

Artilium plc

("Artilium" or the "Company")

Interim results for the six months ended 31 December 2008

Artilium plc (LSE/AIM: ARTA), the AIM listed provider of Mobile 2.0 software, announces its interim results for the six months ended 31 December 2008.

Financial Highlights

- Revenue for the six months to 31 December 2008 was £3.6 million (2007: £0.9 million)
- The Company recorded a loss for the period of £3.7 million (2007: £3.3 million)
- Cash at the end of the period was £2.3 million (30 June 2008: £3.2 million)
- The loss of £3.7 million includes one-off charges including stock options and the fair-valuing of the equity swap taken out by the Company as part of the previous placing. These amounts totalling £2.4 million in aggregate are included in the Administrative Expenses and Finance Costs item in the Profit and Loss account.

Commenting on the results Robert Marcus, Chief Executive Officer of Artilium said:

"The Board is pleased with our first half performance, a considerable operational improvement before one-off charges, over the same period in the last financial year ended 30 June 2008. We believe that the Company's ARTA Mobile Applications Platform is well ahead of the competition, including Microsoft, and that the Company is in an excellent strategic position to emerge as a frontrunner in the accelerating progression to Mobile 2.0. Management is witnessing fast-growing interest from the mobile telecoms and advertising sectors vis-à-vis our product and vision for the future of mobile telecoms.

The Board has reacted to the impact of the global economic crisis on the telecoms sector and the reduction in the potential for signing capital expenditure (Capex) contracts. Accordingly, the Company has transitioned to an operational expenditure (Opex) pricing and licensing model. This has intensified the cash-flow pressures on the Company in the short-term whilst providing the potential for an exciting annuity revenue-stream in the longer-term. The Board continues to invest in research and development and expects this to be maintained throughout 2009. However, without sufficient funds to support a meaningful sales and marketing function, the potential for cash generation remains limited and consequently a fund-raising, as previously announced, remains a vital priority. The Board is moving decisively in this respect."

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About Artilium

Artilium develops advanced Mobile 2.0 software for telecoms networks. The Company's ARTA Mobile Applications Platform opens mobile telecoms networks to third-party applications and connected social media, generating a new value-chain that includes advertisers, content providers, Internet service providers, social networks, mobile network operators and software developers.

Founded in 1995, the Company has more than 40 installations serving tens of millions of users in 11 countries. Artilium is a publicly listed company on AIM of the London Stock Exchange (LSE/AIM: ARTA) with offices in Belgium, France and the United Kingdom. For more information, please visit: www.artilium.com

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Chief Executive's Statement

Overview

During the period under review, the Company has been focused on the stabilisation of the business with the emphasis on research and development ("R&D"), in addition to the establishment and advancement of key technical and go-to-market partnerships with Microsoft and Tata.

Market Dynamics

Artilium develops sophisticated convergence and interoperability software designed to connect distributed applications to the 2,869 mobile network operators ("MNOs") worldwide. The Company's ARTA Mobile Applications Platform opens mobile telecoms networks to third-party applications and connected social media, generating a new value-chain that includes advertisers, content providers, Internet service providers, social networks, mobile network operators and software developers.

ARTA activates mobile networks for the coming wave of mobile application development and innovation, converging the 'three Cs' of mobile, **Communication** (voice, data), **Customer** (rating, charging), and **Context** (mobile presence), with the 'three Cs' of the Internet: **Content** (new media, advertising), **Commerce** (payments, money transfer), and **Community** (social networking), generating valuable "*mashups*" (applications that combine data from more than one source).

Microsoft-based for seamless integration with the dominant PC operating system, ARTA is telecoms middleware software deployed in the 'cloud' as a hosted service. ARTA is both network and handset independent, supporting all mobile device operating systems including Windows Mobile, Google Android, Apple and Symbian. Comprised of millions of lines of code and the result of 15 years of R&D, management believe ARTA is well ahead of the competition, including Microsoft.

The telecoms market sector is facing unprecedented disruption and competition brought about by deregulation and the growth of the Internet. As fixed, mobile and alternative operators battle for control of the customer, Internet challengers including Apple, Google and Microsoft are competing hard. With voice and data moving to flat rates, MNOs risk becoming a 'dumb pipe'.

