
Omega Underwriting Holdings PLC



Interim results for the six months ended 30 June 2005

29 September 2005

OMEGA DELIVERS EXCELLENT RESULTS FOR FIRST SIX MONTHS

Managed Syndicate continues exceptional 25 year track record of underwriting profit in every year since its inception in 1980

Omega Underwriting Holdings PLC (“Omega” or “the Group”) today announces its interim results for the six months to 30 June 2005

- Strong half year profit arising from unbroken profitability of managed syndicate
- Successful flotation on AIM raising £20 million in April 2005
- Profit after tax of £4.5 million
- Net tangible assets increased to £26 million
- Fully diluted earnings per share of 15.8p
- Significant strengthening of market conditions in key areas expected for 2006

Richard Tolliday, Chief Executive of Omega, said: “It is extremely pleasing to be able to report Omega’s continued strong performance and financial health in the first interim results statement since our successful flotation in April, which attracted investment from a number of leading UK institutions. I am also pleased to report a very positive outlook for the second half of 2005.

Currently Omega’s principal revenue streams are the fees and profit commissions earned from the management of Syndicate 958 and only 0.5% of the Syndicate’s underwriting capacity is supported by the Group’s own capital. We are reporting significant profits in the calendar year to date arising from the management of the Syndicate’s 2003 and 2004 years of account.

Hurricane Katrina had a devastating effect on the lives of thousands of people and seems increasingly certain to be the largest insured loss on record by some margin. However, because of Omega’s small participation in Syndicate 958 and Omega’s conservative profit recognition policy, Hurricane Katrina will have only a negligible effect on Omega’s 2005 results.

Based on all the information we have to date, we anticipate the impact of Hurricane Katrina to the Syndicate’s 2005 account being less, in terms of net cost, than the combined impact of the Florida hurricanes of 2004 to the Syndicate’s 2004 account.

We do, though, expect the impact of such an unprecedented loss on the insurance industry as a whole to lead to a significant strengthening of market conditions for 2006 in key areas of business. 2006 will offer Omega a broad range of opportunities for growth in our existing classes of business and we are accordingly reviewing our future plans.”

FINANCIAL HIGHLIGHTS

	Six month to 30 June 2005 £’000	Six months to 30 June 2004 £’000	Year to 31 December 2004 £’000
Profit before tax	4,396	2,239	3,615
Profit after tax	4,494	1,584	2,467
Earnings per Share (fully diluted) *	15.8p	7.9p	12.2p
Net tangible assets per share	69.8p	11.5p	15.6p

* In accordance with FRS22 Earnings per Share are calculated on the weighted average of ordinary shares outstanding during the period. During April the Group’s share capital increased by 17.4 million ordinary shares, an increase which is only recognised for three months of the period within the Earnings per Share calculation.

During the first half of the year the Group’s reported profits benefit from a weighting of Managing Agency fees towards the first six months of the year and a one off adjustment to the level of profit commission recognised.

Enquiries:

Richard Tolliday, Chief Executive Officer, Omega	0207 767 3000
Nicola Davies, Chief Financial Officer, Omega	0207 767 3000
Nicholas Wells, Cenkos Securities	0207 397 8920
John Coles, Weber Shandwick	0207 067 0749

Overview

This has been an exciting and transforming six months for Omega, notably including our successful placing and admission to AIM in April 2005 when we raised £18.3 million of new capital, net of expenses. The Group's interim profit after taxation is £4.5 million.

Net tangible assets increased during the six months to £26 million, reflecting the additional capital raised in April and the strong financial performance in the half year. Fully diluted earnings per share were 15.8p.

Omega's principal revenue streams derive from the fees and profit commissions earned from the management of Lloyd's Syndicate 958 by the Group's subsidiary, Omega Underwriting Agents Limited (the "Agency"), a Lloyd's managing agent. The Agency does not directly bear any insurance risks underwritten by the Syndicate.

At the time of our admission to AIM we stated our intention to review the Group's earning pattern on recognition of those profit commissions due. As detailed in the Analysis of Results below, as a consequence of that review our revenue recognition has been amended although we continue to regard it as conservative. Profits from the Group's managing agency activities based on the revised earning pattern for the period were £4.8 million.

