

Ai CLAIMS SOLUTIONS PLC
Interim Report for the 6 months ended 31 December 2010

	6 Months To Dec 10 Unaudited £'000	6 Months To Dec 09 Unaudited £'000	Year To Jun 10 Audited £'000
Revenue	60,139	38,151	91,929
Gross margin	17.6%	19.2%	18.1%
Adjusted profit ¹	1,715	906	2,722
Profit before taxation	1,685	855	2,630
Taxation	(486)	(261)	(708)
Profit for the period	1,199	594	1,922
Dividends	(227)	(208)	(385)
Earnings per share ["EPS"]:			
- Adjusted basic ²	2.01p	1.06p	3.29p
- Basic	1.96p	0.97p	3.14p
Dividend per share	0.33p	0.29p	0.66p

Financial Highlights

- Revenue increased by 57% to £60.1m from £38.2m
- 89% increase in adjusted profits¹ of £1.7m (6M to Dec 09: £0.9m)
- Earnings² before interest, taxation, depreciation & amortisation ("EBITDA") up 69% to £2.7m (6M to Dec 09: £1.6m)
- Gross margin of 17.6% (6M to Dec 09: 19.2%) reflecting change in mix of business
- Adjusted profit¹ margin of 2.9% (6M to Dec 09: 2.4%)
- 5.9 percentage points increase in annualised return² on shareholders' funds to 14.6% (6M to Dec 09: 8.7%)
- Adjusted basic EPS of 2.01p (6M to Dec 09: 1.06p)
- Proposed interim dividend of 0.33p per share, 13.8% up on the prior year (6M to Dec 09: 0.29p per share)

Notes

¹ "Adjusted profit" represents profit before taxation excluding IFRS 2 share option charges

² based on profit for the period excluding IFRS 2 share option charges

Operational Highlights

- Successful implementation of a major broker based scheme from 1 July 2010
- Settlement reached with major insurer post period end to settle £4.9m of GTA³ debt due at 31 December 2010 and also to enter into a forward payment protocol. The settlement will be concluded with no diminution to the carrying value of the debt.
- Work-in-Progress (“WiP”) days reduced by 3 days to 36 days (30 Jun 10: 39 days) as a result of prompter billing.
- Non GTA³ debtor days reduced by 4 days to 48 days (30 Jun 10: 52 days).
- GTA³ debtor days increased by 10 days to 133 days (30 Jun 10: 123 days). Adjusting for the post period settlement (to date) with the major insurer (noted above), GTA³ debtor days, at 31 December 2010, would have been 17 days lower than reported at 116 days (30 Jun 10: 123 days).
- Contracts renewed with two large referral providers & piloting products with a 2nd large self insured organisation.
- Retained the business of a large automotive client & continued to work with vehicle manufacturers to develop their branded accident management schemes.
- Developed & implemented a voice recording solution across all of Ai’s operational and claims departments to further improve Ai’s customer journey and enhance the ability to collect cash faster than the industry norms.
- Secured the Investors in People Silver Award.

Note

³ *the Association of British Insurers’ General Tariff Agreement*

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Chairman's Statement

I am delighted to report a record start to the year. The key highlights are:

- Adjusted profit up 89% to £1.7m
- Revenue up 57% to £60.1m
- Adjusted basic EPS up 90%
- Major new contract implemented successfully from 1 July 2010
- Settlement post period end with a major insurer covering 9% of GTA debt and agreement to a forward payment protocol

Results Overview

A significant new scheme, which commenced on 1 July 2010, together with several smaller contract wins led to revenues increasing to £60.1m from £38.2m for the comparative period, a 57% increase. The new schemes were implemented successfully and are performing well and in line with expectations.

Repair based service revenue grew by 81% to £19.9m (6M to Dec 09: £11.0m) for the half year and hire services by 53% to £39.0m (6M to Dec 09: £25.5m). Other income lines declined by £0.3m to £1.3m (6M to Dec 09: £1.6m) due to a decision taken not to develop a strategic IT solution for a particular product line. Repair services now represents 33% of revenue (6M to Dec 09: 29%), hire services 65% (6M to Dec 09: 67%) and other income lines 2% (2009: 4%).

Gross margin % reduced from 19.2% to 17.6% due to the change in business mix towards repair, although it is slightly ahead of the margin achieved in the 6 months to 30 June 2010 of 17.4%.