The growth of mobile has shifted the focus of IT innovation from the desktop to mobile devices which now outsell PCs 3:1. MNOs however, have failed to innovate in any meaningful way, remaining proprietary, change-resistant, designed to lock customers in and defend network integrity. ARTA opens mobile networks to the Internet; producing a sea-change that Management

believe to be as disruptive to MNOs today as the Microsoft DOS operating system was to the mainframe computing industry at the dawn of the PC era.

ARTA is in effect an operating system for mobile applications, a standardised framework for a variable system, mapping call-flows and other mobile network data in the same way that PC operating systems manage interaction with device drivers. ARTA functions as a gateway for new mobile services, defining and provisioning the network to allow applications to safely exchange data and operate in a mobile “mesh” of inter-dependent processes. These functions are flexibly coupled with the underlying network operating system or programming languages. ARTA separates functions into distinct units (services), distributed over a network, combined and reused to create meta-services communicating with each other by passing data from one service to another, or by coordinating an activity between two or more services.

Mobile is the largest market in the history of technology, growing rapidly with many countries having more mobile phones than people. The International Telecommunications Union (ITU) reports that in 2009 there will be 3.3 billion mobile users worldwide, versus 900 million PC users. The Mobile Intelligence Center forecasts that there will be 4.5 billion mobile users by 2012; Ovum predicts that MNOs will earn \$1.09 trillion that year.

Google, Apple and Research-in-Motion (“RIM”) are at the forefront of mobile applications innovation. Together, they are believed to have invested over \$500 million in apps development initiatives, either directly or through venture partners such as Kleiner Perkins. Only a month after launching Apple’s mobile apps marketplace, the App Store, mobile applications earnings grew to \$1 million/day, with 60 million downloads, and third-party developers earning \$21 million in that period via revenue share. There are now over 10,000 third-party apps on offer and Steve Jobs is predicting rapid growth to a \$1 billion business for Apple. (Wall Street Journal)

Business update

The global credit crisis has clearly had an impact on the willingness of MNOs to incur capital expenditure. We believe that contracts such as that previously secured with KPN, involving substantial up-front cash payments, are not feasible in the current market environment. The Company has therefore been forced to adapt by shifting its sales model to offer its software as a ‘cloud-based’ hosted service on an Opex or subscription-based pricing and licensing delivery model, characterised by faster sales and deployment cycles and a lucrative annuity revenue stream. However, there is a corresponding short-term impact on cashflow due to the lack of substantial up-front payments.

In the light of the difficult market environment we have continued to rationalise the Company’s operations wherever we deem it possible. To achieve greater operational efficiency, our corporate function was relocated to existing offices in Belgium and Scotland, which is where the majority of the Company’s workforce is based.

Commercially, I am pleased to say that we had some notable successes during the period. As announced in February, Artilium signed a partnership agreement with Tata Consultancy Services (“TCS”). TCS is a global IT consulting organization with over 150,000 employees in 155 offices across 42 countries. TCS is a division of the Tata Group. Gartner recently named TCS one of the top-ten global telecoms vendors. The non-exclusive agreement, which will be led by TCS demand-generation and go-to-market campaigns, is composed of reseller, systems integration, ‘cloud’ (hosted) applications service delivery, and applications development components, the net effect of which is a specific TCS ARTA sales and service delivery capacity and projection.

The Company has made progress in the development of its dynamic strategic partnership with Microsoft which now includes go-to-market activities, co-selling, developer evangelism, and direct Microsoft marketing funding. The Board believes that once Artilium has a sales force of its own, it will be able to activate Microsoft's worldwide customer relationships in the sector to increase sales velocity. On 2 April, 2009, an important milestone will be passed as Microsoft hosts the first ARTA mobile application development seminar at the newly built Microsoft Netherlands headquarters outside Amsterdam. The over-subscribed seminar, hosted by Microsoft's Developer and Platform Evangelism group, targets certified Microsoft .NET developers and is designed to provide the essential training necessary to jump-start creation of an ecosystem of ARTA applications developers for KPN Mobile, part of the Microsoft response to the inroads made by Apple/Google in mobile.

KPN deployment continues progressively, albeit at a substantially slower pace than the Company would like. It is anticipated that by early April 2009, the geo-redundant architecture capable of supporting between 4 and 12 million subscribers, depending on subscriber profile, will be live.