It is only through Omega Dedicated Limited ("ODL"), the Group's Lloyd's corporate member, that the Group's capital directly bears any insurance risk. ODL underwrites solely on Syndicate 958. Whilst it has a share of 12.9% of the Syndicate's underwriting capacity for the 2005 year of account, only 0.5% of the Syndicate's capacity is supported by the Group's own capital, funds to support the balance of 12.4% being provided by third parties.

The contribution during the period from the investment of the Group's funds (which includes the proceeds of the placing in April) is £251,000.

Our key measure of success is profitability and the generation of strong returns for our shareholders. At the time of our admission to AIM we explained that the proceeds of the placing would provide the Board of Omega with the flexibility to consider a range of strategic opportunities. We explained that the Group would have the option to take up capacity on Syndicate 958 that is not sold by members of the Syndicate in the annual auctions but not retained by them for further participation. Omega also has the option and ability to use the proceeds to support up to 10.8% of the Syndicate's capacity currently owned by the Group but supported by funds provided by a third party. We further stated that the Board has considered for some time that opportunities exist for the future development of the business through investment or acquisition either in the distribution chain, alternative platforms or in other areas which would provide a good strategic fit for the business of the Group.

We consider the impact of the losses to the insurance industry from Hurricane Katrina is likely to create significant opportunities in many of Omega's core areas of expertise. Omega is therefore well placed with its flexibility and experience to seize such opportunities.

Dividend policy

At the time of our admission to AIM, we stated that the Board intends to adopt a flexible policy towards dividends depending upon the level of distributable profits and the strategic opportunities available to the Group. We explained that the first dividend that the Board expects to declare is a final dividend in respect of the year ending 31 December 2005.

Analysis of Results

Profits from Managing Agency Activities

The Agency manages the affairs of Syndicate 958. A substantial element of the profits in the Agency arises as a result of profit commissions payable to the Agency upon closure of a profitable underwriting year. As described below (Profits from Group Underwriting), we have changed our accounting policy to present the Group's share of the technical result of the Syndicate on an annual accounting basis. As part of our review when moving to annual accounting, we took the opportunity to reassess our revenue recognition within the Agency. As a consequence, the recognition of profit commission within the Agency has been amended to be more reflective of the underlying earning pattern. However no profit commission is recognised within the Agency before the second year of development. We continue to believe our estimates remain cautious. This change in earning profile along with an increased underwriting capacity and increased profitability of the Syndicate has led to a higher level of profit commission being recognised in the period to June 2005.

	Six months to 30 June 2005 £'000	Year to 31 December 2004 £'000
Total Capacity Syndicate 958	225,000	225,000
Managing Agency Income:		
Fees	1,275	1,440
Profit commission	4,196	3,262

Profits from Group Underwriting

Group underwriting profits are derived from the participation on our own managed Lloyd's syndicate, Syndicate 958. The Group participates through ODL, a dedicated corporate vehicle supplying capacity to Syndicate 958 alone. Other capital providers participate on Syndicate 958 via ODL and their interests in their share of underwriting profits have been recorded as a liability within the financial statements. For the 2005 year of account ODL has entered into a quota share reinsurance arrangement with Aspen Insurance Limited ("Aspen") to provide an additional £24 million of capacity to Syndicate 958. This reinsurance contract is annual and ODL is therefore free in respect of the 2006 year of account to choose whether to renew it or to support this capacity for its own account. ODL's participation on Syndicate 958 can be summarised as follows:

	Six months to 30 June 2005 £'000	Year to 31 December 2004 £'000	Year to 31 December 2003 £'000
Total Capacity Syndicate 958	225,000	225,000	154,000
ODL participation	29,000	4,213	3,749
Third Party participation via ODL	3,554	3,237	2,880
Aspen participation via ODL	24,305	-	-

In accordance with the basis of preparation set out in our accounting policies the Group's share of the technical result of the Syndicate is presented on an annual accounting basis, whereby results are recognised on an earned basis rather than when a year of account closes. This is a change in our accounting policy from last year and as a result all comparatives have been restated. We have, though, continued to adopt an approach consistent with our conservative philosophy with matters such as reserving.

Profits from Investment Activities

The Group's investment assets are comprised of funds recently raised on AIM along with the funds held within the Agency and the Group's share of the assets held within Syndicate 958.

