.0**

As at 30 June 2009	**$m**	**$m**
	Cash and cash equivalents	**Fixed income securities**
In various trust accounts for policyholders	11.3	-
In favour of letters of credit	11.6	93.3
In favour of interest rate swaps	2.8	-
In favour of futures contracts	0.5	-
Total	**26.2**	**93.3**

As at 31 December 2009	$m	$m
	Cash and cash equivalents	Fixed income securities
In various trust accounts for policyholders	14.1	100.9
In favour of letters of credit	1.9	37.0
In favour of interest rate swaps	2.8	-
In favour of futures contracts	0.6	-
Total	**19.4**	**137.9**

13. Derivative financial instruments

Derivate instrument gains and losses recorded in the condensed interim consolidated statement of income and comprehensive income are as follows:

	30 Jun 2010 $m	30 Jun 2009 $m	31 Dec 2009 $m
Net realised gains (losses) and impairments	1.4	(1.6)	0.1
Financing costs	(0.2)	(0.6)	(1.3)
Total derivative net gains (losses)	**1.2**	**(2.2)**	**(1.2)**

Realised gains and losses on futures and options contracts are included in net realised gains (losses) and impairments. The net impact of mortgage backed to be announced securities is $nil for all reporting periods.

The net fair value position owed by the Group in relation to the interest rate swap was $2.2 million (30 June 2009 - $4.4 million; 31 December 2009 - $3.6 million). The next cash settlement due on this instrument is $0.8 million (30 June 2009 - $0.7 million; 31 December 2009 - $0.8 million) and is due on 15 September 2010. The counter-party requires collateralisation of positions in excess of $2.0 million. The net impact from cash settlement and changes in estimated fair value is included in financing costs.

14. Share capital

Allocated, called up and fully paid	Number	$m
As at 31 December 2008	**182,283,095**	**91.1**
Shares issued due to warrant exercise	219,968	0.1
As at 30 June 2009 and 31 December 2009	**182,503,063**	**91.2**
Shares repurchased and cancelled	(8,950,816)	(4.5)
As at 30 June 2010	**173,552,247**	**86.7**

Own shares	**Number held in treasury**	**$m**	**Number held in trust**	**$m**
As at 31 December 2008	**9,433,168**	**58.0**	**-**	**-**
Shares repurchased	-	-	671,443	4.9
Shares distributed	-	-	(541,480)	(3.9)
As at 30 June 2009	**9,433,168**	**58.0**	**129,963**	**1.0**
Shares repurchased	2,406,674	16.9	406,960	3.1
Shares distributed	-	-	(344,095)	(2.6)
As at 31 December 2009	**11,839,842**	**74.9**	**192,828**	**1.5**
Shares repurchased	5,110,603	36.5	1,819,926	13.0
Shares distributed	-	-	(1,253,221)	(8.8)
As at 30 June 2010	**16,950,445**	**111.4**	**759,533**	**5.7**

The total value of own shares held in treasury and in trust is $117.1 million (30 June 2009 - $59.0 million; 31 December 2009 - $76.4 million).

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 30 June 2010 was 156,601,802 (30 June 2009 - 173,069,895; 31 December 2009 - 170,663,221).

Share repurchases

At the Annual General Meeting held on 4 May 2010 the Group's shareholders approved a renewal of the Repurchase Program (the "Repurchase Program") authorising the repurchase of a maximum of 18,250,306 shares, with such authority to expire on the conclusion of the 2011 Annual General Meeting or, if earlier, 15 months from the date the resolution approving the Repurchase Program was passed.

The Group continues to repurchase its own shares by way of on and off market purchases utilising the current Repurchase Program, which had 12,289,646 shares remaining to be purchased at 30 June 2010 (approximately $92.3 million at the 30 June 2010 share price).

Previously share repurchase authorisations were approved for a dollar value. As at 30 June 2009 and 31 December 2009 $42.0 million and $175.1 million, respectively, of approved repurchase remained in place under the authorisations that were current at those dates.

