

Accident Exchange Group Plc
Interim Report 2008

Accident Exchange Group Plc

provides accident management and other solutions to the automotive and insurance related sectors



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Overview

- Revenue up 11% to £86.0 million (2007: £77.4 million)
- Hire revenue from top 40 clients (comprising 676 individual automotive referring sites) up 28% in the period
- H1 rental days up by 11% to 570,000 (2007: 514,000)
- Difficult trading in Q2 depressed claim volumes and generated shorter average rental lengths
- Economic conditions in the automotive retail sector impacted carrying values of fleet

Financial

- Cash generated from operations up 115% to £18.3 million (2007: £8.5 million)
- Adjusted operating profit*: £11.6 million (2007: £13.4 million)
- Exceptional fleet impairment charge: £19.6 million (2007: £nil)
- Statutory operating loss: £8.7 million (2007: £11.4 million profit)
- Adjusted net finance costs*: £8.2 million (2007: £4.8 million) including finance costs of Convertible Notes (issued January 2008) of £2.7 million (2007: £nil)
- Adjusted profit before taxation*: £3.4 million (2007: £8.6 million)
- Statutory loss before taxation: £15.4 million (2007: £6.5 million profit)
- Working capital headroom of £22.6 million (31 October 2007: £8.7 million; 30 April 2008: £37.0 million)

* Adjusted operating profit, adjusted gross profit, adjusted net finance costs and adjusted profit before taxation are all stated before amortisation of acquired intangible assets, cost of share based payments, change in fair value of derivative financial liability and exceptional costs (including the exceptional fleet impairment charge referred to above)

Cost Reductions

- Fleet purchase commitments recently reduced by over £36.0 million reflecting changed commercial arrangements with referrers; expected to drive annualised savings of approximately £7.0 million
- Fleet capital commitments have reduced from £101.4 million (April 2008) to approximately £50 million
- Cost reduction programme in place to realise a further £6.0 million in annualised cost savings
- Sustained focus on cash control
- Board not recommending the payment of an interim dividend (2007: 1.0 pence per share)

Chairman's Statement



This has been a challenging period, affected by the economic environment and the automotive market in particular. We retain our focus on working capital and margin improvement.

Introduction

These results are presented against a background of unprecedented volatility in all aspects of the economy, both domestic and international.

We reported in our trading update of 17 November 2008 that during the second quarter of our financial year ending 30 April 2009 ("Q2") the marked deterioration in the outlook for the UK economy presented us with challenging trading conditions. It is now evident that we are in recession and that this is seriously affecting consumer confidence. Road fuel prices rose sharply in Q2 leading to increased use of public transport, reduced traffic volumes and, consequently, reduced accident volumes and rental lengths. Trafficmaster plc issued a press release in late October in which it noted a 27% decline in traffic congestion reports.

Amongst our predominantly automotive referral base, commercial morale is low. Whilst we continue to work with our referral partners to identify and then exploit those

opportunities which help them generate after-sales revenue, referral volumes have not yet risen in the manner that we would normally expect at the start of winter.

Trading

Our recent experiences are consistent with this depressed picture with claims activity through the second quarter being lower than both those of our expectations and the levels seen in the first quarter of our financial year. As we entered the seasonally stronger second half of the year, referral levels broadly returned to the levels experienced last year, albeit with rental lengths being shorter than both those for the first quarter of the current year and for the whole of the prior year. We attribute this shorter rental length to improved efficiency in the speed of vehicle repairs arising from greater capacity within the repair industry, which itself has arisen from reduced accident volumes.

It still remains to be seen whether seasonally increased accident rates, with their consequent increased demand on the body shop industry,

will return referral levels and rental lengths to those experienced in H2 of last year. Hire starts in November 2008 were consistent with the number of hire starts in November 2007.

Our core relationships remain strong. Hire revenue generated from our top 40 clients (which reflect 676 individual automotive sector referring sites) in the period was up 28% and the volume of credit hire business generated through the insurer channel is growing.

Whilst the level of revenue growth is encouraging and we remain confident about the prospects of the business, we have to respond to the current economic situation in order to manage the business in a more challenging trading environment. As a consequence, specific cost reduction plans have and are being implemented. Once completed these actions, which are predominantly non customer facing, are anticipated to realise annualised cost and cash savings of approximately £13.0 million and will better balance the cost base of the business with levels of activity lower than originally forecast.

The economic downturn has also had a significant impact on new car registrations this year and the used car market has also been more difficult with a reduction in demand for used vehicles particularly over Q2. Activity levels on the Group's trade auction website (www.aecarauction.com) have helped the Group weather part of the reduction in demand. Since the website was launched in January 2008, over 1,400 vehicles have been sold to trade buyers for a total consideration of £16.7 million. Other disposal channels include a direct-to-trade route and the use

of conventional auction houses and we will continue to dispose of vehicles where market conditions permit on the best available terms.

Declining consumer confidence and an over-supply in the new car market in recent months has reduced trade demand for used vehicles. Exceptional factors have materially depressed forecast residual fleet values which are reflected in a £19.6 million exceptional impairment charge (the "Fleet Impairment") being made against the carrying value of our own fleet in these half year results (2007: £nil). This has reduced the net book value of fleet to £80.9 million (2007: £80.4 million). This charge has contributed to a statutory loss before taxation of £15.4 million being reported for the period (2007: profit of £6.5 million).

Your Board became concerned about the potential effects of a recession on the fleet profile and started to take corrective action in the summer. Fleet purchase commitments have been already reduced by over £36.0 million, reflecting renegotiated commercial arrangements with referrers. These changes are expected to yield net annualised interest and depreciation savings of approximately £7.0 million. A further £8.0 million reduction in vehicle purchase commitments is being negotiated.

Cash is being tightly managed through the reduction in capital investment referred to above and also through a drive to minimise costs and maximise cash flow. Capital commitments relating to contracted fleet purchases have reduced from £101.4 million in April 2008 to approximately £50 million as at today. Cash collected through the litigation

Chairman's Statement

process increased by 44% in the six months ended 31 October 2008 compared with the previous six months. Total cash collected in the period was a record £80.9 million (2007: £63.0 million).

The Group now has a panel of 18 specialist firms of solicitors who act in respect of those claims where the debt remains outstanding after the 90 days allowed by the ABI GTA protocol. Around 24,000 cases have now been sent to solicitors for settlement with over 12,400 of those cases having now been settled. Positively, around 70% of those cases that have settled did so before the issue of a formal hearing date by the Court.

