

## **T CLARKE PLC**

### **Interim results for the six months ended 30th June 2009**

T. Clarke plc, the electrical engineering and contracting company, has announced its interim results for the six months to 30th June 2009.

#### **Highlights:**

- Group revenue £95.8m (30th June 2008: £109.3m)
- Profit before taxation £3.1m (30th June 2008: £5.4m) \*
- Profit before tax margin 3.2% (30th June 2008: 5.0%) \*
- Closure or disposal of two regional subsidiaries
- Effective management of cost base
- Earnings per share 5.3p (30th June 2008: 9.53p)
- Robust order book £170m (30th June 2008: £230m)
- Net cash strong at £24.0m (31st December 2008: £30.4m)
- Interim dividend maintained at 4.25 pence per share
- Board confirms its intention to maintain the final dividend for 2009

\* After £1.4m of restructuring costs (2008: £nil)

#### **Completions include:**

Ropemaker Place, London; Pier Walk, Greenwich; Shell International Centre, London; Bede Academy, Blyth, Northumberland; Gloucester Quays Shopping Centre; Kent International Airport and Falkirk Football Stadium.

#### **Current projects include:**

Olympic Stadium; One New Change, London; Regents Place, London; Northumbria University Sports Centre, Newcastle; MoD Tidworth and Bulford Garrisons; Dungeness DPDS; USAF Liberty Village, Lakenheath; Brixham Fish Market and Carstairs State Hospital, Lanarkshire.

#### **Projects won include:**

Stratford City Shopping Centre; Longbenton Community College, Newcastle; Data Centre, Kent; Diana Princess of Wales Hospital, Grimsby; HMP Hull; Luminus Group Social Housing Stock, Huntingdon; Defence Estates Term Contract, USAF Bases and Midlothian Community Hospital.

Pat Stanborough, Chief Executive commented:

***“ This has been a tough six months for T. Clarke and we have not been immune from the recession. The Board has acted prudently in reducing overheads to align resource with current workload.”***

***“ Our order book remains strong, however, and enquiry levels are picking up especially in the regions. We have £170m of work in the Group’s pipeline, £75m of which is due for completion this year with £35m in London alone. We are still winning new business around the country and we are on the tender list for a significant amount of future work.”***

***“ We have taken the decision to hold the interim dividend as a sign of our commitment to shareholders and our confidence in the future and longevity of this business. Conditions are tough, but we have a strong balance sheet and the measures we have already taken to cut costs will provide an ample cushion should the downturn continue.”***

***“ This is a first class business and with 120 years of operational performance behind us, I am confident we will continue to be regarded as one of the best operators in the sector. We are in good physical and financial health and we are ready for an upturn in the economy.”***

-ends-

Date: 21<sup>st</sup> August 2009

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## **Chairman's Statement**

Group revenue fell by 12.4% to £95.8m in the first six months of the year, although trading margins held up well. At the operating level, however, margins were adversely affected by provisions against closure or disposal of two regional subsidiaries, by recognition of certain bad debts and by redundancy provisions. As a result, pre-tax margins fell to 3.2% and pre-tax profits by 42.7% to £3.1m. Earnings per share were 5.30p (2008: 9.53p).

In the circumstances, the group order book is robust at £170m (30th June 2008: £230m) whilst net cash remains strong at £24.0m (31st December 2008: £30.4m). Given our strong balance sheet, and the Board's confidence in the long term prospects for the business, the interim dividend is being maintained at 4.25 pence per share.

As indicated in our Trading Update on 17th July 2009, the difficult trading conditions have led us to undertake a strategic review of group operations. Resulting from this review, some restructuring has been instituted, primarily the winding down of operations at our Altrincham subsidiary, and the likely sale of our business near Birmingham. In light of contract completions in our core London operations, the bulk of the reduction in our headcount has been made in this area. As part of the restructuring programme, Barry DeFalco, Managing Director UK Regional Operations, will be leaving the company on 30th September 2009. The board would like to thank Barry for his many years of loyal service and wish him well for the future.