To date, shares have been repurchased by the Group under share repurchase authorisations as follows:

	Number of shares cancelled	**Number of shares transferred to treasury shares**	**Weighted average share price**	**$m**
As at 31 December 2008 and 30 June 2009	**13,640,916**	**9,433,168**	**£3.38**	**158.2**
Repurchases	-	2,406,674	£4.28	16.9
Balance as at 31 December 2009	**13,640,916**	**11,839,842**	**£3.46**	**175.1**
Repurchases	8,950,816	5,110,603	£4.76	100.3
Balance as at 30 June 2010	**22,591,732**	**16,950,445**	**£3.92**	**275.4**

Refer to note 16 for further disclosure regarding share repurchases from a significant founding shareholder.

At the balance sheet date $1.5 million of share repurchases remained to be settled (30 June 2009 - $0.2 million; 31 December 2009 - $0.1 million).

The trustees of the Lancashire Holdings Benefit Trust (the "EBT") acquired 1,819,926 shares (30 June 2009 - 671,443; 31 December 2009 - 1,078,403) in accordance with the terms of that trust and distributed 1,253,221 shares (30 June 2009 - 541,480; 31 December 2009 - 885,575) to satisfy obligations arising under the Group's equity based compensation schemes. There were no unsettled balances in relation to EBT purchases at any of the balance sheet dates.

Dividends
The Board of Directors authorised the following dividends:

	Authorisation date	Payment date	$m
Interim dividend of $0.05 (£0.03082)	28 July 2009	7 October 2009	10.5
Special dividend of $1.25 (£0.75625)	4 November 2009	6 January 2010	263.0
Final dividend of $0.10 (£0.06658)	25 February 2010	14 April 2010	20.8

15. Earnings per share

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Profit for the period attributable to equity shareholders	93.0	147.1	385.4

	Number of shares thousands	Number of shares thousands	Number of shares thousands
Basic weighted average number of shares	165,217	172,937	172,740
Potentially dilutive shares	14,897	11,893	15,048
Diluted weighted average number of shares	**180,114**	**184,830**	**187,788**

16. Related party disclosures

At 30 June 2010 LICL held $265.9 million (30 June 2009 - $183.7 million; 31 December 2009 - $271.3 million) of cash and cash equivalents and fixed income securities in trust for the benefit of LUK relating to intra-group reinsurance agreements.

During the period ended 30 June 2010 the Group did not make any cash donations to the EBT for funding (30 June 2009 - $1.0 million; 31 December 2009 - $1.2 million). The Group has a Loan Facility Agreement (the "Facility") with RBC Cees Trustee Limited, the Trustees of the

EBT. The Group has made advances of $20.0 million (30 June 2009 - $4.0 million; 31 December 2009 - $7.0 million) to the EBT under the terms of the Facility.

Key management compensation
Remuneration for key management (the Group's Executive Directors and non-Executive Directors) was as follows:

	Six months 2010 $m	Six months 2009 $m	Twelve months 2009 $m
Short-term compensation	2.6	2.2	5.6
Equity based compensation	2.4	2.3	6.1
Directors' fees and expenses	0.9	0.8	1.7
Monitoring fees	-	0.1	0.1
Total	**5.9**	**5.4**	**13.5**

The Directors' fees and expenses includes $0.4 million (30 June 2009 - $0.4 million; 31 December 2009 - $0.7 million) paid to significant shareholders. The monitoring fees are paid to significant founding shareholders.

Transactions with a founding shareholder
Under the share repurchase authorisations discussed in note 14, the Group repurchased common shares for cancellation from a significant founding shareholder with representation on the Group's Board of Directors. The details are as follows:

Date	Number of shares thousands	Price per share	$m
1 April 2010	4,121	$7.28	30.0
10 June 2010	1,000	$7.03	7.0
Total	**5,121**	**$7.23**	**37.0**

The sellers were Crestview Partners, L.P., Crestview Offshore Holdings (Cayman), L.P., Crestview Holdings (TE), L.P., Crestview Partners ERISA, L.P. and Crestview Partners (PF), L.P (collectively, "Crestview"). On 1 July 2010 the Group repurchased and cancelled a further 500,000 common shares from Crestview for a total of $3.7 million. All of the shares were repurchased in off-market transactions at a discount to the then prevailing market price. As of 2 July 2010 Crestview no longer owned any common shares of the Group but continues to hold 1.2 million Founders' warrants.