The flotation raised net proceeds of £18.3 million through the issue of 17.4 million ordinary shares at 115 pence per share. Pending the strategic deployment of the capital raised, the funds have been invested under the management of our UK investment managers. In particular they have been heavily focused in bank floating rate notes. Our low risk strategy and the relatively short term duration of the notes have resulted in an annualised return of 4.5% for the period.

Taxation

In January 2005 the Group purchased the entire issued share capital of Omega Dedicated (No. 2) Limited ("ODL2") - formerly Shelter Dedicated Limited. ODL2 is a Lloyd's corporate member which provided the entire capacity to Syndicate 529 for the 2001 underwriting year. Syndicate 529's final underwriting year was 2001 which was successfully closed at the end of 2004. Upon acquisition, £7.9 million of unrelieved UK tax losses held within ODL2 became available to be offset against future profits of the Group in the calendar year 2005. As shown in note 4 the minimal UK tax charge on the Group's profit for the period has been offset against a deferred tax credit leading to an overall tax credit of £98k.

Performance of Syndicate under Management

As shown above Syndicate 958 has increased its underwriting capacity to £225 million for the 2004 and 2005 years of account. The Syndicate results on a three year funded basis can be summarised as follows:

	2004 £'000	2003 £'000	2002 £'000
Capacity	225,000	154,000	110,000
Result after standard personal expenses	5-10% (forecast)	10-15% (forecast)	10.68%

Trading conditions in the year to date in most of the Syndicate's key areas of business have met or exceeded our original expectations, with rates, terms and conditions holding up well. The effect of the hurricane losses in Florida in 2004 was that already firm rates on US property catastrophe and per risk reinsurance were maintained on average with increases in certain areas. As expected, property catastrophe reinsurance outside of the US saw reductions in rates other than in the Caribbean where demand for capacity acted to provide stability. In areas where rates declined we reduced our exposure. The consequence of this is illustrated by Syndicate 958 having incurred only small losses from winter storm Irwin and the European floods earlier in 2005.

The focus of the Syndicate's property insurance account remains on small to medium sized risks. Rate reductions have been modest in these lines and, crucially, deductibles and coverage terms have been maintained. Similarly, the Syndicate's professional indemnity account, also comprised mainly of smaller insureds, has experienced only a modest easing of rates.

Therefore, the business being underwritten by the Syndicate in 2005 affords the prospect of good margins. In addition the first six months of the year were extremely benign in terms of loss experience. In common with many others, the Syndicate's risk exposure is weighted towards the second half of the year during the windstorm season, evidenced by the hurricanes of 2004 and now Hurricane Katrina in 2005.

We agree with those that view Hurricane Katrina as likely to be the largest insured loss on record by a very considerable margin. It is, however, a loss unprecedented not only in size but also in the nature of its impact. This brings with it multiple complexities and delays in the accurate assessment of the loss to insurers and reinsurers. Coupled to the physical difficulties of assessing losses in the New Orleans area, there are issues of coverage to be resolved. Our approach in these still early days is to be extremely cautious in our provisional estimation of the impact on the Syndicate. We have based our estimates on an original insured loss of US\$40 billion, including off-shore losses. On this basis we estimate that the net exposure to Syndicate 958 is US\$24 million. (This compares to the Syndicate's total net losses from the hurricanes in 2004 of US\$30 million).

Hurricane Rita is expected to generate only a modest net loss to the Syndicate.

Prior to Hurricane Katrina the Syndicate's loss experience in 2005 had been extremely benign. Indeed, in only one other year of account since 1993 was the Syndicate's gross incurred loss ratio at six months as low as that for the 2005 account.

Throughout its history, Omega has increased or decreased the Syndicate's capacity and premium income according to its judgement of the insurance cycle and the margins of profitability afforded by market conditions. We intend to maintain this disciplined approach.

The introduction of the FSA's Individual Capital Assessment regime has had little impact on the Risk Based Capital ratio which would have been applied by Lloyd's to our 2006 underwriting plans.