Whilst it would be unrealistic to expect a rapid return to buoyant market conditions in our sector, I have every confidence that the underlying strengths of our business, not least the quality of our staff at all levels, will stand us in good stead during the remainder of this year and into 2010.

**Russell Race**  
**Chairman**  
20<sup>th</sup> August 2009

## **Business Review**

### **Operational review**

As a result of the continuing slow down in contract awards and contract starts, we announced on 17th July 2009 the results of a strategic review of group operations. This resulted in a restructuring programme involving headcount reductions and the closure or disposal of two of our small regional businesses. We are currently winding down our operations in Altrincham and are integrating current and future business opportunities within our Preston business. We are negotiating the sale of our Birmingham business and expect this to be completed soon.

A charge of £1.4m in relation to these decisions has been recognised in the interim results. Bad debts continue to give concern and a provision of £1.9m is carried forward as at 30th June 2009 of which a £0.8m net charge has impacted profit in the current period. In addition to a reduction in headcount we have limited our apprentice intake, a sad reflection of these uncertain times.

The largest headcount reduction is in our core London operations where a number of commercial property developments are now completed or near to completion. Revenue from our core London operations was down 10.5% in the six months and operating margin was 3.7% after redundancy and other provisions of £0.9m. The London forward order book is £100m of which £35m is scheduled for completion this year.

Overall our regional businesses are operating positively with good results expected for the year from Scotland, Newcastle, Leeds, Derby, Peterborough and Bristol. Regional revenue for the six months was down 13.7% and operating margin was 2.5% after restructuring and bad debt provisions of £1.3m. The regional forward order book is £70m of which £40m is scheduled for completion this year.

### **Completions**

Ropemaker Place, London; Pier Walk, Greenwich; Shell International Centre, London; Bede Academy, Blyth, Northumberland; Gloucester Quays Shopping Centre; Kent International Airport; Regional Agriculture Centre, Harrogate Showground; various Waitrose supermarkets; St Kentigerns School, Livingstone and Falkirk Football Stadium.

### **Current projects**

Olympic Stadium; One New Change, London; Regents Place, London; Northumbria University Sports Centre, Newcastle; MoD Tidworth and Bulford Garrisons; Dungeness DPDS; Abraham Guest Secondary School, Wigan; USAF Liberty Village, Lakenheath; Brixham Fish Market and Carstairs State Hospital, Lanarkshire.

### **New work secured**

Stratford City Shopping Centre; Longbenton Community College, Newcastle; Data Centre, Kent; Diana Princess of Wales Hospital, Grimsby; HMP Hull; Luminus Group Social Housing Stock, Huntingdon; Cherry Trees Nursing Home, Derby; Defence Estates Term Contract, USAF Bases; Midlothian Community Hospital and Persimmon Homes, Larbert, Stirling, Scotland.

## Outlook

Our strategy of these past years, of diversification by market and geographical sector, has helped us during these difficult times. The actions we have had to take were due to the lack of scale and scope of the small businesses involved, and the over-capacity in our core London operations as a result of the downturn in commercial property development.

We have however secured some important new projects and we are in discussions as preferred bidder on others.

Enquiry levels are improving, the group is in good physical and financial health and is ready for an upturn in the economy. The forward order book is £170m (2008: £230m) of which £75m is scheduled for completion this year.

### **Pat Stanborough**

Chief Executive  
20th August 2009

## Financial Review

### **Summary of financial performance**

Financial performance was affected by the overall downturn in the construction and contracting sectors and group revenue for the six months to 30th June 2009 reduced by £13.5m (12.4%) to £95.8m (2008: £109.3m).

Restructuring and closure costs resulting from the decision to close or dispose of two regional subsidiaries and redundancy costs in London and the regions amounted to £1.4m and net bad debt expense was £0.8m in the first six months of 2009.

Gross profit decreased by £1.2m (7.3%) to £15.4m (2008: £16.6m) and included £0.5m of redundancy costs.

Administrative expenses increased by £0.9m (7.8%) to £12.4m (2008: £11.5m). Administrative expenses included a £0.9m charge for redundancy costs and closure provisions and a charge of £0.8m for bad debt expense, made up of a £1.0m bad debt charge as a result of regional customers experiencing difficulties offset by a £0.2m credit for cash received and other movements.