The increase in volume has enabled us to leverage our operational cost base leading to a reduction in the operating cost ratio from 16.5% to 14.1%. Overall, we achieved a 0.5 percentage point increase in adjusted profit margin to 2.9% (6M to Dec 09: 2.4%).

Annualised return (post tax, interest and IFRS2) on shareholders' funds of 14.6% has improved from 8.7% in the comparative period, an increase of 68% in this measure.

As anticipated, our growth resulted in an increased working capital funding requirement which led to an operational cash outflow (i.e. before interest and tax) of £2.0m (6M to Dec 09: £2.5m outflow). Net debt stood at £23.0m compared to £19.4m at 30 June 2010. The overdraft of £21.7m (30 Jun 10: £18.1m) remains comfortably within the £30.0m facility. Gearing stood at 132% (30 Jun 10: 120%), in line with our expectations.

We continue to place significant management focus on improving our level of WiP and trade receivables. WiP days improved by 3 days during the period to 36 days (30 Jun 10: 39 days). Debtor days on cases managed under the GTA lengthened to 133 days (30 Jun 10: 123 days). Debtor days on non GTA billings reduced by 4 days to 48 days (30 Jun 10: 52 days). Total debtor days increased to 114 days (30 Jun 10: 103 days).

I am pleased to report that we have recently achieved a settlement of all outstanding debt and implemented a forward protocol to pay our invoices within 15 days with a major insurer. Had the settlement to date been received by 31 December 2010, GTA debtor days would have been 17 days lower at 116 days (30 Jun 10: 123 days) at the period end &, likewise, total debtor days would have been 10 days lower at 104 days (30 Jun 10: 103 days). This settlement, covering 9% of our total

GTA debt at the 31 December 2010 was achieved with no diminution in the carrying value of the debt.

We continue to see significant variability between insurers with regard to payment patterns for the same population of claims. It takes some insurers a lot longer to pay than others but, in Ai's experience, this does not have a material impact on the level it ultimately collects at. This means certain insurers are faced with unnecessarily higher internal claims administration costs, reserving uncertainty and increased capital requirements than the more efficient members of their peer group.

Ai is committed to working with Insurers to resolve outstanding claims. We maintain it is more efficient to manage all claims through the GTA Protocol, even after the initial 90 day period. Litigation is used by Ai as a last resort and only after negotiations break down. In the 6 month period to 31 December 2010, we have litigated 33 cases (representing 0.07% of Ai's total claims settled for that period). 13 cases were resolved before trial and only 1 case has actually been heard at court. Resolved cases have, on average, achieved 114% of the original debt but it takes about 5 months before we issue proceedings and then a further 5 months to the trial date. It is, therefore, a relatively slow process and does not make the recovery process more efficient, in fact it slows down cash receipts.

Prospects and Dividends

Ai is not immune from the pressures facing the economy, and in particular the impact on motorists of rising insurance premiums and fuel prices. We maintain prudent forecasting parameters and are confident of delivering a full year result comfortably in line with market estimates.

The Board is pleased to announce an interim dividend of 0.33p per share (6M to Dec 09: 0.29p), an increase of 13.8%. The dividend will be paid on 14 July 2011 to shareholders on the register at 17 June 2011.

Steve Broughton

Chairman

1 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 6 MONTHS TO 31 DECEMBER 2010

	6 Months To Dec 10 Unaudited £'000	6 Months To Dec 09 Unaudited £'000	Year To Jun 10 Audited £'000
Note			
Revenue	60,139	38,151	91,929
Cost of sales	(49,555)	(30,839)	(75,265)
Gross profit	10,584	7,312	16,664
Administrative expenses	(8,515)	(6,281)	(13,600)
Operating profit	2,069	1,031	3,064

Financial expenses		(384)	(176)	(434)
Profit before taxation		1,685	855	2,630
Income tax	4	(486)	(261)	(708)
Profit for the period		1,199	594	1,922
Basic earnings per ordinary share	3	1.96p	0.97p	3.14p
Diluted earnings per ordinary share	3	1.95p	0.96p	3.11p

All income arises from continuing operations.

There are no items to be recognised in a separate consolidated statement of comprehensive income and, accordingly, this statement has been combined with the consolidated statement of income in this preliminary announcement.

The profit for the period is fully attributable to the owners of the parent.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	31 Dec 10 £'000	31 Dec 09 £'000	30 Jun 10 £'000
Assets				
Non-current assets				
Goodwill		6,726	6,726	6,726
Other intangible assets		3,760	3,376	3,530
Property, plant & equipment		2,443	2,238	2,463
Deferred tax asset		111	28	111
		13,040	12,368	12,830
Current assets				
Trade & other receivables	5	64,368	38,748	55,998
Cash & cash equivalents		50	103	183
		64,418	38,851	56,181
Total assets		77,458	51,219	69,011
Liabilities				
Current liabilities				
Interest bearing loans & borrowings	6	(22,014)	(11,938)	(18,582)
Trade & other payables	7	(36,602)	(22,575)	(32,646)

Income tax liability		(592)	(715)	(479)
		<u>(59,208)</u>	<u>(35,228)</u>	<u>(51,707)</u>
Non-current liabilities				
Interest bearing loans & borrowings	6	(1,036)	(918)	(1,001)
Total liabilities		<u>(60,244)</u>	<u>(36,146)</u>	<u>(52,708)</u>
Total assets less total liabilities		<u>17,214</u>	<u>15,073</u>	<u>16,303</u>
Shareholders' equity				
Share capital		6,142	6,142	6,142
Share premium account		1,579	1,579	1,579
Other reserves		201	275	269
Retained earnings		9,320	7,131	8,341
Treasury shares		(28)	(54)	(28)
Total shareholders' equity		<u>17,214</u>	<u>15,073</u>	<u>16,303</u>

CONSOLIDATED STATEMENT OF CASH FLOW
6 MONTHS TO 31 DECEMBER 2010

	Note	6 Months To Dec 10 Unaudited £'000	6 Months To Dec 09 Unaudited £'000	Year To Jun 10 Audited £'000
Cash flows from operating activities				
Profit for the period		1,199	594	1,922
Adjustments for:				
Depreciation of property, plant & equipment		287	225	453
Amortisation of other intangibles		300	292	604
Share compensation charge		30	51	92
Cash settled share options		(91)	-	-
Share options exercise		-	-	26
Financial expense		384	176	434
Taxation		486	261	708
Increase in trade & other receivables		(8,370)	(7,652)	(24,687)
Increase in trade & other payables		3,729	3,539	13,552
Interest paid		(384)	(176)	(434)
Taxation paid		(373)	-	(753)
Net cash outflow from operating		<u>(2,803)</u>	<u>(2,690)</u>	<u>(8,083)</u>

activities			
Cash flows from investing activities			
Purchases of property, plant & equipment	(79)	(47)	(154)
Purchases of other intangible assets	(531)	(545)	(1,089)
Net cash outflow from investing activities	(610)	(592)	(1,243)
Cash flows from financing activities			
Repayment of borrowings	(99)	(52)	(216)
Finance lease principal repayments	(16)	(57)	(93)
Dividends paid	-	(160)	(385)
Net cash outflow from financing activities	(115)	(269)	(694)
Net decrease in cash & cash equivalents	(3,528)	(3,551)	(10,020)
Cash & cash equivalents at the start of the period	(18,146)	(8,126)	(8,126)
Cash & cash equivalents at the end of the period	(21,674)	(11,677)	(18,146)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
6 MONTHS TO 31 DECEMBER 2010

	Share capital £'000	Share premium £'000	Other reserves £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
At 1 January 2009	6,142	1,579	248	(54)	5,944	13,859
Profit & total comprehensive income for the period	-	-	-	-	847	847
Share based payments	-	-	97	-	-	97
Tax on items charged to equity	-	-	-	-	(8)	(8)
Dividends to equity holders	-	-	-	-	(159)	(159)
At 30 June 2009	6,142	1,579	345	(54)	6,624	14,636
Profit & total comprehensive income for the period	-	-	-	-	594	594
Share based payments	-	-	(70)	-	121	51

Dividends to equity holders	-	-	-	-	(208)	(208)
At 31 December 2009	6,142	1,579	275	(54)	7,131	15,073
Profit & total comprehensive income for the period	-	-	-	-	1,328	1,328
Share based payments	-	-	(6)	26	47	67
Tax on items charged to equity	-	-	-	-	12	12
Dividends to equity holders	-	-	-	-	(177)	(177)
At 30 June 2010	6,142	1,579	269	(28)	8,341	16,303
Profit & total comprehensive income for the period	-	-	-	-	1,199	1,199
Share based payments	-	-	(68)	-	7	(61)
Dividends to equity holders	-	-	-	-	(227)	(227)
At 31 December 2010	6,142	1,579	201	(28)	9,320	17,214

NOTES TO THE INTERIM STATEMENT: 6 MONTHS TO 31 DECEMBER 2010

1. Basis Of Preparation

The results for the six months to 31 December 2010, 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 434 of the Companies Act 2006. The Group's statutory financial statements for the year to 30 June 2010 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 498(2) or Section 498(3) of the Companies Act 2006.