Outlook

Hurricane Katrina will have only a negligible effect on Omega's 2005 results, as the Group's direct exposure to Syndicate 958's 2005 account is ODL's 0.5% share of the Syndicate's capacity for that year of account. A 0.5% share of the Syndicate's estimated loss from Hurricane Katrina is US\$120,000. In addition, 2005 is a year where we believe margins are robust in the business being underwritten and our conservative provisional estimate of the net loss to Syndicate 958 from Hurricane Katrina is less than the impact on 2004 of the Florida hurricanes. Omega's first recognition of profit commission due from the Syndicate's 2005 year of account will be in the calendar year 2006.

A key strength of Omega has always been its disciplined focus on underwriting for gross profit. Prior to Hurricane Katrina, we had been planning for 2006 with the expectation of responding to likely increased competition in some classes by reducing the Syndicate's income and exposures. We are now reviewing those plans. Whilst there are many uncertainties about the insured loss from Hurricane Katrina, we believe it almost inevitable that such a loss will have profound effects on the insurance industry. The focus of attention on the potential impact of Hurricane Rita, though ultimately a loss on a much smaller scale, will have reinforced those effects. We do expect to see the market strengthen significantly in lines of business that comprise some of Omega's key areas of expertise.

Our constant focus is on profitability and we remain confident of generating strong returns for our shareholders. Omega's team has the experience and the proven track record of taking timely, appropriate action not only to meet the challenges but also to seize the opportunities that are presented by the market. 2006 will be a year of opportunities and we will build upon them.

Richard Tolliday
Chief Executive Officer
29 September 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000 Restated	Year ended 31 December 2004 £'000 Restated
NON-TECHNICAL ACCOUNT				
Balance on the general business technical account		82	199	363
Investment income		304	17	49
Allocated investment return transferred to the general business technical account		(53)	(11)	(37)
Other income	8	5,866	3,167	4,940
Other charges, including amortisation		(1,803)	(1,133)	(1,700)
<hr/>				
Profit on ordinary activities before tax		4,396	2,239	3,615
Tax credit / (charge) on profit on ordinary activities	4	98	(655)	(1,148)
<hr/>				
Profit on ordinary activities after tax		4,494	1,584	2,467
<hr/>				
Profit for the period attributable to shareholders		4,494	1,584	2,467
<hr/>				
Retained profit for the period		4,494	1,584	2,467
<hr/>				
Earnings per share – basic	5	15.9p	7.9p	12.2p
Earning per share - diluted	5	15.8p	7.9p	12.2p
<hr/>				

The profit and loss account relates entirely to continuing activities.

There are no recognised gains or losses other than the retained profit for the period apart from the prior year restatement which increased brought forward reserves as at 31 December 2004 by £103,000 (note 2).

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 £'000	30 June 2004 £'000 Restated	31 December 2004 £'000 Restated
ASSETS				
Intangible assets				
Syndicate participations		26	43	34
		26	43	34
Investments				
Other financial investments		23,454	2,124	2,337
Deposits with ceding undertakings		28	4	11
Funds held in overseas deposits		374	236	241
		23,856	2,364	2,589
Reinsurers' share of technical provisions				
Provision for unearned premiums		2,289	436	40
Claims outstanding		1,269	661	780
		3,558	1,097	820
Debtors				
Debtors arising out of direct insurance operations		8,590	2,471	1,420
Debtors arising out of reinsurance operations		5,261	738	465
Other		1,491	269	928
		15,342	3,478	2,813
Other Assets				
Tangible assets		56	48	59
Cash at bank and in hand		3,503	2,082	1,096
		3,559	2,130	1,155
Prepayments and accrued income				
Deferred acquisition costs		3,163	780	348
Other prepayments and accrued income		5,487	4,085	4,036
		8,650	4,865	4,384
Total assets		54,991	13,977	11,795

CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 £'000	30 June 2004 £'000 Restated	31 December 200 £'000 Restated
LIABILITIES				
Capital and reserves				
Called up share capital		1,951	560	560
Share premium account		17,415	-	-
Own shares		(73)	-	-
Other reserves		277	-	-
Profit and loss account		6,665	1,806	2,619
Shareholders funds	6	26,235	2,366	3,179
Technical Provisions				
Provision for unearned premiums		13,700	3,439	1,536
Claims outstanding		8,388	2,917	3,695
		22,088	6,356	5,231
Creditors				
Creditors arising out of direct insurance operations		482	16	6
Creditors arising out of reinsurance operations		3,003	584	408
Other creditors including taxation and social services		1,605	3,120	2,024
		5,090	3,720	2,438
Accruals and deferred income		1,578	1,535	947
Total liabilities		54,991	13,977	11,795
Net asset per share		69.9p	11.7p	15.8p
Net tangible asset per share		69.8p	11.5p	15.6p