Group profit from operations decreased by £2.1m (40.6%) to £3.1m (2008: £5.2m) accounted for by the £1.4m of restructuring and redundancy costs and the £0.8m of bad debt expense.

Group profit before taxation decreased by £2.3m (42.7%) to £3.1m (2008: £5.4m).

Group profit after taxation decreased by £1.7m (41.4%) to £2.1m (2008: £3.8m) and earnings per share decreased by 4.23p to 5.3p (2008: 9.53p).

### **London operations – revenue and profit**

Revenue in London decreased by £4.7m (10.5%) to £40.5m as a result of the downturn in commercial property development and the consequent reduction in throughput from contracts.

London operating profit decreased by £0.8m to £1.5m (2008: £2.3m) and the operating profit margin reduced from 5.0% to 3.7% after accounting for £1.1m of redundancy costs and other provisions offset by a bad debt provision reversal of £0.2m. Excluding the effect of the £1.1m of redundancy costs and provisions, London operating profit would have been approximately £2.6m, a margin of 6.4%.

London profit before taxation decreased by £0.9m to £1.5m for the six months to 30th June 2009 (2008: £2.4m).

### **Regional operations – revenue and profit**

Revenue from regional operations decreased by £8.8m (13.7%) to £55.3m (2008: £64.1m) with regional operations contributing 58% of group revenue for the six months.

Regional operating profit decreased by £1.3m (48.9%) to £1.4m and operating profit margin decreased from 4.2% to 2.5% as a result of £0.3m of restructuring costs and £1.0m of bad debt expense in the period. Excluding the effect of the £0.3m of restructuring costs, regional operating profit would have been approximately £1.6m, a margin of 3.0%.

Regional profit before taxation decreased by approximately half to £1.4m (2008: £2.8m).

### **Group profit before taxation**

Group profit before taxation decreased 42.7% to £3.1m and the profit before tax margin reduced to 3.2% compared to 5% as at 30th June 2008. Excluding the effect of the £1.4m of restructuring and redundancy costs, profit before taxation would have been approximately £4.5m, a margin of 4.7%.

Taxation decreased by £0.6m to £1.0m for the six months to 30th June 2009. The effective tax rate reduced to 31.8% compared to 34.0% at 31st December 2008 (the higher rate included the effect of £1.8m of tax disallowable goodwill impairment in 2008).

### **Cash flow and dividend**

Net cash from operating activities resulted in a net cash outflow of £3.6m for the six month period ended 30th June 2009 compared to a net cash inflow of £13.7m for the comparative six month period ended 30th June 2008. The net outflow arose due to a £5.3m increase in debtors and contract balances and £2.6m of corporation tax paid, partially offset by a £1.2m increase in creditors and £3.1m of operating profit. In the comparative period to 30th June 2008, cash generated by operations was boosted by an increase in creditors of £12.0m.

Net cash (including bank overdrafts) was £24.0m as at 30th June 2009, compared to £30.4m as at 31st December 2008. Included within £24.0m net cash was £25.0m of cash and short-term deposits and £1.0m of overdrafts held at the period end.

The interim dividend has been maintained at 4.25p per share reflecting the strength of the balance sheet, the Board's confidence in the business and the desire to provide an ongoing return to shareholders. The Board has also confirmed its intention to maintain the final dividend for 2009. The interim dividend will be paid on 2nd October 2009 as detailed in Note 6.

### **Pension obligations**

The post-tax pension scheme deficit on the balance sheet has increased from £1.9m as at the year end to £3.7m as at 30th June 2009. The increase in the pension scheme liabilities is mainly due to a reduction of 0.5% in the discount rate (reflecting a decrease in the yield on AA-rated corporate bonds in the first six months of 2009 from 6.7% to 6.2%) and a 0.5% increase in the inflation rate assumption to 3.2%.

If the yield on AA-rated corporate bonds were to decrease in the future, the effect would be to increase the pension scheme deficit with the loss being recognised through reserves on the balance sheet. The company is currently consulting with members on a number of possible changes to its defined benefit pension scheme arrangements.

