

Ai CLAIMS SOLUTIONS PLC

Interim Report for the 6 months ended 31 December 2008

FINANCIAL OVERVIEW

- Revenue increased by 25% to £24.0m (2007: £19.2m).
- EBITDA before re-structuring costs increased by 14.4%.
- Adjusted PBT reduced by 13.5% to £713k – before IFRS 2 charges (2007: £824k).
- Gross margin of 30.5% (2007: 31.8%).
- Total net borrowings of £6.1m (30 June 2008: £2.9m).
- Debtor days of 91 days (30 June 2008: 82 days).
- Interim dividend of 0.26p per share (2007: 0.26p).

OPERATIONAL HIGHLIGHTS

- Development of manufacturer business both directly and through insurer partnerships.
- Launch of Broker Aid to the intermediary market.
- Ramp up of bespoke claims management system (CARS) to 80% of all business.
- Defenda product voted 'Claims Initiative of the Year' at the Insurance Times Awards.
- Ai named 'North West Business of the Year' at the North West Society of Chartered Accountants Annual Business Awards.

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CHAIRMAN'S STATEMENT

I am pleased to say that Ai's business model continues to be resilient in very challenging economic and financial conditions.

RESULTS OVERVIEW

	6 months to 31 December 2008 Unaudited £'000	6 months to 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Revenue	24,017	19,191	40,835
Profit before taxation and IFRS2 charge (Adjusted Profit Before Tax)	713	824	2,159
IFRS 2 charge	(45)	(35)	(113)
Profit before taxation	668	789	2,046
Tax on profit on ordinary activities	(214)	(295)	(657)
Profit after taxation	454	494	1,389

Ai's revenue grew by 25% from £19.2m to £24.0m as a result of the full roll out of a major insurer contract awarded in 2008. Through process innovation, Ai has been able to deliver market leading levels of conversion to our customers. This has directly resulted in referrers being able to offer their policyholders a significantly enhanced overall customer journey, converting approximately 85% of cases into service using the lower risk, lower margin model. Trading volumes in the first quarter were impacted by a reduction in referrals, which as commented on elsewhere in the sector, seems to have resulted from a reduction in accident frequency as significant increases in oil prices reduced vehicle usage. As oil prices have fallen, referrals have returned to expected levels.

Our policy of partnering with car rental providers rather than maintaining our own fleet of vehicles means that our vehicle costs are 100% variable and as such are not impacted by potential write downs from falling car values nor the challenge of achieving a profitable level of fleet utilisation faced by our competitors.

We continue to make progress in providing claims management services to Motor Manufacturers, who relate to our proactive approach to claims management. We have recently been selected to provide services to three additional major manufacturers, to add to our first award last year. These contracts will achieve full ramp up after 1 July 2009.

A number of the Defenda pilots have completed and we are in discussion with various insurers on future arrangements.

Our administration costs have grown in line with turnover. These include restructuring costs of £115,000 (2007: £nil) and a further £128,000 of depreciation and amortisation compared to the comparative period as the new computer system was in use throughout the period. Approximately 80% of our business is now transacted through the new system and we expect operational efficiencies to flow through into the second half of the year.

Our cash generation was below target and we are witnessing insurers having to deal with an increase in litigious cases from traditional credit hire operators, which is delaying their own turn-round time. Debtor days increased to 91 days from 82 days at 30 June 2008. Our debtor days remain significantly lower than our peer group and we are working closely with insurers to improve their payment performance.

The increase in debtor days combined with an underlying growth in business and continued capital expenditure of £577k resulted in net borrowings increasing to £6.1m from £2.9m. Net debt remains at a manageable level and our current overdraft of £5.1m leaves a considerable amount of headroom within our overall overdraft facility of up to £10m.

PROSPECTS AND DIVIDENDS

The economic climate remains challenging to consumers and to the insurance market generally; and looks set to remain so for the foreseeable future. All the large insurers have now adopted Credit Hire as a solution to the provision of 'like for like' replacement vehicles to their 'not at fault' customers. Insurers are seeing credit hire as a means of securing revenue to mitigate the increase in third party costs. Across the market, business has been secured at lower margins than historically witnessed in the sector, and our efficient operational and financial platform is critical to competing successfully.

I believe we are correctly positioned to withstand these challenges and capitalise on opportunities which present themselves. Insurers and intermediaries are increasingly looking at all aspects of their operations to harness opportunities for cost efficiencies and value generation. I believe Ai's established product range, supported by an efficient operating platform, will offer value generating options such as savings in third party claims costs, administration expenses or enhanced revenue. I believe we have good prospects for building on our success in these areas, although the market continues to be competitive.

The second half of the year will continue to be challenging. While continuing to pursue operational growth, a strong focus will be on operational delivery and to ensure we manage our cash and costs effectively.