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000 Restated	Year ended 31 December 2004 £'000 Restated
Net cash inflow from operating activities	7	5,697	1,565	1,477
Taxation		(371)	-	(651)
Servicing of Finance		(81)	-	-
Capital expenditure		(6)	(40)	(70)
Financing – flotation		20,000	-	-
Issue Costs		(1,715)	-	-
<hr/>				
Net cash inflows		23,524	1,525	756
<hr/>				
Cash flows were invested as follows:				
Increase in cash holdings		2,407	1,244	258
Investments		21,117	281	498
<hr/>				
		23,524	1,525	756
<hr/>				

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of Preparation

The financial information for the year ended 31 December 2004 in this Interim Report does not constitute statutory accounts for that period, but is derived from those accounts. Statutory accounts for the year ended 31 December 2004 have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The consolidated accounts are prepared in accordance with the special provisions relating to insurance companies and groups in section 255A of, and Schedule 9A to, the Companies Act 1985, and include statements of the transactions, assets and liabilities of the Syndicate in which the subsidiary undertaking participates as a corporate member of Lloyd's. The accounts comply with applicable accounting standards. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in November 2003 (the "ABI SORP") have been adopted.

The Annual Report for the year ended 31 December 2004 was prepared using the fund basis of accounting. Under the fund basis of accounting, premiums, claims and expenses are carried forward as a fund within the technical provision for outstanding claims and profit recognition is deferred until the end of the second year following the underwriting year. Any underwriting losses, however, would be recognised immediately. For the year ending 31 December 2005, the Group will adopt the annual basis of accounting in its Annual Report and consequently this Interim Report has been prepared on this basis. Under the annual basis of accounting, a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance cover during the accounting period.

This change in the basis of accounting results in changes to a number of the accounting policies set out in the Annual Report for the year ended 31 December 2004.

The unaudited profit and loss account for each of the six month periods and the unaudited balance sheets as at 30 June 2005 and 30 June 2004 do not amount to full accounts within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The Interim report is unaudited and does not constitute Statutory Accounts.

Basis of Consolidation

The consolidated interim accounts incorporate the accounts of Omega Underwriting Holdings PLC and all its subsidiary undertakings drawn up to 30 June 2005.

Premiums

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Outwards reinsurance premiums are allocated to reflect the protection purchased by each year of account.

Unearned Premiums Provision

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of the risk.

Claims

Claims incurred comprise the estimated cost of all claims occurring during the period, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous periods.

1. ACCOUNTING POLICIES (CONTINUED)

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods. The estimation process includes the use of statistical projections based on previous claims history, case by case reviews of notified losses, and the use of security ratings to help assess the financial ability of reinsurers to pay the reinsurance recoveries anticipated of them.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in notification and settlement of certain claims and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business of later periods.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was to be unable to meet its obligations and other elements of the Lloyd's chain of security were to fail, then the members of the closed underwriting year would have to settle outstanding claims. The Directors consider that the likelihood of such failure of the reinsurance to close is extremely remote and, therefore, the reinsurance to close has been deemed to settle liabilities outstanding at the closure of the underwriting account and no further provision is made for any potential variation in the ultimate liability of that year of account.

Deferred Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Unexpired Risks

Provision is made where the cost of claims and expenses arising after the end of the financial period from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

Investment Income and Expenses

Interest income and investment expenses are recognised on an accruals basis.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the period. Unrealised investment gains and losses recorded in prior periods that have been realised during the period are reported as realised gains and losses in the current profit and loss account.

Investment return, comprising investment income, realised and unrealised gains and losses, and investment expenses, is included initially within the non-technical account. Investment return is allocated from the non-technical account to the technical account – general business so as to reflect the investment return on the Group's share of syndicate investments.

Investments

Investments are stated at their current values at the end of the year. Listed investments are included in the balance sheet at mid-market value. Unlisted investments, which are all syndicate held, are stated at an estimate of market value determined by the managing agents of the relevant syndicates. Deposits with credit institutions are included at cost.