**Victoria French**  
Finance Director  
20<sup>th</sup> August 2009

## Consolidated income statement

	Unaudited 6 Months to 30 06 2009	Unaudited 6 Months to 30 06 2008	Audited 12 Months to 31 12 2008
	£000	£000	£000
<b>Revenue</b>	95,807	109,342	223,725
Cost of sales	(80,395)	(92,716)	(185,242)
<b>Gross profit</b>	15,412	16,626	38,483
Other operating income	44	43	100
Administrative expenses	(12,373)	(11,478)	(26,001)
<b>Profit from operations</b>	3,083	5,191	12,582
Investment income	166	276	965
Finance costs	(148)	(59)	(151)
<b>Profit before taxation</b>	3,101	5,408	13,396
Taxation	(985)	(1,601)	(4,559)
<b>Profit for the period from continuing operations</b>	2,116	3,807	8,837
Earnings per share	5.30p	9.53p	22.12p

## Consolidated statement of comprehensive income

	£000	£000	£000
Profit for the period	2,116	3,807	8,837
Other comprehensive income:			
Actuarial (loss)/ gains on defined benefit pension scheme	(2,557)	47	324
Tax credit/(debit) on actuarial losses/gains on defined benefit pension scheme	716	(14)	(91)
<b>Total comprehensive income for the period</b>	275	3,840	9,070

## Consolidated statement of financial position

	Unaudited 30 06 2009	Unaudited 30 06 2008	Audited 31 12 2008
	£000	£000	£000
<b>Non current assets</b>			
Goodwill	12,584	14,385	12,584
Property, plant and equipment	6,663	7,655	7,747
Deferred taxation	93	86	90
	<u>19,340</u>	<u>22,126</u>	<u>20,421</u>
<b>Current assets</b>			
Inventories	286	267	292
Construction contracts	15,883	15,138	11,255
Debtors	14,921	23,426	14,220
Cash and cash equivalents	24,980	22,774	34,363
	<u>56,070</u>	<u>61,605</u>	<u>60,130</u>
<b>Total assets</b>	<u>75,410</u>	<u>83,731</u>	<u>80,551</u>
<b>Current liabilities</b>			
Bank overdraft and loans	970	3,470	4,002
Creditors and accruals	42,080	48,963	40,907
Corporation tax liabilities	1,275	1,775	2,954
Obligations under finance leases	200	289	216
	<u>44,525</u>	<u>54,497</u>	<u>48,079</u>
<b>Net current assets</b>	<u>11,545</u>	<u>7,108</u>	<u>12,051</u>
<b>Non current liabilities</b>			
Retirement benefit obligation	3,655	2,227	1,938
Deferred taxation	-	-	-
Obligations under finance leases	137	176	221
	<u>3,792</u>	<u>2,453</u>	<u>2,159</u>
<b>Total liabilities</b>	<u>48,317</u>	<u>56,950</u>	<u>50,238</u>
<b>Net assets</b>	<u>27,093</u>	<u>26,781</u>	<u>30,313</u>
<b>Equity</b>			
Share capital	3,995	3,995	3,995
Share premium	1,234	1,234	1,234
Profit and loss account	21,864	21,552	25,084
<b>Total equity</b>	<u>27,093</u>	<u>26,781</u>	<u>30,313</u>