Funding

Despite the commercial successes, Artilium is not currently self-financing and therefore depends on the support of its investors. The Company's declining share price has significantly impacted the level of funds that the Board expected to receive from the September 2008 fundraising (where a proportion of the monies raised were dependent on the performance of Artilium's share price).

As a result of these cashflow pressures, in February the Company announced that it was exploring a variety of funding scenarios. In addition, the Company announced that it was considering going private through the potential cancellation of the Company's shares from trading on AIM which could involve a buy-back and cancellation of some of the Company's shares.

The Board is currently engaged with a number of potential funders in Europe and the United States and is hopeful of securing sufficient funds to stabilise the Company's financial position. However, should the Board prove unable to secure sufficient working capital on acceptable terms before the fourth quarter of 2009 the Company may not be able to meet its liabilities as they fall due.

Financial Results

Revenue for the six months to 31 December 2008 was £3.6m (2007: £0.9 million). The Company recorded a loss in the period of £3.7 million (2007: £3.3 million). Cash at the end of the period was £2.3 million (30 June 2008: £3.2 million). Cash at the end of the period was £2.3 million (30 June 2008: £3.2 million). The loss of £3.7 million includes one-off charges including stock options and the fair-valuing of the equity swap taken out by the Company as part of the previous placing. These amounts totalling £2.4 million in aggregate are included in the Administrative Expenses and Finance Costs item in the Profit and Loss account.

Going Concern

The results have been prepared on a going concern basis. However, the Board acknowledges that there is material uncertainty in the assumptions used to prepare the Company's cash flow forecasts in relation to new capital investment and the amount of revenue the Group will generate. The Directors are currently in discussions with potential new investors and have a reasonable expectation that investment will be received in line with their forecasts. The Directors also have a reasonable expectation that forecast revenue assumptions will be achieved despite not being underpinned by legal contracts. As such there is a material uncertainty relating to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be able to realise its assets and discharge its liabilities in the normal course of business.

Carrying value of long-term assets

The carrying value of the long term assets of the Group are predicated on the revenue assumptions integral to the Company's cash flow forecasts. As these revenue assumptions are not supported by legal contracts there is a material uncertainty as to whether they will be achieved.

Auditors' review report

As a consequence of the material uncertainties highlighted above relating to going concern and the carrying value of long-term assets, the auditors have issued a review report that is unqualified but modified to include emphasis of matter paragraphs on these uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and the carrying value of its long term assets.

Outlook

The Board believes the Company is poised to emerge as a leading activation platform for mobile application development and innovation. We believe that a final round of fundraising will bring the Company to positive cash flow in the next financial year and look forward to consistent growth thereafter.

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ARTILIUM PLC
HALF-YEARLY FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

	6 months ended 31 December 2008 Unaudited £'000	6 months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
<u>Continuing operations</u>			
Revenue	3,639	907	5,388
Cost of sales	(2,044)	(125)	(242)
Gross profit	1,595	782	5,146
Other operating income	12	-	5
Administrative expenses	(5,291)	(4,213)	(8,525)
Restructuring cost	-	-	(211)
Share of results of associate	-	(36)	(47)
Operating loss	(3,684)	(3,467)	(3,632)
Provision for non-payment of shares on exercise of warrants	-	-	(1,000)
Investment revenues	113	94	202
Finance costs	(184)	-	(28)
Loss before tax	(3,755)	(3,373)	(4,458)
Tax	56	30	439
Loss for the period from continuing operations	<u>(3,699)</u>	<u>(3,343)</u>	<u>(4,019)</u>
Loss per share in pence from continuing operations (Note 2)	<u>(5.02)</u>	<u>(6.10)</u>	<u>(7.10)</u>