Cash collections from the litigation process continue to improve and so does its effect on creating the basis for in-house settlement discussions with certain insurers continuing beyond the expiry of the 90 day GTA period. Litigation is more often being used only where all reasonable avenues of compromise and negotiation have failed. Litigation will, however, remain a core part of the Group's collection strategy in order to drive cash flow, which is the Group's primary objective.

As set out below in the Financial Review, the Group has working capital headroom of £22.6 million and continues to operate within its banking covenants.

Dividends

Given the current economic environment and the measures being adopted to improve cash management, the Board does not recommend the payment of an interim dividend (2007: 1.0 pence per share).

Outlook

This has been a challenging period and has clearly been affected by the economic environment in general and the automotive market in particular. Having dealt successfully with the Enforceability Challenge in 2007, good progress has been made on a number of key operational and strategic fronts.

As a result of current market conditions we are focusing intently on reducing costs, on further improving cash collection and on protecting revenue whilst maintaining acceptable margins.

We are committed to taking the action necessary to ensure that we reduce our cost base, restrict capital outflow and apply an unremitting determination to reduce debt and improve cash flow.



David Galloway

Non-Executive Chairman

Financial performance

Revenue

Total revenue for the six months ended 31 October 2008 rose 11% to £86.0 million (2007: £77.4 million). Accident management and related services (primarily credit hire) revenue ("Credit Hire Revenue") rose 12% to £64.6 million (2007: £57.5 million) while our lower margin credit repair revenue rose 8% to £21.4 million (2007: £19.9 million).

Overall rental days for the first half were up by 11% to 570,000 (H1 2007: 514,000). Rental days in Q1 were 307,000 (Q1 2007: 251,000) and 263,000 in Q2 (Q2 2007: 263,000). Whilst Q2 was below expectations, rental days in October recovered and were 12% up on September at 93,000 (October 2007: 91,000). Rental days reduced slightly in November to 90,000, though this represented a 3% increase on the comparative period (November 2007: 87,000).

Gross profit and margin

Adjusted gross profit* was £29.1 million (2007: £26.8 million) reflecting a 33.8% gross margin (2007: 34.6%). After the Fleet Impairment of £19.6 million (2007: £nil) gross profit was £9.5 million (2007: £26.8 million). Adjusted gross margin* improvement obtained in Q1 was adversely impacted in Q2 by the economic events narrated in the Chairman's Statement (referral volumes and rental length reduction), resulting in overall margins for the half year being down on the comparative period.

Fleet related costs (depreciation, contract hire charges, fleet repair and delivery charges and losses on disposal) in H1 rose slightly to 39.4% of Credit Hire Revenue, up from 39.1% in the comparative period. Increased commissions paid to referrers equated to 1.2% of Credit Hire Revenue. This increase reflected the renegotiated terms made with a number of our referral partners over the last six months in respect of reductions in vehicle purchase commitments. While these negotiated changes will result in higher referral commissions payable in respect of contracts where fleet purchase commitments have been reduced, this will be

more than compensated for by corresponding reductions in the amount of fleet related costs in the future.

The adjusted margin movement reflects H1 rental days in our prestige segments having dropped by 4% compared to the previous year, with lower margin mainstream rental days having increased by 36%. This led to utilisation in our prestige segments in H1 dropping to 53.8% from 58.8% in the comparative period and mainstream utilisation increasing from 72.0% to 75.5%. The prestige utilisation drop was most evident in Q2 falling to only 48.3% from 59.4% in Q1, again as a result of the economic issues referred to above. More recently prestige utilisation has improved to 55.3%.

The total fleet increased slightly from 5,935 vehicles at 30 April 2008 to 5,992 at the period end (2007: 6,081) with the revenue generating fleet increasing from 4,850 at 30 April 2008 to 5,151 by 31 October 2008 (2007: 4,999) in anticipation of the seasonally busier second half of the financial year. Management attention continues to be focused upon improving margins through improved prestige fleet utilisation and reduced fleet ownership costs.

Administrative expenses

Administrative expenses, before amortisation of acquired intangible assets and cost of share based payments, rose 30.6% to £17.5 million in H1 (H1 2007: £13.4 million; H2 2008: £15.6 million). Administrative salary related costs rose 29.4% to £8.8 million (2007: £6.8 million) as the Group expanded in expectation of continued growth. Headcount at 31 October totalled 812 (2007: 636) up from 715 at 30 April 2008. Additional depots in the South East and Belfast became operational in the period giving rise to increased premises fixed costs of £1.9 million (2007: £1.5 million) which should facilitate margin improvement through reduced delivery costs as the new premises become fully operational in H2. Marketing expenditure rose from £0.3 million to £1.4 million primarily as a result of the sponsorship of the BMW Dealer Team UK British Touring Car Championship entry. BMW

Financial Review

dealerships remain one of the key referral franchises for the Group and the relationship with BMW is strong.

Although the Group's cost base was increased in order to maintain customer service quality through the busier autumn and winter period, we are now implementing a number of specific cost reduction projects, commercial relationship changes and cash management initiatives to better position the Group in these more uncertain economic conditions. One of these key initiatives relates to fleet costs referred to earlier and the annualised saving as a result of this is expected to be at least £7.0 million. Overhead savings are currently being determined, which, together with further fleet reduction programmes, are expected to generate, once implemented, annual savings of approximately £6.0 million.

Fleet, residual values and exceptional impairment cost

The economic downturn has had a sudden and significant impact on new car registrations and consequently the used car market has also been materially affected with reduced consumer demand driving reduced appetite for fleet purchases in the automotive trade. These changes have been at a pace and magnitude never experienced before.

The Group has a continuing exposure to the residual value of its fleet and started to take action in the summer to reduce both that level of exposure and the level of risk associated with fleet. Reducing our level of exposure involved the renegotiation of contract terms with a number of our referral partners resulting in vehicle purchase commitments already having reduced by over £36.0 million. As a result, capital commitments for motor vehicles, which are contingent upon an exclusive relationship being upheld by our referring partners and on the maximum expected referral volumes being received from each, reduced from £101.4 million at 30 April 2008 to approximately £50 million as of today.

The Group uses data provided by CAP Motor Research ("CAP") to help predict future residual values on its vehicle fleet. The CAP data helps fleet operators predict the expected future residual value of a vehicle based on its age, original purchase price and current and expected mileage. It uses empirical data gathered from manufacturers, dealers and auction houses which are assessed in a forward-looking model to drive forecast residual values on a model by model basis.