## Consolidated statement of cash flows

	Unaudited 6 Months to 30 06 2009	Unaudited 6 Months to 30 06 2008	Audited 12 Months to 31 12 2008
	£000	£000	£000
<b>Net cash from operating activities (see note 8)</b>	<u>(3,648)</u>	<u>13,662</u>	<u>26,314</u>
<b>Investing activities</b>			
Interest received	166	276	905
Purchase of property, plant and equipment	(93)	(252)	(1,024)
Receipts on disposal of property, plant and equipment	<u>853</u>	<u>59</u>	<u>320</u>
<b>Net cash from investing activities</b>	<u>926</u>	<u>83</u>	<u>201</u>
<b>Financing activities</b>			
Equity dividends paid	(3,495)	(3,236)	(4,934)
Repayments of obligations under finance leases	<u>(134)</u>	<u>(156)</u>	<u>(171)</u>
<b>Net cash used in financing activities</b>	<u>(3,629)</u>	<u>(3,392)</u>	<u>(5,105)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>	(6,351)	10,353	21,410
<b>Cash and cash equivalents at beginning of period</b>	<u>30,361</u>	<u>8,951</u>	<u>8,951</u>
<b>Cash and cash equivalents at end of period (see note 8)</b>	<u>24,010</u>	<u>19,304</u>	<u>30,361</u>

## Consolidated statement of changes in equity

	Unaudited 6 months to 30 06 2009	Unaudited 6 months to 30 06 2008	Audited 12 Months to 31 12 2008
	£000	£000	£000
<b>Balance at start of period</b>	30,313	26,177	26,177
Profit for period	2,116	3,807	8,837
Other comprehensive income:			
Actuarial (loss)/gain on defined benefit pension scheme	(2,557)	47	324
Tax on actuarial loss/gains on defined benefit pension scheme	716	(14)	(91)
Total comprehensive income for the period	275	3,840	9,070
Interim dividend paid	-	-	(1,698)
Prior year final dividend paid	(3,495)	(3,236)	(3,236)
<b>Balance at end of period</b>	27,093	26,781	30,313

## **Notes to the condensed consolidated financial statements for the six months to 30th June 2009**

### **Note 1 – Basis of preparation**

T.Clarke plc (the 'company') is a company incorporated in the United Kingdom. The consolidated interim financial statements comprise the condensed financial statements of the company and its subsidiaries (together the 'Group').

The interim financial information in this statement does not constitute statutory accounts. The statutory accounts for the year to 31st December 2008 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

These interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34') as adopted by the European Union, and the Disclosure and Transparency Rules ('DTR') of the Financial Services Authority. They do not include all the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31st December 2008.

The interim financial statements have not been audited or reviewed by the company's auditors.

### **Note 2 – Accounting policies**

Except as described below, the financial statements have been prepared using the accounting policies and presentation that were applied in the audited financial statements for the year ended 31st December 2008.

Taxes on income in the interim periods are accrued using the estimated effective tax rate that would be applicable to expected total annual earnings.

IAS 1 (revised) 'Presentation of financial statements' is mandatory for accounting periods beginning on or after 1st January 2009. The revised standard prohibits the presentation of items of income and expenditure within the statement of changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two (the income statement and statement of comprehensive income). The Group has elected to present two performance statements, the consolidated income statement and the consolidated statement of comprehensive income. IAS 1 has also introduced a number of changes in terminology, and as a consequence the balance sheet has been renamed the 'consolidated statement of financial position' and the cash flow statement has been renamed the 'consolidated statement of cash flows'. There have been no changes to the reported results or financial position as a result of adopting the revised standard.

### Note 3 – Segmental information

The Group considers that it has only one business segment, being mechanical and electrical contracting.

For management and internal reporting purposes the Group is organised into two operating divisions, London and UK Regions, and an internal property division. All assets and liabilities of the Group have been allocated to divisions, apart from the retirement benefit obligation and tax assets and liabilities.

<b>30<sup>th</sup> June 2009</b>	<b>London £000</b>	<b>UK Regions £000</b>	<b>Property £000</b>	<b>Unallocated £000</b>	<b>Elimination £000</b>	<b>Total £000</b>
Revenue	40,454	55,353	316	-	(316)	95,807
Profit from operations	1,481	1,371	231	-	-	3,083
Investment income	126	40	-	-	-	166
Finance costs	(127)	(21)	-	-	-	(148)
Profit before tax	1,480	1,390	231	-	-	3,101
Taxation expense						(985)
Profit for the period from continuing operations						2,116
Assets	34,265	41,325	6,171	93	(6,444)	75,410
Liabilities	(26,836)	(17,868)	(5,127)	(4,930)	6,444	(48,317)
Net assets	7,429	23,457	1,044	(4,837)	-	27,093

Profit from operations for the 6 months ended 30th June 2009 for London and the UK regions is stated net of a restructuring charge of £1,099,000 and £267,000, respectively.