The Board is pleased to announce an unchanged interim dividend of 0.26p per share, which will be paid on 2 July 2009 to shareholders on the register as at 5 June 2009.

Steve Broughton

Chairman

24 February 2009

CONSOLIDATED INCOME STATEMENT

	Note	6 months ended 31 December 2008 Unaudited £'000	6 months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Revenue		24,017	19,191	40,835
Cost of sales		<u>(16,701)</u>	<u>(13,083)</u>	<u>(27,629)</u>
Gross profit		7,316	6,108	13,206
Administrative expenses		<u>(6,546)</u>	<u>(5,263)</u>	<u>(11,071)</u>
Operating profit		770	845	2,135
Financial income		-	-	21
Financial expenses		<u>(102)</u>	<u>(56)</u>	<u>(110)</u>
Profit before taxation		668	789	2,046
Taxation	4	<u>(214)</u>	<u>(295)</u>	<u>(657)</u>
Profit for the period		<u>454</u>	<u>494</u>	<u>1,389</u>
Basic EPS	3	<u>0.74 p</u>	<u>0.80 p</u>	<u>2.26 p</u>
Diluted EPS	3	<u>0.73 p</u>	<u>0.79 p</u>	<u>2.23 p</u>

All operations are continuing.

There were no recognised income and expense items other than that reported above for each of the periods. Accordingly, no separate consolidated statement of total recognised income and expense has been prepared.

CONSOLIDATED BALANCE SHEET

	Note	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Audited £'000
Non current assets				
Goodwill		6,726	6,726	6,726
Other intangible assets		3,002	2,400	2,679
Property, plant and equipment		2,410	2,675	2,610
Deferred tax asset		30	450	152
		<u>12,168</u>	<u>12,251</u>	<u>12,167</u>
Current assets				
Trade and other receivables	6	22,077	12,883	17,446
Cash and cash equivalents		41	2,134	53
		<u>22,118</u>	<u>15,017</u>	<u>17,499</u>
Total assets		<u>34,286</u>	<u>27,268</u>	<u>29,666</u>
Current liabilities				
Financial liabilities - borrowings	7	(5,136)	(157)	(1,956)
Trade and other payables	8	(14,154)	(13,240)	(13,011)
Current tax liabilities		(142)	-	(49)
		<u>(19,432)</u>	<u>(13,397)</u>	<u>(15,016)</u>
Non current liabilities				
Financial liabilities - borrowings	7	(995)	(1,076)	(1,027)
		<u>(995)</u>	<u>(1,076)</u>	<u>(1,027)</u>
Total liabilities		<u>(20,427)</u>	<u>(14,473)</u>	<u>(16,043)</u>
Net assets		<u>13,859</u>	<u>12,795</u>	<u>13,623</u>
Shareholders' equity				
Share capital		6,142	6,142	6,142
Share premium account		1,579	1,579	1,579
Other reserves		248	193	271
Retained earnings		5,890	4,881	5,631
Total shareholders' equity		<u>13,859</u>	<u>12,795</u>	<u>13,623</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium account £'000	Other reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 31 December 2006	6,136	1,573	93	3,868	11,670
Total recognised income and expense	-	-	-	839	839
Dividends	-	-	-	(142)	(142)
Equity settled share based payment transactions	-	-	65	-	65
Issue of ordinary share capital	6	6	-	-	12
Balance at 30 June 2007	6,142	1,579	158	4,565	12,444
Total recognised income and expense	-	-	-	494	494
Dividends	-	-	-	(178)	(178)
Equity settled share based payment transactions	-	-	35	-	35
Balance at 31 December 2007	6,142	1,579	193	4,881	12,795
Total recognised income and expense	-	-	-	895	895
Dividends	-	-	-	(160)	(160)
Deferred tax on share options	-	-	-	15	15
Equity settled share based payment transactions	-	-	78	-	78
Balance at 30 June 2008	6,142	1,579	271	5,631	13,623
Total recognised income and expense	-	-	-	454	454
Dividends	-	-	-	(209)	(209)
Equity settled share based payment transactions	-	-	45	-	45
Transfer between reserves upon lapse of share based payment options	-	-	(68)	68	-
Purchase of treasury shares	-	-	-	(54)	(54)
Balance at 31 December 2008	6,142	1,579	248	5,890	13,859

CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 31 December 2008 Unaudited £'000	6 months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Cash flows from operating activities			
Profit for the year	454	494	1,389
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	219	327	621
Amortisation of other intangible assets	236	-	171
Share compensation charge	45	35	113
Financial income	-	-	(21)
Financial expense	102	56	110
Taxation	214	295	657
(Increase) / decrease in receivables	(4,631)	278	(4,285)
Increase in payables	934	2,198	2,148
Interest paid	(102)	(56)	(110)
	<hr/>	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	(2,529)	3,627	793
Cash flows from investing activities			
Interest received	-	-	21
Purchases of property, plant and equipment	(247)	(801)	(295)
Purchases of other intangible assets	(330)	-	(1,185)
Purchases of treasury shares	(54)	-	-
	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(631)	(801)	(1,459)
Cash flows from financing activities			
Dividends paid	-	-	(338)
Proceeds of borrowings	3,209	-	1,278
Repayment of borrowings	(31)	(592)	(48)
Payment of finance lease liabilities	(30)	(106)	(179)
	<hr/>	<hr/>	<hr/>
Net cash used in financing activities	3,148	(698)	713
Net (decrease) / increase in cash and cash equivalents	(12)	2,128	47
Cash and cash equivalents at beginning of period	53	6	6
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of period	41	2,134	53

NOTES TO THE INTERIM REPORT TO 31 DECEMBER 2008

1 BASIS OF PREPARATION

The results for the six months ended 31 December 2008, which are unaudited, have been prepared on a basis consistent with the recognition and measurement principles of International Financial Reporting Standards (IFRS); this is consistent with the accounting policies set out in the audited annual accounts.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 30 June 2008, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985.

2 SEGMENT REPORTING

The Group operates in one business segment, being the delivery of accident management and other solutions to the automotive and insurance sectors, conducted wholly in the United Kingdom. Accordingly, no segmental information for business segment or geographical segment is required.

3 EARNINGS PER SHARE

	6 months ended 31 December 2008 Unaudited £'000	6 months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
These have been calculated on earnings of:	<u>454</u>	<u>494</u>	<u>1,389</u>
The weighted average number of shares used was:-	'000	'000	'000
Basic	61,116	61,416	61,416
Dilutive effect of share options	858	831	742
Diluted	<u>62,275</u>	<u>62,247</u>	<u>62,158</u>

4 TAXATION

	6 months ended 31 December 2008 Unaudited £'000	6 months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Current year tax charge	<u>214</u>	<u>295</u>	<u>657</u>

The tax charge is based on the estimated expected tax rate for the period. The effective tax rate for the six months ended 31 December 2008 is 32% (six months ended 31 December 2007: 37%). This varies from the basic rate of corporation tax (six months ended 31 December 2008: 28%; six months ended 31 December 2007: 28%) as a result of non deductible expenditure. The effective rate was higher in 2007 as a result of the reduction in the deferred tax asset due to the change in the basic rate of corporation tax.

5 EARNINGS BEFORE INTEREST, TAX, DEPRECIATION & AMORTISATION

Earnings before interest, tax, depreciation and amortisation (EBITDA) have been calculated are follows:

	6 months ended 31 December 2008 Unaudited £'000	6 months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Operating profit	770	845	2,135
Depreciation	219	327	621
Amortisation	236	-	171
EBITDA	<u>1,226</u>	<u>1,172</u>	<u>2,927</u>

6 TRADE AND OTHER RECEIVABLES

	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Audited £'000
Trade receivables	12,893	9,083	10,017
Other receivables	601	807	638
Prepayments and accrued income	8,583	2,993	6,791
	<u>22,077</u>	<u>12,883</u>	<u>17,446</u>

7 FINANCIAL LIABILITIES - BORROWINGS

	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Audited £'000
Current liabilities			
Current portion of secured bank loans	39	46	38
Current portion of finance lease liabilities	39	111	69
Bank overdraft	<u>5,058</u>	<u>-</u>	<u>1,849</u>
	<u>5,136</u>	<u>157</u>	<u>1,956</u>
Non current liabilities			
Bank loans	995	1,045	1,027
Obligations under finance leases and similar hire purchase contracts	<u>-</u>	<u>31</u>	<u>-</u>
	<u>995</u>	<u>1,076</u>	<u>1,027</u>

8 TRADE AND OTHER PAYABLES

	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Audited £'000
Current liabilities			
Trade payables	4,916	4,336	2,844
Other taxation and social security	1,718	2,354	2,224
Other payables	432	804	238
Dividend declared	209	178	-
Accruals	6,879	5,568	7,705
	<u>14,154</u>	<u>13,240</u>	<u>13,011</u>

9 INTERIM REPORT

This interim report was approved by the Board on 24 February 2009.

INDEPENDENT REVIEW REPORT TO Ai CLAIMS SOLUTIONS PLC

Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 31 December 2008 which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and the consolidated cash flow statement and the related notes 1 to 9 set out on pages 8 to 10. We have read the other information contained in the half-yearly financial report which comprises the Financial Highlights, Operational Highlights and Chairman's Statement 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 ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

Our responsibility

Our responsibility is to express to the company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with ISRE (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 financial information in the half-yearly financial report for the six months ended 31 December 2008 is not prepared, in all material respects, in accordance with the basis of preparation described in Note 1.

**GRANT THORNTON UK LLP
REGISTERED AUDITOR
MANCHESTER, UNITED KINGDOM**

24 February 2009