2. Segmental Reporting

The Group operates in one operating 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 operating segments is disclosed.

3. Earnings Per Share

Basic Earnings Per Ordinary Share

The calculation of basic earnings per ordinary share at 31 December 2010 is based on the profit for the period attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the period, calculated as follows:

	6 Months To Dec 10 Unaudited	6 Months To Dec 09 Unaudited	Year To Jun 10 Audited
Profit for the period attributable to ordinary shareholders	£1,199,000	£594,000	£1,922,000
Weighted average number of ordinary shares	61,274,522	61,116,189	61,151,965
Basic earnings per share	1.96p	0.97p	3.14p

Diluted Earnings Per Ordinary Share

The calculation of diluted earnings per ordinary share at 31 December 2010 is based on the profit for the period attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the period including share options with a dilutive effect, calculated as follows:

	6 Months To Dec 10 Unaudited	6 Months To Dec 09 Unaudited	Year To Jun 10 Audited
Profit for the period attributable to ordinary shareholders	£1,199,000	£594,000	£1,922,000
Weighted average number of ordinary shares – diluted	61,515,091	61,676,769	61,709,295
Diluted earnings per share	1.95p	0.96p	3.11p

Adjusted Basic Earnings Per Ordinary Share

The calculation of adjusted basic earnings per ordinary share at 31 December 2010 is based on the profit for the period attributable to equity holders of the parent¹ and a weighted average number of ordinary shares outstanding during the period, calculated as follows:

	6 Months To Dec 10 Unaudited	6 Months To Dec 09 Unaudited	Year To Jun 10 Audited
Profit for the period attributable to ordinary shareholders ¹	£1,229,000	£645,000	£2,014,000
Weighted average number of ordinary shares	61,274,522	61,116,189	61,151,965
Adjusted basic earnings per share	2.01p	1.06p	3.29p

¹ *excluding IFRS 2 share option charges*

4. Taxation

	6 Months To Dec 10 Unaudited	6 Months To Dec 09 Unaudited	Year To Jun 10 Audited
	£'000	£'000	£'000

Current period tax charge	486	261	708
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The tax charge is based on the estimated expected tax rate for the period. The effective tax rate for the 6 months to 31 December 2010 is 28.8% (6M to 31 Dec 2009: 30.5%). The effective rate of tax for the year to 30 June 2010 was 26.9%. The basic rate of corporation tax for both the 6 months to 31 December 2010 & the 6 months to 31 December 2009 was 28.0%. The effective rate used varies from this due to non-deductible expenditure.

5. Trade & Other Receivables

	31 Dec 10	31 Dec 09	30 Jun 10
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Trade receivables	48,812	24,492	40,956
Other receivables	1,514	2,763	1,617
Prepayments and accrued income	14,042	11,493	13,425
	64,368	38,748	55,998

6. Financial Liabilities - Borrowings

	31 Dec 10	31 Dec 09	30 Jun 10
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Current liabilities			
Current portion of secured bank loans	99	104	103
Current portion of finance lease liabilities	191	54	150
Bank overdraft	21,724	11,780	18,329
	22,014	11,938	18,582

	31 Dec 10	31 Dec 09	30 Jun 10
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Non-current liabilities			
Bank loans	740	826	776
Finance lease liabilities	296	92	225
	1,036	918	1,001

7. Trade & Other Payables

	31 Dec 10	31 Dec 09	30 Jun 10
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Current liabilities			

Trade payables	18,380	7,439	12,914
Other taxation and social security	8,098	3,717	5,822
Other payables	714	407	609
Dividend declared	227	208	-
Accruals and deferred income	9,183	10,804	13,301
	36,602	22,575	32,646

8. Interim Report

This interim report was approved by the Board on 1 March 2011.

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 to 31 December 2010 which comprises the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flow and the related Notes 1 to 8. We have read the other information contained in the half-yearly financial report which comprises the Group Financial Summary & Highlights and the 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 to 31 December 2010 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
1 March 2011