<b>30<sup>th</sup> June 2008</b>	<b>London £000</b>	<b>UK Regions £000</b>	<b>Property £000</b>	<b>Unallocated £000</b>	<b>Elimination £000</b>	<b>Total £000</b>
Revenue	45,184	64,158	321	-	(321)	109,342
Profit from operations	2,277	2,684	230	-	-	5,191
Investment income	190	86	-	-	-	276
Finance costs	(49)	(10)	-	-	-	(59)
Profit before tax	2,418	2,760	230	-	-	5,408
Taxation expense						(1,601)
Profit for the period from continuing operations						3,807
Assets	31,488	56,331	5,660	86	(9,834)	83,731
Liabilities	(27,350)	(30,614)	(4,768)	4,052	9,834	(56,950)
Net assets	4,138	25,717	892	(3,966)	-	26,781

<b>31<sup>st</sup> December 2008</b>	<b>London £000</b>	<b>UK Regions £000</b>	<b>Property £000</b>	<b>Unallocated £000</b>	<b>Elimination £000</b>	<b>Total £000</b>
Revenue	102,132	121,593	637	-	(637)	223,725
Profit from operations	9,753	2,425	404	-	-	12,582
Investment income	781	275	-	-	(91)	965
Finance costs	(97)	(145)	-	-	91	(,151)
Profit before tax	10,437	2,555	404	-	-	13,396
Taxation expense						(4,559)
Profit for the period from continuing operations						8,837
Assets	41,532	38,996	6,027	90	(6,094)	80,551
Liabilities	(31,140)	(15,236)	(5,064)	(4,892)	6,094	(50,238)
Net assets	10,392	23,760	963	(4,802)	-	30,313

Profit from operations for the UK regions for the 12 months ended 31st December 2008 is stated net of a goodwill impairment charge of £1,800,000.

#### **Note 4 – Taxation expense**

The taxation charge is calculated by applying the estimated effective annual tax rate to the profit for the period.

	<b>Unaudited 30 06 2009 £000</b>	<b>Unaudited 30 06 2008 £000</b>	<b>Audited 31 12 2008 £000</b>
<b>Current taxation</b>			
Current year	940	1,566	4,451
Prior year	-	-	23
	<u>940</u>	<u>1,566</u>	<u>4,474</u>
<b>Deferred taxation</b>			
Arising on:			
Current year timing differences	45	35	85
	<u>45</u>	<u>35</u>	<u>85</u>
<b>Taxation expense</b>	<u>985</u>	<u>1,601</u>	<u>4,559</u>

#### **Note 5 – Earnings per share**

Earnings per share are calculated on the basis of the weighted average of 39,947,889 ordinary shares in issue (30th June 2008: 39,947,889; 31st December 2008: 39,947,889) and profit attributable to shareholders of £2,116,000 (30th June 2008: £3,807,000; 31st December 2008: £8,837,000).

#### **Note 6 – Interim dividend**

An interim dividend of 4.25p per share (2008: 4.25p) was approved by the board on 20th August 2009 and has not been included as a liability as at 30th June 2009. The shares will go ex-dividend on 2nd September 2009 and the dividend will be paid on 2nd October 2009 to shareholders on the register as at 4th September 2009. A dividend reinvestment plan is available for shareholders. Those shareholders who have not elected to participate in this

plan, and who would like to participate with respect to the 2009 interim dividend, may do so by contacting Capita Registrars on 0870 162 3131. The last day for election for the interim dividend reinvestment is 7th September 2009 and any requests should be made in good time ahead of that date.