1. ACCOUNTING POLICIES (CONTINUED)

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date will result in an obligation to pay more, or a right to pay less tax.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Syndicate Participations

Syndicate capacity purchased at auction is capitalised at cost and amortised on a straight-line basis over its estimated useful life of 5 years. Amortisation is charged from the first accounting period following acquisition. The carrying value is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be appropriate.

Pension Costs

The Group operates defined contribution pension schemes and certain Directors and staff have personal pension arrangements to which the Group contributes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

Foreign Currencies

Transactions in foreign currencies during the year are translated into sterling at average rates of exchange ruling during the period. Monetary assets and liabilities are translated into sterling at the rates ruling at the balance sheet date. Translation differences are dealt with in the technical account.

Own Shares

Own shares are stated at cost and shown as a deduction from shareholder's funds. No gain or loss is recognised in the profit and loss account, or statement of total recognised gains and losses, on the purchase, sale, issue or cancellation of the company's shares.

Share-based Payments

In accordance with FRS 20 the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a binomial model the material inputs of which are set out in note 9.

2. CHANGE OF ACCOUNTING POLICIES

Share-based Payments

The Group has adopted early the accounting treatment required for Share-based payments under FRS 20. In accordance with FRS 20 the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a binomial model. Further details of the options granted during the period can be found in note 9.

2. CHANGE OF ACCOUNTING POLICIES (CONTINUED)

Annual Accounting

The basis of accounting has been changed from the funded basis to the annual basis. The principal differences between the annual basis and the funded basis concern the timing of the recognition of underwriting results of a particular year of account. Under the funded basis, no profit was recognised until the 36th month of development of the underlying underwriting year. Prior period amounts have been restated to reflect this change in accounting policy. As at the 31 December 2004 the Group's share of the additional underwriting results was as follows:

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	Year ended 31 December 2004 £'000
Technical account balance recognised under previous policy	-	-	250
Additional recognition of the technical account balance under new policy	82	199	113

The technical account balance recognised as at 31 December 2003 under annual accounting was £483,000. The Group's direct share of the aggregate additional technical account balances amounted to £103,000, after tax, as at 31 December 2004.

3. REVENUE RECOGNITION

During 2003 the Group adopted FRS5 'Reporting the Substance of Transactions'. During the period under review the Group has taken the opportunity to review the earning profile of profit commission receivable from the managed Syndicate in line with the earning profile of the corresponding business underwritten by the Syndicate. This review has led to a revision of the amount of profit commission included in the current half year results as stated below:

	Six months ended 30 June 2005 £'000
Profit commission recognised under previous earning profile	2,237
Additional recognition of profit commission over and above the previous earning profile	1,959
	<u>4,196</u>

4. TAX CREDIT/ (CHARGE) ON PROFIT ON ORDINARY ACTIVITIES

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000 Restated	Year ended 31 December 2004 £'000 Restated
Current tax:			
UK corporation tax on profits of the period	(30)	(655)	(1,048)
Adjustment in respect of prior periods	(3)	-	(4)
Deferred tax credit/(charge)	131	-	(96)
Tax credit/(charge) for the period	<u>98</u>	<u>(655)</u>	<u>(1,148)</u>

During the period the Group has used £5.2m of unrelieved tax losses which were obtained on the acquisition of Omega Dedicated (No.2) Limited. At the balance sheet date a further £2.7m of unrelieved tax losses remain outstanding. These tax losses can only be offset against profits arising in the 2005 calendar year.

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit after taxation for the period of £4,494,000 and on 28,327,187 ordinary shares, being the weighted average number of ordinary shares in issue during the period. The number of shares in issue throughout the period and all comparatives have been restated to reflect an issue of fully paid bonus shares and a share subdivision from £1 per ordinary share into 5p ordinary shares, both of which took place during the current half year.

The number of shares for the purposes of calculating diluted earnings per share amounted to 28,447,232 to reflect the dilutive effect of the future exercise of share options as detailed in note 9.

6. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	Share capital £'000	Share premium £'000	Own shares £'000	Other reserves £'000	Profit and loss £'000	Total £'000
Balance as at 1 January 2005	560	-	-	-	2,516	3,076
Additional profit recognised as a result of the change in accounting policy (see Note 2)	-	-	-	-	103	103
Balance as at 1 January 2005 as restated	560	-	-	-	2,619	3,179
Retained profit for the period	-	-	-	-	4,494	4,494
Issue of fully paid bonus shares	448	-	-	-	(448)	-
Issue of new share capital at a premium	870	19,130	-	-	-	20,000
Issuance costs	-	(1,715)	-	-	-	(1,715)
Cost of share options	-	-	-	277	-	277
Issue & purchase of own shares	73	-	(73)	-	-	-
Balance at 30 June 2005	1,951	17,415	(73)	277	6,665	26,235

7. RECONCILIATION OF PROFIT ON ORDINARY ACTIVITIES BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	30 June 2005 £'000	30 June 2004 £'000 Restated	31 December 2004 £'000 Restated
Operating profit before taxation	4,396	2,239	3,615
Depreciation of tangible assets	7	18	32
Amortisation of intangible assets	8	9	17
(Increase) in debtors	(12,681)	(992)	(394)
(Increase)/decrease in reinsurers' share of technical provisions	(2,738)	(262)	15
(Increase) in prepayments and accrued income	(4,266)	(3,673)	(3,192)
Increase in creditors	3,202	1,709	745
Increase in technical provisions	16,857	1,854	729
Increase in accruals and deferred income	631	862	273
Purchase of own shares	(73)	-	-
Charge in relation to share option awards	277	-	-
Balance on technical account	(82)	(199)	(363)
Release of profit from trust funds	159	-	-
Net cash inflow from operating activities	5,697	1,565	1,477

8. OTHER INCOME

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	Year ended 31 December 2004 £'000
Profit commission	4,196	1,893	3,262
Fees	1,275	1,227	1,440
Management charges	200	47	238
Miscellaneous	195	-	-
Total other income	5,866	3,167	4,940

9. SHARE-BASED PAYMENTS

During the period the Company operated two Share Incentive Plans, under which share options have been granted to employees. Detailed below are the key elements of each plan:

	Long Term Incentive Plan			Executive Plan	
Date of Grant	6 April 2005	6 April 2005	8 April 2005	8 April 2005	6 April 2005
Number granted ('000)	1,471	1,484	15	77	374
Exercise price	nil	115p	115.5p	116.5p	115.5p
Exercisable	April 2006 to April 2015	April 2007 to April 2015	April 2007 to April 2015	April 2009 to April 2015	April 2009 to April 2015

Based on their estimated fair values and the Company's expectations of employee turnover, the charge to the profit and loss account, for the period from the respective dates of grant to 30 June 2005, calculated in accordance with FRS20, is £277,000.

10. INTERIM REPORT

Copies of this interim statement are available from the Company's registered office at 4th Floor, New London House, 6 London Street, London EC3R 7LP

INDEPENDENT REVIEW REPORT TO OMEGA UNDERWRITING HOLDINGS PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 which comprises the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Statement of Cash Flows, and the related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report as required by the AIM Rules issued by the London Stock Exchange.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Ernst & Young LLP
London
29 September 2005

COMPANY INFORMATION

DIRECTORS

Walter Michael Fiederowicz, *(Non-executive Chairman)*
Richard Vernon Tolliday, *(Chief Executive Officer)*
John David Robinson, *(Chief Underwriting Officer)*
Christopher Alan Clarke, *(Non-executive Director)*
Clifford Frederick Palmer, *(Non-executive Director)*

SECRETARY

Jeremy Philip Gorman

REGISTERED OFFICE

4th Floor
New London House
6 London Street
London
EC3R 7LP

SOLICITORS

Leboeuf, Lamb, Greene & MacRae
No 1 Minster Court
Mincing Lane
London
EC3R 7YL

REGISTERED NUMBER

3437588 (England)

AUDITORS

Ernst & Young LLP
1 More London Place
London
SE1 2AF

PRINCIPAL BANKERS

Barclays Bank Plc
One Churchill Place
London,
E14 5HP

NOMINATED ADVISER

Cenkos Securities Limited
6.7.8 Tokenhouse Yard
London
EC2R 7AS

REGISTRARS

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU