

ARC Interim Results - 2006

Please find below a copy of our Chairman's statement regarding ARC Risk Management Group Plc's interim results which were released today.

Introduction

I am pleased to report that continued growth in our revenues has fed through to an improved financial performance and a substantial reduction in the operating loss. The most significant development of the first half of the current year has been the signing of a five year distribution agreement with AIG International Services for the distribution of the red24 products to the travel industry. This provides a significant regular minimum cash flow to the Group though revenues cannot be taken until the products are used. The potential revenue from this project is considerable as AIG alone have over 8,000,000 travel policy holders.

Financial Overview

Turnover demonstrated a healthy 42% period on period growth to £1,270,000, while the operating loss £212,000 for the half year compares favourably with the operating loss of £423,000 incurred in the same period last year. The new AIG distribution agreement supersedes the earlier agreement relating to Japan and a one-off charge to eliminate unrecovered costs of £63,000 has been incurred. Thus it can be seen that there has been continued progress in the direction of breakeven and ultimately profitability. The adoption of Financial Reporting Standard 20, relating to the pricing of share options, has led to a non-cash charge of £15,000 in the half year, comparative figures have been restated and over the full year a charge of £29,000 is anticipated.

The AIG distribution agreement has had a significant beneficial effect on cash flow without, to date, much benefit to revenue and, when coupled with the raising of a further £100,000 of loan notes and the extension of the loan notes, due for repayment on 30 September 2006, for a further twelve months, there has been little change to the Group's overall cash position.

red24TM

red24 is a global security service providing preventative and reactive advice to help individuals avoid and manage personal risks to themselves and their families. We have two key distribution channels, one through HSBC and the other through AIG International Services.

In June 2005 we entered into an agreement with HSBC Bank plc to incorporate red24's personal security service as part of HSBC's Premier banking offering and ID imposter into their HSBC Plus banking offering. The inclusion of our offering has helped HSBC market both these types of account and, over a twelve month period, the numbers of clients has grown by some 50%. Each month several thousand new customers are added and the English language service of red24 now has sufficient mass to cover its costs on a monthly basis.

Our experience in the UK has shown that the red24 product works best when included in a financial product on a mandatory basis as this enables us to deliver the product at a very much lower cost without major external marketing. Our new distribution agreement with AIG International Services recognises this and we are working hard with them to include red24 on a mandatory basis on all travel books. This is likely to be done on a country by country basis and it will be some time before all countries are covered. Significant markets in the UK and the Far East are expected to be first. Upsell opportunities to red alert are expected to make an increasing contribution through 2007.

Between our two key distributors there are over 30 million potential customers, of which only a little over 1 million currently receive a red24 product and substantial growth is expected to occur just from these two agreements. Nonetheless we are not neglecting the rest of the market place.

Significant investment in product development continues to be made. Essentially we have developed a modular approach to the management of security risk advice which enables us to tailor quite readily the core red24 product to meet the needs of particular markets. The modular approach then gives an opportunity to

our distributors to purchase product upgrades appropriate to their client needs and budgets. Our CorporateCare product continues to add some major corporate accounts and the product is almost ready to be offered as part of a general business insurance product by insurance companies as a way of differentiating their offering.

red24 differs from many competing products in being able to offer response from our own personnel to customers faced with security difficulties. However, developing a retail product has attracted the attentions of security industry competitors who have traditionally only serviced the corporate market. Imitation may be the sincerest form of flattery but, nonetheless we are disappointed to be losing the Hiscox business, with effect from 31 December 2006, to a competitor in whom Hiscox have a significant shareholding. Over the medium term, we believe, that the effect of this will not be overly detrimental as more competition should lead to more rapid growth of the market.

Overall awareness of the need for security advice and of red24 in particular has been increasing due to our PR activity and red24 personnel have appeared regularly on Sky News, Fox and the BBC to comment on security related topics.

Consultancy

Our consultancy business has had a difficult half year and revenues from contracts that have been held for some years have reduced due to changing market conditions. However we have been appointed as retained advisers on new books of business and this should translate into additional revenue as these books grow.

Training

The Training business has enjoyed an excellent start to the year with revenues up 30% and generating good profitability. The university accredited courses are proving popular and encouraging repeat business. Each of the three courses runs twice a year at present but this could be expanded as demand grows. A new trainer has been recruited to help in this expansion and to enable us to meet growing demand for training courses overseas.

Outlook

ARC Risk Management is well positioned as a leading provider of security risk management services to meet the growing requirement for greater protection for those traveling, whether on business or for pleasure; the additional competition in these markets should assist in the faster growth of the overall market and we are well placed to win a significant share of this business.

We continue to develop our relationships with existing and new partners in the financial service and insurance industries and envisage increasing growth in the adoption worldwide of red24.

Simon Richards
Chairman