	Unaudited 30 06 2009	Unaudited 30 06 2008	Audited 31 12 2008
	£000	£000	£000
Dividends paid in year			
Final dividends in respect of previous year	3,495	3,236	3,236
Interim dividend in respect of the current year	-	-	1,698
Dividends recognised in the year	<u>3,495</u>	<u>3,236</u>	<u>4,934</u>

### Note 7 – Pension commitments

The present value of the defined benefit pension scheme and the related past and current service costs were measured using the projected unit credit method. The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement scheme is as follows:

	Unaudited 30 06 2009	Unaudited 30 06 2008	Audited 31 12 2008
	£000	£000	£000
Present value of defined benefit obligations	21,854	22,139	18,924
Fair values of scheme assets	<u>(16,778)</u>	<u>(18,977)</u>	<u>(16,233)</u>
Deficit in scheme	5,076	3,162	2,691
Related deferred tax asset	<u>(1,421)</u>	<u>(885)</u>	<u>(753)</u>
Liability recognised in the balance sheet	<u>3,655</u>	<u>2,277</u>	<u>1,938</u>
Key assumptions used:			
Rate of increase in salaries	4.20%	5.20%	3.70%
Rate of increase of pensions in payment	2.90%	3.70%	2.40%
Discount rate	6.20%	6.70%	6.70%
Inflation assumption	3.20%	4.20%	2.70%
Expected return on scheme assets	6.60%	6.90%	6.60%

	Unaudited 30 06 2009	Unaudited 30 06 2008	Audited 31 12 2008
Mortality assumptions (years):			
Life expectancy at age 65 for current pensioners:			
Men	23.7	23.7	23.7
Women	26.8	26.8	26.8
Life expectancy at age 65 for future pensioners (current age 45)			
Men	24.8	24.8	24.8
Women	27.8	27.8	27.8

## Note 8 – Notes to the consolidated statement of cash flows

	Unaudited 30 06 2009	Unaudited 30 06 2008	Audited 31 12 2008
<b>a – Reconciliation of operating profit to net cash from operating activities</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Profit from operations	3,083	5,191	12,582
Depreciation charges	333	430	828
Goodwill impairment charge	-	-	1,801
Defined benefit pension scheme credit	(270)	(129)	(252)
Loss on sale of fixed assets	25	16	25
Operating cash flows before movements in working capital	3,171	5,508	14,984
Decrease / (increase) in inventories	6	20	(5)
(Increase) / decrease in debtors	(701)	1,647	10,852
Increase in contract balances	(4,628)	(4,043)	(159)
Increase in creditors	1,173	12,030	3,973
Cash generated by operations	(979)	15,162	29,645
Corporation tax paid	(2,619)	(1,452)	(3,179)
Interest paid	(50)	(48)	(152)
Net cash from operating activities	(3,648)	13,662	26,314

### b. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, less bank overdrafts, and are analysed as follows:

	Unaudited 30 06 2009	Unaudited 30 06 2008	Audited 31 12 2008
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	24,980	22,774	34,363
Bank overdrafts	(970)	(3,470)	(4,002)
	24,010	19,304	30,361

## Note 9 – Related party transactions

Transactions between the company and its subsidiary undertakings, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Full disclosure of the group's other related party transactions is given in Note 19 to the Group's financial statements for the year ended 31st December 2008. There have been no material changes in these relationships in the six months ended 30th June 2009 that have materially affected the financial position or performance of the group during that period.

## **Note 10 – Risks and uncertainties**

Details of the key risks facing the group are included on pages 7, 8 and 13 of the group's annual report and financial statements for the year ended 31st December 2008. Details of further potential risks and uncertainties arising for the six months ended 30th June 2009 are included within the Chairman's statement and the Business and Financial Reviews as appropriate. The directors consider that the main areas of risk and uncertainty with respect to the remainder of 2009 remain market conditions, operational risk, cost inflation, people, health & safety, credit and liquidity risk, cashflow interest rate risk and risk from pension obligations.

### **Statement of directors' responsibilities**

The directors confirm that the interim management report includes a fair review of the information required by DTR 4.2.7 (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 4.2.8 (disclosure of related party transactions and changes therein). The directors also confirm that the interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and present a true and fair view of the assets, liabilities, financial position and profit of the group.

### **On behalf of the Board**

**R J Race** - Chairman

**P E Stanborough** - Chief Executive

**V R French** - Finance Director

20<sup>th</sup> August 2009