ARTILIUM PLC
HALF-YEARLY FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

CONDENSED CONSOLIDATED BALANCE SHEET

	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Audited £'000
Non-current assets			
Goodwill	7,296	6,211	7,271
Intangible assets	3,312	886	2,448
Property, plant and equipment	612	703	527
Deferred tax asset	49	51	26
Interest in associate	-	363	-
	<u>11,269</u>	<u>8,214</u>	<u>10,272</u>
Current assets			
Inventories	35	42	28
Trade and other receivables	5,458	2,603	3,479
Cash at bank and in hand	2,280	3,987	3,173
Financial instruments	513	-	-
	<u>8,286</u>	<u>6,632</u>	<u>6,680</u>
Total assets	<u>19,555</u>	<u>14,846</u>	<u>16,952</u>
Current liabilities			
Trade and other payables	4,321	1,932	3,666
Obligations under finance leases	-	25	24
Bank loans	98	-	75
Provisions	99	477	-
	<u>4,518</u>	<u>2,434</u>	<u>3,765</u>
Non-current liabilities			
Obligations under finance leases	-	49	44
Bank loans	106	-	38
Deferred tax liabilities	278	193	322
Long term provisions	76	-	14
	<u>4,978</u>	<u>2,676</u>	<u>4,183</u>
Total liabilities	<u>4,978</u>	<u>2,676</u>	<u>4,183</u>
Net assets	<u>14,577</u>	<u>12,170</u>	<u>12,769</u>

ARTILIUM PLC
HALF-YEARLY FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Unaudited £'000
	Note		
Equity			
Share capital	(3) 4,522	2,893	2,939
Share premium account	27,296	23,731	24,622
Capital redemption reserve	4,493	4,493	4,493
Share option reserve	1,472	1,320	1,639
Share of equity of associate	-	97	-
Translation reserve	449	49	165
Own shares	(1,417)	(2,550)	(2,550)
Retained deficit	(22,238)	(17,863)	(18,539)
Total equity	14,577	12,170	12,769
Total liabilities and equity	19,555	14,846	16,952

ARTILIUM PLC
HALF-YEARLY FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	6 months ended 31 December 2008 Unaudited £'000	6 months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Net cash used in operating activities	(4)	(2,430)	(1,956)	(1,358)
Investing activities				
Interest received		113	94	202
Purchases of property, plant and Equipment		(226)	(358)	(227)
Proceeds from disposal of property, plant and equipment		47	-	(23)
Purchase of intangibles		(1,128)	-	(1,285)
Acquisition of subsidiary		-	-	(564)
Net cash used in investing activities		(1,194)	(264)	(1,897)
Financing activities				
Repayments of obligations under finance lease		(68)	-	(9)
Proceeds on issue of shares		2,426	3,012	3,013
New bank loan received		155	-	154
Bank loan repayment		(64)	-	(41)
Net cash from financing activities		2,449	3,012	3,117
Net (decrease)/increase in cash and cash equivalents		(1,175)	792	(138)
Cash and cash equivalents at beginning of period		3,173	3,162	3,162
Effect of foreign exchange rate changes		282	33	149
Cash and cash equivalents at end of period		2,280	3,987	3,173

ARTILIUM PLC
HALF-YEARLY FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Significant accounting policies

Basis of accounting

The condensed set of financial statements in the half-yearly financial report has been prepared in accordance with accounting policies the group intends to use in preparing its next annual financial statements and is represented in an IFRS format, however, is not in compliance with IAS 34 'Interim Financial Reporting'.

The condensed set of financial statements has been prepared on the historical cost basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Artilium plc ("the Company") and the entities controlled by the Company (together "the Group"). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Directors have adopted the going concern basis in preparing the accounts, having carried out a going concern review. The Directors forecast that the Group will raise new equity in July 2009 which, subject to all other forecast assumptions being met, would allow the company to meet its obligations as they fall due in the next 12 months. The Directors are actively involved in courting investment through new shareholders and have a reasonable expectation that sufficient equity will be raised, however the directors realise that this may take some time. In the event that no equity is raised the Directors forecast that the Group will be unable to meet its obligations as they fall due during October 2009.

In carrying out the review the Directors have also made assumptions about the revenue that will be generated in the financial years ending 30 June 2009 and 2010. The Directors have forecast a shift from a capital expenditure contract business model to an operating expenditure pricing ("Opex") and licensing model to manage the current economic downturn within the telecoms sector. Significant Opex revenue is forecast in the year ending 30 June 2010, however as this future revenue and other revenue streams are not supported by sales contracts there is material uncertainty as to the amount of revenue that the Group will generate.