We stated in our trading update of 17 November that we were anticipating CAP would issue materially revised market data at the end of November given the impact of the recent economic environment on the automotive sector. We also stated our intention to use this data to quantify the exceptional impairment charge that we believe is appropriate to make against the carrying value of our fleet as at 31 October 2008.

The data received from CAP on 2 December contained valuations that were materially below that anticipated by the Board when issuing the trading update. It is absolutely clear that motor manufacturers are facing an unprecedented and difficult economic environment and the Board has attempted to fully reflect this uncertainty in using the CAP data to form its own view of residual values.

The basis of determining the required impairment in accordance with IAS 36 'Impairment of Assets' is explained in more detail in note 4 to the financial information, however most notably the magnitude of reduction in values reported by CAP has resulted in the exceptional impairment charge rising to £19.6 million (2007: £nil) now charged against the results for the first half of the year.

The basis of determining the appropriate ongoing monthly depreciation charge on vehicles will now change so that for each vehicle, on a monthly basis, we will predict its residual value at its intended disposal date based on the Board's view of data provided by CAP, with the difference between its net book

value and its CAP value being depreciated over its remaining expected period of ownership. Vehicle depreciation will therefore be more volatile than under the previous straight line basis, but will carry the advantage of immediately reflecting any further positive or negative variances in expected CAP values.

Other non trading and exceptional items

In order to present the Board's view of underlying trading performance we have consistently presented certain items as either non-trading or exceptional. These include share option charges of £0.5 million (2007: £0.2 million), amortisation of acquired intangible assets of £0.2 million (2007: £0.2 million), £1.5 million profit in relation to change in the fair value of the derivative liability component of the Group's issued Convertible Notes (2007: £nil as the Convertible Notes were issued in January 2008) and other exceptional costs of £nil (2007: £1.7 million).

The comparative period exceptional costs comprised administrative expenses of £0.8 million incurred in relation to the launching of accident management schemes for and on behalf of newly acquired referring dealer and manufacturer partners. Expenditure on maintaining existing accident management schemes has been expensed this year as a normal trading cost. In the comparative period the Group announced that it had entered into a £45.0 million senior secured credit agreement with Morgan Stanley and, as a result, the Group's then existing borrowings were redeemed. A charge in aggregate of £0.9 million was made in the comparative period in respect of both certain professional adviser fees incurred in relation to this refinancing (£0.8 million charged to administrative expenses) and termination costs associated with the redemption of the existing borrowings (£0.1 million charged to finance costs). There were no equivalent costs in the current period.

Net finance costs

Net finance costs include for the first time the costs of the Convertible Notes of £2.7 million, comprising a 5.5% cash payable component of

£1.4 million (2007: £nil) and £1.3 million (2007: £nil) in aggregate in respect of accreted interest (payable only if the Convertible Notes are not converted to equity by January 2013), amortisation of issue costs and amortisation of the value attributed to the equity conversion component at inception, which was separately recognised as a derivative financial liability.

The change in the fair value of the Convertible Notes of £1.5 million (2007: £nil) is a non cash credit for the period.

Loss before tax

Statutory loss before tax was £15.4 million (2007: profit of £6.5 million) reflecting primarily the trading conditions during Q2 and the impairment charge of £19.6 million. Adjusted profit before tax* reduced to £3.4 million from £8.6 million in the comparative period.

Taxation

As a result of the overall reduced trading profitability and a proportionate increase in the level of disallowable expenses (certain dealer led incentives do not qualify for tax relief) the effective rate on adjusted profit before tax expected to be incurred by the Group in the year ending 30 April 2009 is expected to rise to 31.2% (2007: 30.8%) despite the reduction in corporation tax from 30% to 28%.

The reduction in capital allowances from 25% to 20% has materially reduced the level of tax relief that will arise from our investment in our fleet and other capital assets. As a result, our current tax liabilities of £2.4 million are only one third lower than the comparative period (£3.2 million) despite significantly reduced profitability, and the increased level of related timing differences has led to the recognition of a deferred tax asset of £1.7 million (2007: deferred tax liability of £4.5 million).

Earnings/loss per share

Basic earnings per share for the current period was a loss per share of 15.6 pence (2007: earnings per share of 6.3 pence). Adjusted earnings per share* was 3.2 pence per share (2007: 8.4 pence per share). As the current

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period statutory profit before taxation was a loss, fully diluted earnings per share is equal to basic loss per share of 15.6 pence (2007: earnings per share of 6.3 pence). Adjusted fully diluted earnings per share was 3.1 pence per share (2007: 8.4 pence per share).

Cash flows

Cash flows from operating activities

Cash flows from operating activities for the six months ended 31 October 2008 rose 115% to £18.3 million (2007: £8.5 million). This improvement reflected record cash collections

for the period offset by a continuing rise in debtor days to 251 days as at 31 October 2008 from 227 days at 30 April 2008 and 203 days as at 31 October 2007 which, together with increased trading levels, contributed to a rise in trade receivables to £129.5 million (31 October 2007: £86.0 million; 30 April 2008: £110.9 million).

The Board measures internally an adjusted operating cash flow as it considers that all fleet related cash flows are operating in nature. The Group's adjusted operating cash flows were as follows:

Adjusted cash outflow from operations	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
Operating (loss)/profit	(8.7)	11.4
Depreciation, fleet impairment and amortisation of intangible assets	33.5	11.0
Loss on disposal of vehicles, plant and equipment	0.4	0.3
Cost of share based payments	0.5	0.2
EBITDA	25.7	22.9
Changes in working capital:		
Increase in trade and other receivables	(18.7)	(22.4)
Decrease in claims in progress	4.6	2.1
Decrease in payables	(0.2)	(2.2)
Adjusted cash inflow from operations	11.4	0.4
Fleet related cash flows:		
Proceeds of vehicle disposals	12.9	21.7
VAT recovered on fleet acquisition	6.9	8.1
Capital element of finance lease payments:		
Deposits	(4.4)	(5.2)
Monthly repayments	(16.4)	(10.0)
Balloon repayment at disposal	(14.2)	(25.2)
Finance cost element of finance lease payments	(4.1)	(3.1)
Adjusted cash outflow from operations - after fleet related cash flows	(7.9)	(13.3)

This shows a reduction in adjusted cash outflow from operations after fleet related cash flows from £13.3 million in 2007 to £7.9 million in 2008, reflecting the improved cash collections from debtors, increased EBITDA from trading, improved timing of invoicing completed claims and cash outflows arising from ownership of the fleet rising from £13.7 million to £19.3 million.