Transactions with the Lancashire Foundation

Cash donations to the Foundation have been approved by the Board of Directors as follows:

Date	$m
14 May 2009	1.1 million
25 February 2010	1.1 million

17. Non-cash transactions

Available for sale mortgage backed to be announced security purchases and sales of $125.0 million (30 June 2009 - $219.0 million; 31 December 2009 - $229.3 million) and $125.3 million (30 June 2009 - $219.1 million; 31 December 2009 - $229.5 million) respectively were net settled during the year through the use of derivative instruments.

The unsettled element of the share repurchase in 2010 of $1.5 million (30 June 2009 - $0.2 million; 31 December 2009 - $0.1 million) discussed in note 14 is not reflected in the 2010 cash flows to 30 June. It will be recorded in the period when it actually settles. The 2009 special dividend declared of $263.0 million is not reflected in the 2009 cash flows. The settlement date was 6 January 2010 and the cash flow on this transaction has been recorded in 2010.

18. Statutory requirements and dividend restrictions

Annual statutory capital and surplus reported to regulatory authorities by the primary operating subsidiaries was as follows:

As at 31 December 2009	$m	£m
	LICL	**LUK**
Statutory capital and surplus	1,213.6	120.0
Minimum required statutory capital and surplus	257.1	22.6

Interim unaudited statutory capital and surplus was as follows:

As at 30 June 2010	$m	£m
	LICL	**LUK**
Statutory capital and surplus	1,167.3	131.1
Minimum required statutory capital and surplus	189.8	31.7

As at 30 June 2009	$m	£m
	LICL	**LUK**
Statutory capital and surplus	1,217.8	112.5
Minimum required statutory capital and surplus	150.6	25.4

At all balance sheet dates the capital requirements of both regulatory jurisdictions were met.

19. Subsequent event

On 5 August 2010 the Board of Directors authorised the payment of an interim ordinary dividend of 5.0 cents per common share (approximately 3.15 pence per common share) to shareholders of record on 3 September 2010, with a settlement date of 13 October 2010 (the "Dividend Payment Date"). The total dividend payable will be approximately $7.6 million. An amount equivalent to the dividend accrues on all RSS awards, to be paid at the time of vesting, pro-rata according to the number of RSS awards that vest. On 18 November 2009 the Remuneration Committee approved an automatic adjustment to the exercise price of options issued under the LTIP to neutralise the devaluing impact of all future dividend payments.

In addition to the dividend payment to shareholders, $1.8 million in aggregate will be paid on the Dividend Payment Date as a dividend-equivalent payment to holders of warrants issued by the Company pursuant to the terms of the warrants.

20. Presentation

Certain amounts in the 30 June 2009 condensed interim consolidated financial statements have been re-presented to conform with the current year's presentation and format. These changes in presentation have no effect on the previously reported net profit.

Statement of Director's responsibilities

The Directors confirm that this set of unaudited condensed interim consolidated financial statements has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and where IFRS is silent, as it is in respect of the measurement of insurance products, U.S. generally accepted accounting principles have been used and the interim management report herein includes a fair review of the information required by Disclosure and Transparency Rules ('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 DTR 4.2.8R (disclosure of related parties' transactions and changes therein). The Directors also confirm that, in view of the financial statements and the information contained within the interim management report, the business is a going concern.

Note regarding forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. statements which include the words "believes", "anticipates", "plans", "projects", "intends", "expects", "estimates", "predicts", "may", "will", "seeks", "should" or, in each case, their negative or comparable terminology and similar statements are of a future or forward-looking nature. all forward-looking statements address matters that involve risks and uncertainties. accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this document entitled ''Risk disclosures'', which should be read in conjunction with the other cautionary statements that are included in this document. any forward-looking statements in this document reflect the Directors' current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity. Given these uncertainties investors are cautioned not to place any undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date of this document. subject to any obligations under the listing Rules, the Disclosure and Transparency Rules or as otherwise required by law, the company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. all subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

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INDEPENDENT REVIEW REPORT TO LANCASHIRE HOLDINGS LIMITED

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated balance sheet, the condensed interim consolidated statement of changes in shareholders' equity, the condensed interim statement of consolidated cash flows and related notes 1 to 20. 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 guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

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

As disclosed within the accounting policies, 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.

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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 enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Ernst & Young LLP

Ernst & Young LLP
London
04 August 2010