As highlighted above, there is a material uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Carrying value of long-term assets

The Directors have carried out impairment tests on the carrying value of the Group's intangible assets and goodwill and concluded that these assets are not impaired. In arriving at this conclusion the Directors have made assumptions about revenue in the near and longer term, which, due to the nature of our sales and the time-scales involved are not supported by sales contracts. There is thus material uncertainty as to the amount of revenue that will be generated, which may cast significant doubt as to the carrying value of these assets.

The impairment tests were carried on the following balances:

Intangible asset pertaining to the current version of the ARTA software: £0.2 million.

Intangible asset pertaining to capitalised development work on the new version of the ARTA software: £2.5 million.

Intangible asset pertaining to the capitalised development work on the TILS software: £0.6 million.

Goodwill: £7.3 million.

Impairment of these assets has been tested by estimating the value in use of these assets. The current version and new version of the Company's ARTA software have been treated as separate cash generating units and tested for impairment accordingly. The impairment of the goodwill has been tested by comparing the cash flows generated by the Artilium N.V. business after subtracting the cash flows that support the carrying value of the intangible assets.

For the existing version of the ARTA software, future cash flows were estimated for the eight months ending 31 August 2009, the expected period of time over which the software will be marketable.

A rate of 15% was used to discount these cash flows.

For the new version of the ARTA software which includes the TILS software, nil revenue was assumed for the six months ending 30 June 2009, £3.9 million for the year ending 30 June 2010 the year in which the software is due to be released and 17.6 million, 35.3 million, 56.0 million and 36.5 million in the years ending 30 June 2011 – 2013 and the six months ending 31 December 2013 respectively, the estimated useful economic life of the software. This revenue assumption is based on an expectation that there will be significant revenue growth as a result of the Company's new operational expenditure pricing and licensing model. Management believe this is achievable as the current development of the software will make it more scalable and thus make the software more accessible to a wider customer base of bigger customers. The Company is at an early stage of development and therefore it is expected that growth for the first few years will outpace the industry average. A rate of 15% was used to discount these cash flows.

For the goodwill impairment test cash flows have been forecast for five years and a terminal value has been calculated for the years beyond that. The terminal value is based on the year five net cash flows forecast to perpetuity using a discount rate of 15%, which is appropriate for the industry, and a long-term growth rate of 3%. Based on these assumptions the recoverable amount exceeds the carrying amount by £218.1 million.

If the net present value of forecast future cash flows decreased by 97% the recoverable amount will be less than the carrying amount.

As a consequence of the material uncertainties highlighted above relating to going concern and the carrying value of long-term assets, the auditors have issued a review report that is unqualified but modified to include emphasis of matter paragraphs on these uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and the carrying value of the long-term assets.

2. Loss per share

The warrants and share options on issue do not have a dilutive effect as the market price of ordinary shares exceeded the exercise price of the warrants during the financial period. As a result, diluted loss per share is the same as basic loss per share.

	Six months ended 31 December 2008 Unaudited £'000	Six months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Losses			
Losses from continuing operations for the purposes of basic loss per share being net loss attributable to equity holders of the parent	<u>(3,699)</u>	<u>(3,343)</u>	<u>(4,019)</u>
	Number	Number	Number
Number of shares			
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>73,740,945</u>	<u>54,799,528</u>	<u>56,605,335</u>

3 Share capital

	31 December 2008 Unaudited £'000	31 December 2007 Unaudited £'000	30 June 2008 Audited £'000
Fully paid ordinary shares:			
Authorised: 210,135,390 ordinary shares of 5 pence each	10,507	10,507	10,507
Issued: 90,446,965 (31 December 2007: 57,849,800, 30 June 2008: 58,787,926) ordinary shares of 5 pence each	4,522	2,893	2,939

	31 December 2008 Unaudited		31 December 2007 Unaudited		30 June 2008 Audited	
	No. '000	£'000	No. '000	£'000	No. '000	£'000
Fully paid ordinary shares:						
Balance at beginning of period:	58,788	2,939	52,500	2,625	52,500	2,625
Shares issued by placement	31,357	1,568	-	-	-	-
Shares issued for acquisition consideration	302	15	-	-	938	47
Series 1 warrant conversion	-	-	-	-	-	-
Series 2 warrant conversion	-	-	5,350	268	5,350	267
Issued and fully paid at end of period:	<u>90,447</u>	<u>4,522</u>	<u>57,850</u>	<u>2,893</u>	<u>58,788</u>	<u>2,939</u>