Of the total fleet, 5,681 vehicles (94.8%) were owned (as opposed to contract hire rented – where cash flows are deducted from cash outflow from operations) as at 31 October 2008 as compared to 4,858 (81.9% of total) at 30 April 2008 and 4,315 vehicles (71.0% of total) as at 31 October 2007. The move to ownership was designed to allow greater flexibility of fleet dynamics and because prestige vehicle contract hire charges per vehicle per month are normally materially higher than the monthly costs of ownership; with the lessor incorporating charges for the inherent risk in residual value exposure within the contract hire amount in any event.

Other cash flows

Net interest paid of £6.4 million (2007: £3.9 million) included finance lease interest of £4.1 million, up from £3.1 million in the prior period as a result of the higher proportion of owned fleet (see above). Net bank loan and revolving credit facility interest increased slightly to £0.9 million (2007: £0.8 million) as a result of growth in working capital requirements, reflecting growth in trading activity offset by the proceeds from the issue of the Convertible Notes, on which interest of £1.4 million was paid during the period (2007: £nil).

After corporation tax payments of £2.1 million (2007: £1.0 million) net cash inflow from operating activities was £9.8 million (2007: £3.6 million).

Working capital facility, net debt and finance lease obligations

Working capital facility

At 31 October 2008, £30.0 million of the Group's £40.0 million working capital facility was drawn down (2007: £45.0 million of £45.0 million) and cash at bank was £12.6 million (2007: £8.7 million). As a further £10.0 million (2007: £nil) is available for draw down from our working capital facilities, the Group's total headroom against working capital facilities as at 31 October 2008 is £22.6 million (2007: £8.7 million).

The Group has complied with its banking covenants throughout the period and based on the Board's recently revised trading and cash collection forecasts, the Board believes it will continue to comply with the Group's covenants. The covenants include net debt to profitability covenants, an interest cover covenant and a debtor leverage covenant, all of which are tested quarterly in line with the Group's reporting periods, as detailed below:

Net debt to profitability:

- The ratio of net debt to (last twelve month rolling) EBITDA (before exceptional items) shall not exceed 3.5 : 1. Net debt excludes the derivative financial liability as at inception relating to the Convertible Notes; and
- The ratio of core net debt to (last twelve month rolling) Adjusted EBITDA shall not exceed 3.5 : 1. Core net debt means net debt as above excluding hire purchase debt relating to the vehicle fleet. Adjusted EBITDA means last twelve months rolling EBITDA after deducting vehicle related hire purchase interest, fleet depreciation and fleet losses on disposal, and after adding fleet profits on disposal.

Interest cover:

- The ratio of Adjusted EBITA to core net interest payable shall exceed 3.0 : 1. Adjusted EBITA means Adjusted EBITDA but after deducting any amount attributable to the depreciation of all other tangible assets other than fleet vehicle assets (the depreciation of which has already been deducted in determining Adjusted EBITDA). Core net interest payable means net finance costs excluding (i) hire purchase interest relating to fleet vehicles; (ii) amortisation of debt issue costs; (iii) changes in fair value of derivative financial liabilities; and (iv) interest accruing on the Convertible Notes which is not paid in cash during their term but only paid upon redemption.

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Debtor leverage:

- The ratio of working capital facility drawings (currently £30.0 million drawn) net of cash to Adjusted Trade Receivables shall not exceed 0.8 : 1. Adjusted Trade Receivables means claims in progress and trade receivables aged less than 360 days stated at initial ABI GTA value net of settlement adjustments.

Net debt

Net bank debt (excluding finance lease obligations and the Convertible Notes, and after the offset of unamortised debt issue costs of £1.1 million (2007: £1.6 million)) was £18.4 million (2007: £37.2 million), which includes a bank loan of £2.0 million (2007: £2.4 million) in connection with infrastructure improvements at the Group's head office.

Total net debt was £174.0 million (2007: £125.3 million) reflecting the following components:

Analysis of net debt

	31 October 2008 (Unaudited) £'m	31 October 2007 (Unaudited) £'m	30 April 2008 (Audited) £'m
Working capital facilities drawn down	30.0	45.0	30.0
Other bank loans	2.1	2.5	2.3
Finance lease obligations	106.5	88.1	97.3
Convertible Notes	50.0	–	50.0
Cash at bank	(12.6)	(8.7)	(27.0)
	176.0	126.9	152.6
Derivative financial liability recognised at inception of Convertible Notes excluded from net debt	(0.6)	–	(0.6)
Convertible Notes interest accrued	2.5	–	1.5
Unamortised debt issue costs	(3.9)	(1.6)	(4.5)
Net debt	174.0	125.3	149.0

The Group has £10.0 million of working capital facilities available for draw down.

Finance lease obligations

Finance lease obligations rose to £106.5 million from £97.3 million at 30 April 2008 (31 October 2007: £88.1 million) reflecting £44.2 million (2007: £51.5 million) of new debt for fleet replacement and expansion net of capital repayments of £35.0 million (2007: £40.4 million).

Balance sheet

Capital expenditure of £37.8 million (2007: £44.4 million) related principally to growth in the vehicle fleet with 1,963 vehicles (2007: 2,116 vehicles) acquired under VAT inclusive finance lease arrangements at a capital (VAT exclusive) cost of £37.1 million (2007: £43.5 million).

During the period 1,141 vehicles were sold (2007: 1,565 vehicles) for net proceeds of £12.9 million (2007: £23.8 million, of which £2.1 million was received after the prior period end).

Claims in progress was £11.6 million (2007: £14.3 million). The number of days sales represented by claims in progress decreased to 40 days as at 31 October 2008 from 45 days as at 30 April 2008 and 44 days as at 31 October 2007, reflecting improvements in billing efficiency.

Trade receivables were £129.5 million from £110.9 million at 30 April 2008 and £86.0 million at 31 October 2007. This increase arose despite record cash receipts in the period as noted above.

Corporation tax liabilities are £2.4 million (2007: £3.2 million) despite reduced profitability for the reasons outlined above, which also explains the movement in deferred tax from a liability of £4.5 million to a deferred tax asset of £1.7 million.

Principal risks and uncertainties

A number of principal operational and financial risks are faced by the Group that could affect its performance in the remainder of the financial year including:

- fleet costs and efficiency (including suppliers, the price of new vehicles, availability and cost of fleet financing, and fleet utilisation);
- residual value of rental vehicles;
- dependence on IT systems and key personnel; and
- risks relating to the industry including insurance industry protocols, competition and risks associated with referring partners.

The principal financial risks and uncertainties comprise:

- the nature of receivables in that our claims against motor insurance companies can be subject to dispute which may result in financial loss to the Group. The Directors estimate the value of trade receivables to reflect the expected settlement amounts receivable on the basis of the prior experience of collection levels and anticipated collection profiles;
- credit risk arises due to the magnitude and nature of the claim collection process which can be protracted;
- liquidity risk exists as the Group is dependent on the availability of finance lease and working capital facilities, the availability of which is dependent, *inter alia*, on maintained appetite of funders to finance vehicles and, in the case of our working capital facilities, on continued covenant compliance, which the Directors expect but which requires, particularly, trading, cash collection and settlement adjustment levels to be in line with the Board's current expectations; and
- interest rate risk exists on the Group's level of overall indebtedness.

Further details of these risks are set out on pages 32 to 34 of the Group's Annual Report and Accounts 2008, which is available at www.accidentexchange.com.

Forward-looking Statements

This report contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Accident Exchange Group Plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Accident Exchange Group Plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

Consolidated Income Statement

for the six months ended 31 October 2008

Unaudited		6 Months ended 31 October 2008	6 Months ended 31 October 2008	6 Months ended 31 October 2008	6 Months ended 31 October 2007	6 Months ended 31 October 2007	6 Months ended 31 October 2007
	Notes	Before impairment, amortisation, share based payments, exceptional costs and change in fair value of derivatives £'m	Impairment, amortisation, share based payments, exceptional costs and change in fair value of derivatives £'m	Total £'m	Before impairment, amortisation, share based payments, exceptional costs and change in fair value of derivatives £'m	Impairment, amortisation, share based payments, exceptional costs and change in fair value of derivatives £'m	Total £'m
Revenue	3	86.0	-	86.0	77.4	-	77.4
Cost of sales							
Exceptional costs – fleet impairment	4	-	(19.6)	(19.6)	-	-	-
Other cost of sales		(56.9)	-	(56.9)	(50.6)	-	(50.6)
Total cost of sales		(56.9)	(19.6)	(76.5)	(50.6)	-	(50.6)
Gross profit/(loss)		29.1	(19.6)	9.5	26.8	-	26.8
Administrative expenses							
Amortisation of acquired intangible assets		-	(0.2)	(0.2)	-	(0.2)	(0.2)
Share based payments		-	(0.5)	(0.5)	-	(0.2)	(0.2)
Exceptional costs	4	-	-	-	-	(1.6)	(1.6)
Other administrative expenses		(17.5)	-	(17.5)	(13.4)	-	(13.4)
Total administrative expenses		(17.5)	(0.7)	(18.2)	(13.4)	(2.0)	(15.4)
Operating profit/(loss)		11.6	(20.3)	(8.7)	13.4	(2.0)	11.4
Finance income	5	0.4	-	0.4	0.2	-	0.2
Finance costs							
Exceptional costs	4, 5	-	-	-	-	(0.1)	(0.1)
Other finance costs	5	(8.6)	-	(8.6)	(5.0)	-	(5.0)
Total finance costs	5	(8.6)	-	(8.6)	(5.0)	(0.1)	(5.1)
Change in fair value of derivative financial liability	5	-	1.5	1.5	-	-	-
Profit/(loss) before tax		3.4	(18.8)	(15.4)	8.6	(2.1)	6.5
Taxation	6	(1.1)	5.4	4.3	(2.7)	0.7	(2.0)
Profit/(loss) for the period		2.3	(13.4)	(11.1)	5.9	(1.4)	4.5
(Loss)/earnings per share							
Basic	7			(15.6)p			6.3p
Diluted	8			(15.6)p			6.3p

Consolidated Balance Sheet

at 31 October 2008

	Note	31 October 2008 (Unaudited) £'m	31 October 2007 (Unaudited) £'m	30 April 2008 (Audited) £'m
Assets				
Non-current assets				
Property, plant and equipment	10	84.6	80.8	93.7
Goodwill		21.5	21.5	21.5
Other intangible assets		2.9	3.2	3.2
Deferred tax asset		1.7	-	-
		110.7	105.5	118.4
Current assets				
Claims in progress		11.6	14.3	16.2
Trade and other receivables	11	132.1	93.2	113.7
Cash and cash equivalents	14	12.6	8.7	27.0
		156.3	116.2	156.9
Non-current assets held for sale		0.8	4.2	0.3
		157.1	120.4	157.2
Total assets		267.8	225.9	275.6
Liabilities				
Current liabilities				
Financial liabilities – borrowings	14	(52.9)	(49.3)	(39.0)
Trade and other payables		(18.8)	(15.9)	(19.2)
Current tax liabilities		(2.4)	(3.2)	(2.6)
		(74.1)	(68.4)	(60.8)
Net current assets		83.0	52.0	96.4
Non-current liabilities				
Financial liabilities – borrowings	14	(133.7)	(84.7)	(137.0)
Derivative financial liabilities		-	-	(1.5)
Deferred tax liabilities		-	(4.5)	(4.5)
		(133.7)	(89.2)	(143.0)
Total liabilities		(207.8)	(157.6)	(203.8)
Net assets		60.0	68.3	71.8
Shareholders' equity				
Share capital	12	3.6	3.6	3.6
Share premium		26.2	26.2	26.2
Other reserves		11.5	11.5	11.5
Retained earnings		18.7	27.0	30.5
Total shareholders' equity		60.0	68.3	71.8

Consolidated Cash Flow Statement

for the six months ended 31 October 2008

	Note	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
Cash flows from operating activities			
Cash generated from operations	13	18.3	8.5
Finance income received		0.6	0.1
Finance costs on bank loans		(1.5)	(0.9)
Finance costs on Convertible Notes		(1.4)	-
Finance cost element of finance lease payments		(4.1)	(3.1)
Taxation paid		(2.1)	(1.0)
Net cash inflow from operating activities		9.8	3.6
Cash flows from investing activities			
Purchase of property, plant and equipment		(0.7)	(1.2)
Proceeds from sale of vehicles, plant and equipment		12.9	21.7
Net cash inflow from investing activities		12.2	20.5
Cash flows from financing activities			
Proceeds from borrowings		-	45.8
Issue costs of borrowings		-	(1.8)
Repayment of borrowings		(0.2)	(24.8)
Capital element of finance lease payments		(35.0)	(40.4)
Purchase of own shares		(0.1)	-
Dividends paid		(1.1)	(1.1)
Net cash used in financing activities		(36.4)	(22.3)
Net (decrease)/increase in cash and cash equivalents	14	(14.4)	1.8
Cash and cash equivalents at start of period		27.0	6.9
Cash and cash equivalents at end of period	14	12.6	8.7

Consolidated Statement of Changes in Equity

for the six months ended 31 October 2008

	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total £'m
At 30 April 2007	3.6	26.2	11.5	23.4	64.7
Total recognised income and expense	-	-	-	4.5	4.5
Equity settled share based payments	-	-	-	0.2	0.2
Dividends paid (note 9)	-	-	-	(1.1)	(1.1)
At 31 October 2007	3.6	26.2	11.5	27.0	68.3
At 30 April 2008	3.6	26.2	11.5	30.5	71.8
Total recognised income and expense	-	-	-	(11.1)	(11.1)
Equity settled share based payments	-	-	-	0.5	0.5
Purchase of own shares (note 12)	-	-	-	(0.1)	(0.1)
Dividends paid (note 9)	-	-	-	(1.1)	(1.1)
At 31 October 2008	3.6	26.2	11.5	18.7	60.0

Notes to the Financial Information

for the six months ended 31 October 2008

1. Basis of preparation

The consolidated condensed financial information set out in this Interim Report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The consolidated condensed financial information should be read in conjunction with the Group's Annual Report and Accounts for the year ended 30 April 2008 ("Annual Report"), which has been prepared in accordance with IFRSs as adopted by the European Union.

This consolidated condensed financial information does not comprise statutory financial statements within the meaning of section 240 of the Companies Act 1985 (section 434 of the Companies Act 2006). Statutory financial statements for the year ended 30 April 2008 were approved by the Board of Directors on 30 June 2008 and subsequently delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 237 of the Companies Act 1985 (section 498 of the Companies Act 2006).

This consolidated condensed financial information is not audited but has been reviewed by the Group's auditors and their independent review report is given below.

This consolidated condensed financial information was approved for issue by the Board of Directors on 11 December 2008.

2. Accounting policies

The accounting policies applied are consistent with those set out in the Group's Annual Report, which is available from the Group's website, www.accidentexchange.com.

New accounting standards, amendments and interpretations that are not relevant to the Group

The following new accounting standards, amendments to standards or interpretations are effective for the first time in this reporting period:

- IFRIC 12 'Service Concession Arrangements'; and
- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

The Group has considered the above standards, amendments and interpretations and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's consolidated condensed financial information as presented.

Recent accounting developments

Certain new standards, amendments and interpretations to existing standards that have been issued, but are not effective for the Group's current financial year and which have not been early adopted include:

- IFRS 8 'Operating Segments';
- IFRIC 13 'Customer Loyalty Programmes';
- IFRIC 15 'Agreements for the Construction of Real Estate';
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation';
- Amendment to IFRS 2 'Share Based Payments';
- Amendment to IFRS 3 'Business Combinations';
- Amendment to IAS 1 'Presentation of Financial Statements';
- Amendment to IAS 23 'Borrowing Costs';
- Amendment to IAS 27 'Consolidated and Separate Financial Statements'; and
- Amendment to IAS 32 'Financial Instruments'.

Notes to the Financial Information

for the six months ended 31 October 2008

2. Accounting policies continued

The Group has considered the above standards, interpretations and amendments and concluded that they are either not relevant to the Group or that, other than disclosure, they would not have a significant impact on the Group's consolidated financial statements as presented.

3. Revenue

An analysis of the Group's revenue is as follows:

	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
Delivery of accident management and related services	64.6	57.5
Credit repair	21.4	19.9
	86.0	77.4

The Group operates in one business segment, being the delivery of accident management and other solutions to the automotive and insurance sectors. The business operates wholly within the UK, which the Directors consider to be a single geographical segment. Accordingly, no information for business segment or geographical segment is required.

4. Exceptional costs

	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
Fleet impairment (note 10)	19.6	–
Accident Management Scheme launch costs	–	0.8
Refinancing costs	–	0.9
	19.6	1.7

Fleet impairment

Events since mid-September, particularly in the banking sector, have led to a marked deterioration in the outlook for the UK economy and, with it, a fall in consumer confidence. As a result there has been a significant reduction in demand for new and used vehicles that has materially depressed forecast residual fleet values.

In light of these events the Group has reviewed the carrying value of every vehicle in its fleet and determined the requirement for a consequent £19.6 million exceptional impairment charge.

Notes to the Financial Information

for the six months ended 31 October 2008

4. Exceptional costs continued

The exceptional impairment charge was derived by firstly identifying each individual vehicle within the total fleet as an individual cash generating unit ("CGU"). The carrying value of each CGU was then compared to its recoverable amount, determined as the higher of its "fair value less costs to sell" or its "value in use", with the aggregation of each CGU impairment totalling £19.6 million.

The Group has used data obtained recently from CAP Motor Research ("CAP") as the basis for determining the Board's view of both the current and future residual value of each CGU.

Determination of "fair value less costs to sell" has been based on the Board's view of CAP's current market value data less expected selling costs. Determination of "value in use" has been based on the Board's projections of pre-tax cash flows arising from the use of each CGU over its expected period of ownership (typically up to 24 months) together with the Board's view of CAP's projected disposal proceeds for each CGU at its intended disposal date. A pre-tax discount rate of 10%, based on the Group's weighted average cost of capital, has been used to then discount the projected pre-tax cash flows (including disposal proceeds) to ascertain each CGU's "value in use".

The key assumptions are the pre-tax discount rate applied and the expected residual value determined by reference to CAP data as outlined above. Had the discount rate been 0.5 percentage points higher or lower, the impairment charge would have been £0.3 million higher/lower. A 1% change in assumed residual value changes the impairment by £0.5 million.

Other exceptional costs

During the prior period the Group incurred administrative expenses of £0.8 million launching Accident Management Schemes for and on behalf of newly acquired referring dealer and manufacturer partners. These costs were disclosed as exceptional items due to the significant magnitude of this investment.

On 15 June 2007 the Group announced that it had entered into a £45.0 million senior secured credit agreement with Morgan Stanley and as a result, certain of the Group's borrowings were redeemed. A charge in aggregate of £0.9 million was made in connection with this redemption, consisting of professional adviser fees of £0.8 million and £0.1 million of termination costs imposed by the terms and conditions of those facilities (charged to finance costs).

Notes to the Financial Information

for the six months ended 31 October 2008

5. Finance income and costs

	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
Finance income		
Interest income on bank balances	(0.4)	(0.2)
Finance costs		
Bank borrowings	1.8	1.9
Obligations under finance leases	4.1	3.1
Convertible Notes	2.7	–
Exceptional termination costs	–	0.1
Total finance costs	8.6	5.1
Change in fair value of derivative financial liability	(1.5)	–
Net finance costs	6.7	4.9

The finance costs of the Convertible Notes of £2.7 million (2007: £nil) includes a charge of £1.4 million (2007: £nil) in respect of the 5.50% coupon payable twice yearly and £1.3 million (2007: £nil) in aggregate in respect of accreted interest, amortisation of issue costs and amortisation of the value attributed to the equity conversion component at inception, which was separately recognised as a derivative financial liability.

6. Taxation

The total tax credit for the period comprises a tax charge of £1.1 million based on the estimated effective adjusted tax rate of 31.2% for the year ending 30 April 2009 applied to adjusted profit before tax for the period, and a tax credit of £5.4 million in relation to the aggregate net expense for amortisation of acquired intangible assets, the cost of share based payments, the change in fair value of the derivative financial liability and exceptional costs (including the exceptional fleet impairment). The comparative effective rate of 30.8% reflects a lower proportion of non-tax deductible costs incurred in the prior period.

Adjusted profit before tax and the effective adjusted tax rate are stated before amortisation of acquired intangible assets, the cost of share based payments, the change in fair value of the derivative financial liability and exceptional costs (including the exceptional fleet impairment).

Notes to the Financial Information

for the six months ended 31 October 2008

7. Basic earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue during the period. Details of the earnings and weighted average number of ordinary shares used in the calculations are set out below:

	6 Months ended 31 October 2008 (Unaudited)	6 Months ended 31 October 2007 (Unaudited)
(Loss)/earnings attributable to ordinary shareholders (£'m)	(11.1)	4.5
Weighted average number of shares	71,060,884	71,138,544
Basic (loss)/earnings per share (pence)	(15.6)	6.3

Adjusted basic earnings per share

To understand the underlying trading performance, the Directors consider it appropriate to disclose basic earnings per share before amortisation of acquired intangible assets, the costs of share based payments, the change in fair value of the derivative financial liability in relation to the Convertible Notes and exceptional costs. The calculation of adjusted earnings per share is set out below:

	6 Months ended 31 October 2008 (Unaudited)	6 Months ended 31 October 2007 (Unaudited)
(Loss)/earnings attributable to ordinary shareholders (£'m)	(11.1)	4.5
Post-tax amortisation of acquired intangible assets (£'m)	0.2	0.2
Post-tax cost of share based payments (£'m)	0.5	0.1
Post-tax income from change in fair value of derivative financial liability (£'m)	(1.4)	-
Post-tax cost of exceptional items (£'m)	14.1	1.2
Adjusted profit on ordinary activities after taxation (£'m)	2.3	6.0
Weighted average number of shares	71,060,884	71,138,544
Basic (loss)/earnings per share (pence)	(15.6)	6.3
Amortisation of acquired intangible assets (pence)	0.3	0.3
Cost of share based payments (pence)	0.7	0.1
Change in fair value of derivative financial liability (pence)	(2.0)	-
Cost of exceptional items (pence)	19.8	1.7
Adjusted basic earnings per share (pence)	3.2	8.4

Notes to the Financial Information

for the six months ended 31 October 2008

8. Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three sources of dilutive potential ordinary shares, namely the Convertible Notes, share options and the Morgan Stanley Warrant.

The Convertible Notes had an initial conversion price of 107.7 pence per ordinary share. The conversion price is subject to adjustment in certain circumstances including (i) adjustments to reflect any dividends paid; and (ii) if and to the extent that the average volume weighted average price of the ordinary shares over the 15 dealing days prior to 9 January 2009 is less than 89.8 pence per share (subject to previous conversion price adjustments), provided that in this circumstance the conversion price shall not be reduced below 75.4 pence per share.

For the purposes of the fully diluted weighted average number of shares, the Group is required to assume that the Convertible Notes are convertible at a price of 75.4 pence per ordinary share, which would result in the issue of 66.3 million shares. The Group's earnings have been adjusted for the post-tax finance costs associated with the Convertible Notes.

The Convertible Notes were issued on 8 January 2008 and thus do not impact upon the comparative period.

For the share options and Morgan Stanley Warrant the number of potential dilutive shares represents the number of ordinary shares that would be issued upon their exercise, net of the number of ordinary shares that could have been acquired at fair value by the Company based on the monetary value of their subscription rights. Fair value is determined as the average market price of the Company's shares during the period. The share options and Morgan Stanley Warrant are only assumed to be potentially dilutive to the extent that they were 'in the money' by reference to the average market value of the Company's ordinary shares during the period.

Potential ordinary shares are treated as diluted only when their conversion to ordinary shares would decrease earnings per share or increase loss per share. The post-tax finance costs of the Convertible Notes for the period were £0.6 million (2007: £nil). As a consequence the issue of 66.3 million shares that would result from conversion means that the loss per share would decrease. Diluted loss per share is therefore equal to the basic loss of 15.6 pence per share (2007: 6.3 pence per share).

Notes to the Financial Information

for the six months ended 31 October 2008

8. Diluted earnings per share continued

Adjusted diluted earnings per share

The calculation of adjusted diluted earnings per share is set out below. It assumes the same adjustments as shown in note 7 except for the post-tax income from the change in fair value of the derivative financial liability, which is taken into account in the post-tax finance costs of the Convertible Notes of £0.6 million (2007: £nil) included in the table below:

	6 Months ended 31 October 2008 (Unaudited)	6 Months ended 31 October 2007 (Unaudited)
(Loss)/earnings attributable to ordinary shareholders (£'m)	(11.1)	4.5
Post-tax finance costs of Convertible Notes (£'m)	0.6	–
Post-tax amortisation of acquired intangible assets (£'m)	0.2	0.2
Post-tax cost of share based payments (£'m)	0.5	0.1
Post-tax cost of exceptional items (£'m)	14.1	1.2
Adjusted profit on ordinary activities after taxation (£'m)	4.3	6.0
Weighted average number of shares – diluted	137,458,269	71,138,544
(Loss)/earnings per share (pence)	(8.1)	6.3
Post-tax finance costs of Convertible Notes (pence)	0.4	–
Amortisation of acquired intangible assets (pence)	0.1	0.3
Cost of share based payments (pence)	0.4	0.1
Cost of exceptional items (pence)	10.3	1.7
Adjusted diluted earnings per share (pence)	3.1	8.4

9. Equity dividends

	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
Ordinary shares		
Final dividend 2007 (1.5 pence per share)	–	1.1
Final dividend 2008 (1.5 pence per share)	1.1	–
	1.1	1.1

The Directors are not recommending the payment of an interim dividend (2007: 1.0 pence per share).