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

4 Notes to the consolidated cash flow statement

	Six months ended 31 December 2008 Unaudited £'000	Six months ended 31 December 2007 Unaudited £'000	Year ended 30 June 2008 Audited £'000
Loss from continuing operations	(3,699)	(3,343)	(4,019)
Adjustments for:			
Investment revenues	(113)	(94)	(202)
Share of results of associate	-	38	47
Loss on sale of associate	-	-	280
Tax	(56)	-	(439)
Depreciation of property, plant and equipment	73	76	152
Amortisation of intangible assets	264	101	246
Impairment of property, plant and equipment	-	-	108
Share based payment expense	966	615	932
Loss on disposal of property, plant and equipment	22	-	74
Increase/(decrease) in provisions	62	(14)	(46)
Provision for non payment of shares	-	-	1,000
FVTPL for financial instruments	1,294	-	-
Operating cash flows before movements in working capital	(1,187)	(2,621)	(1,867)
(Increase)/decrease in inventories	(7)	16	30
(Increase)/decrease in receivables	(1,979)	604	(1,265)
Increase in payables	743	45	1,744
Cash used in operations	(2,430)	(1,956)	(1,358)
Income taxes paid	-	-	-
Net cash used in operating activities	(2,430)	(1,956)	(1,358)

5 Events after the balance sheet date

No events occurred after the balance sheet date.

6 Related party transactions

The Company did not have any related party transactions during the period.

7 Stock Options Waiver

The Company also announces that both Fred Mulder and Sonia Lo have waived any entitlement to the options that were granted to them on 5 November 2008. The grant and subsequent waiver of these options has had, and will have, no impact on the Company financial results.

8 Status of these accounts

The condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2008 is unaudited. The comparative information for the year ended 30 June 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, but did include an emphasis of matter paragraph relating to going concern and the carrying value of long-term assets, and did not contain statements under section 237(2) or (3) of the Companies Act 1985. The annual financial statements for the year ended 30 June 2008 were prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements in the half-yearly financial report has been prepared in accordance with accounting policies the group intends to use in preparing its next annual financial statements and is represented in an IFRS format, however, is not in compliance with IAS 34 'Interim Financial Reporting'.

9 Further Copies

Copies of the half-yearly financial report are available from the Company's registered office at 7th Floor, City Point, One Ropemaker Street, London, EC2Y 9AW.

INDEPENDENT REVIEW REPORT TO ARTILIUM PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2008 which comprises the income statement, the balance sheet, the cash flow statement and related notes 1 to 9. We have read the other information contained in the half-yearly financial report 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 International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent 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 conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 7, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with the accounting policies the group intends to use in preparing its next annual financial statements.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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 inquiries, 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 condensed set of financial statements 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 AIM Rules of the London Stock Exchange.

Matters of emphasis – uncertainty relating to going concern and carrying value of long-term assets

Without qualifying our opinion, we draw attention to the disclosures made in Note 1 of the half-yearly financial report concerning the Group's ability to continue as a going concern and the carrying value of the Group's long-term assets. In the forecasts used to assess the appropriateness of the

going concern basis the Directors have forecast the Group will raise new equity in July 2009. The Directors are currently seeking investment from new investors and have a reasonable expectation that such investment will be received in line with the forecast. However, the directors have indicated that there is no legal commitment from potential new investors to date and may not be for some time, and therefore the directors believe that the receipt of such investment is inherently uncertain.

In addition, the forecasts used to assess the appropriateness of the going concern basis and the carrying value of the Group's goodwill and intangible assets are based on future sales assumptions. The Directors' assessment of future sales is based on their expectations of future contracts which have not yet been entered into and, as such, is inherently uncertain.

These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and as to the carrying value of the Group's long-term assets. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern, nor any adjustments to the carrying value of the long-term assets (£10.6 million at 31 December 2008), if future sales were to vary materially from the Directors' assumptions, as it is not practicable to determine or quantify them.

Deloitte LLP

Chartered Accountants and Statutory Auditors

London, UK

31 March 2009