Notes to the Financial Information

for the six months ended 31 October 2008

10. Property, plant and equipment

	Property, plant and equipment (Unaudited) £'m
Opening net book amount – 1 May 2008	93.7
Additions	37.8
Transfer to assets held for sale - vehicles	(0.8)
Disposals	(12.9)
Depreciation	(13.6)
Impairment charge (note 4)	(19.6)
Closing net book amount – 31 October 2008	84.6

The net book amount of property, plant and equipment primarily relates to motor vehicles.

11. Trade and other receivables

	31 October 2008 (Unaudited) £'m	31 October 2007 (Unaudited) £'m	30 April 2008 (Audited) £'m
Trade receivables	129.5	86.0	110.9
VAT	-	1.6	-
Vehicle sales proceeds	-	2.5	-
Other receivables	0.2	0.6	0.4
Prepayments and accrued income	2.4	2.5	2.4
	132.1	93.2	113.7

Trade receivables represent amounts receivable for the provision of services to customers. The expected adjustments arising on the settlement of receivables represents a critical judgement made by the Directors. The Directors have estimated the value of trade receivables to reflect the expected settlement amounts receivable on the basis of the prior experience of collection levels and anticipated collection profiles.

Notes to the Financial Information

for the six months ended 31 October 2008

12. Share capital

	31 October 2008 (Unaudited) £'m	31 October 2007 (Unaudited) £'m	30 April 2008 (Audited) £'m
Authorised			
200,000,000 (31 October 2007: 87,485,500 and 30 April 2008: 200,000,000) ordinary shares of 5p	10.0	4.4	10.0
	10.0	4.4	10.0
Allotted, issued and fully paid			
71,138,544 (31 October 2007 and 30 April 2008: 71,138,544) ordinary shares of 5p	3.6	3.6	3.6
	3.6	3.6	3.6

Purchase of own shares

On 16 July 2008 the trustee of the Group's Long Term Incentive Plan ("LTIP") acquired 200,000 ordinary shares of 5p each at a price of 55.4 pence per ordinary share. These ordinary shares were purchased to hedge the liability of previous awards made under the LTIP. The total holding of the LTIP following this transaction is 200,000 Ordinary Shares, equating to 0.28% of the Company's issued share capital.

13. Cash generated from operations

	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
Net (loss)/profit	(11.1)	4.5
Depreciation and other non-cash items:		
Depreciation	13.6	10.7
Fleet impairment	19.6	-
Amortisation of intangible assets	0.3	0.3
Loss on disposal of vehicles, plant and equipment	0.4	0.3
Share based payments	0.5	0.2
Changes in working capital:		
Increase in trade and other receivables	(18.7)	(22.4)
Decrease in claims in progress	4.6	2.1
Decrease in payables	(0.2)	(2.2)
VAT recovered on fleet additions	6.9	8.1
Finance income	(0.4)	(0.2)
Finance costs	8.6	5.1
Change in fair value of derivative financial liability	(1.5)	-
Tax	(4.3)	2.0
Cash generated from operations	18.3	8.5

Notes to the Financial Information

for the six months ended 31 October 2008

14. Analysis of movements in net borrowings

(a) Reconciliation of cash and cash equivalents to net borrowings

	6 Months ended 31 October 2008 (Unaudited) £'m	6 Months ended 31 October 2007 (Unaudited) £'m
(Decrease)/increase in cash in the period	(14.4)	1.8
Capital element of finance lease payments	35.0	40.4
Proceeds from borrowings	-	(44.0)
Repayment of borrowings	0.2	24.8
Decrease in net debt resulting from cash flows	20.8	23.0
Inception of finance leases	(44.2)	(51.5)
Increase in accrued Convertible Notes interest included in net debt	(1.0)	-
Amortisation of debt issue costs	(0.6)	(0.2)
Increase in net debt during the period	(25.0)	(28.7)
Net debt brought forward	(149.0)	(96.6)
Net debt carried forward	(174.0)	(125.3)

(b) Analysis of movement in net borrowings

	As at 30 April 2008 (Audited) £'m	Cash flows (Unaudited) £'m	Non-cash items (Unaudited) £'m	As at 31 October 2008 (Unaudited) £'m
Cash	27.0	(14.4)	-	12.6
Bank loans	(31.0)	0.2	(0.2)	(31.0)
Finance leases	(97.3)	35.0	(44.2)	(106.5)
Convertible Notes	(47.7)	-	(1.4)	(49.1)
Net debt	(149.0)	20.8	(45.8)	(174.0)

15. Seasonality

The Group's trading activity can be weighted towards the darker, colder and wetter months of the year, particularly the months from October to March. In the financial year ended 30 April 2008 the Group recorded 0.5 million rental days during the first half and a 20% increase to 0.6 million rental days in the second half.

16. Related party transactions

The key management team consists of the Executive and Non-Executive Directors. Their compensation amounted to £0.6 million for the six months ended 31 October 2008 (2007: £0.7 million).

There were no other related party transactions during the six months ended 31 October 2008 that require disclosure.

Statement of Directors' Responsibilities

for the six months ended 31 October 2008

The Directors confirm that this set of consolidated condensed financial statements has been prepared in accordance with IAS 34 as adopted by the EU, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules, namely:

- an indication of important events that have occurred during the first six months and their impact on this set of consolidated condensed financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

Details of the Board of Directors that served during the six months ended 31 October 2008 can be found on pages 28 and 29 of the Annual Report.

By order of the Board



S Evans
Chief Executive
11 December 2008



M Andrews
Group Finance Director

Independent Review Report

To Accident Exchange Group Plc

Introduction

We have been engaged by the Company to review the condensed set of consolidated financial statements in the interim report for the six months ended 31 October 2008, which comprises the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

Directors' responsibilities

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

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 condensed set of consolidated financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Review Report

To Accident Exchange Group Plc

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the interim report for the six months ended 31 October 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.



PricewaterhouseCoopers LLP

Chartered Accountants

Birmingham

11 December 2008

Notes:

- (a) The maintenance and integrity of the Group's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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