



RWS GROUP

INTERIM REPORT 2005

RWS Holdings plc





THE QUEEN'S AWARDS
FOR ENTERPRISE:
INTERNATIONAL TRADE
2004

RWS GROUP

www.rws.com

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Chairman's Statement

I have great pleasure in presenting another record performance by your Company for the six months ended 31 March 2005.

Overview of the Business

RWS is Europe's leading provider of intellectual property support services and specialist technical, legal and financial translation services. In its core patent translation business RWS translates in excess of 30,000 patents and intellectual property related documents per annum for European, North American and Japanese multinationals. Its blue chip client base includes corporates in the medical, pharmaceutical, chemical, aerospace, defence, automotive and telecoms industries as well as patent agents acting on behalf of similar clients. The Group comprises two divisions, Translations and Information. The Translations' activities account for 90% of revenues (patent and document translation, filing and localisation services); Information offers a comprehensive range of patent search, retrieval and monitoring services.

Strategy

Organic growth has always been, and will continue to be, the focus of our strategy: building market share through the exploitation of its leading position and reputation. We will endeavour to make selective acquisitions should they offer profitable growth and enhanced shareholder value.

The Marketplace

Official statistics confirm that the number of patent applications continues to grow year on year. The patent translation market is highly fragmented and competition is largely provided by freelance translators. No competitor delivers the same breadth and quality of service in both patent translation and technical search. RWS therefore believes the barriers to entry are significant.

RWS does face competition in the market for non-patent technical translations both from corporates and freelancers. This sector represents approximately 10% of our sales revenues and we are a major player with an excellent reputation. The acquisition of Eclipse Translations is designed to underpin our presence in this market segment.

Operating and Financial Review

We have continued to experience strong demand for our specialist translation services, adding new clients and additional repeat business. Our core European Translation and Filing service (ETF) showed further growth. Our Japanese operations performed well with growth in our Japanese Translation and Filing service (JTF) coming from European and US-based multinationals and work for Japanese corporates exceeding our expectations. Eclipse was acquired in February and has exceeded its budgets since acquisition.

The Information Division performed to budget but below 2004 levels. The downturn in this business began in Spring 2004, has now stabilised and the Division is expected to achieve

Chairman's Statement (continued)

its budget for the year. The new PatBase database subscription product has exceeded our expectations and will provide a stable and growing underpin for divisional revenues.

RWS achieved record sales and operating profits for the period. Sales grew by 10% to £17.2m (2004: £15.6m) and profits before tax, goodwill and exceptional items advanced by 16% to £3.5m (2004: £3.0m).

Cashflow from operating activities was £3.3m and net cash at 31 March 2005 was £9.7m after funding the acquisition of Eclipse Translations.

Capital expenditure and working capital requirements during the period remained modest. Net assets of the Group at 31 March 2005 were £14.6m.

As foreshadowed in the 2004 Annual Report, RWS has arranged hedging contracts for much of its Euro exposure for the whole of 2004/05, at a rate of 69.5. Whilst the much smaller US dollar exposure was unhedged, a significant proportion of the Group's dollar holdings were sold in March at 1.88.

Dividend The Directors have approved an interim dividend of 1.65p per share, an increase of 10% over the 2004 interim dividend of 1.5p per share.

People As at 31 March 2005 the Group employed 339 people. We have been pleased to welcome 23 additional employees with the acquisition of Eclipse. We continue to seek good technical translators and linguists to meet our clients' requirements but acknowledge that identifying graduates from British universities with the requisite skills poses a challenge.

Outlook Our financial position is strong as is our order book. The fundamental drivers for the growth of our core business show no signs of weakening and we are confident that our unique specialist skills and reputation will continue to attract existing and new clients. We remain confident of further good progress in the second half of the year.

Andrew Brode
Executive Chairman

This interim announcement was approved by the Board of Directors on 7 June 2005.

Unaudited Group Profit and Loss Account

| | Note | Unaudited 6 months ended 31 March 2005 £'000 | Unaudited 6 months ended 31 March 2004 £'000 |
|--|------|---|---|
| Turnover | 1 | 17,185 | 15,640 |
| Cost of sales | | (10,170) | (9,000) |
| Gross profit | | 7,015 | 6,640 |
| Administrative expenses | | (3,739) | (3,854) |
| Amortization of goodwill | | (289) | (271) |
| Goodwill write-off | | — | (1,916) |
| Non-recurring costs associated with flotation | | — | (58) |
| Total administrative expenses | | (4,028) | (6,099) |
| Group operating profit before goodwill amortization and exceptional items | | 3,276 | 2,786 |
| Group operating profit | | 2,987 | 541 |
| Loss on sale of subsidiary undertakings | | — | (126) |
| Profit on ordinary activities before interest | | 2,987 | 415 |
| Net interest | | 219 | 191 |
| Profit on ordinary activities before taxation | | 3,206 | 606 |
| Taxation | 2 | (1,076) | 543 |
| Net profit for the financial period (Profit attributable to shareholders) | | 2,130 | 1,149 |
| Dividends | 3 | (647) | (567) |
| Profit retained for the financial period | | 1,483 | 582 |
| | | Pence | Pence (restated) |
| Earnings per share | 4 | | |
| Basic | | 5.6 | 3.9 |
| Diluted | | 5.2 | 3.7 |
| Normalised earnings per share | 4 | | |
| Basic | | 6.4 | 6.5 |
| Diluted | | 5.9 | 6.3 |

Unaudited Group Statement of Total Recognised Gains and Losses and Reconciliation of movements in Shareholders' Funds

| | Unaudited 6 months ended 31 March 2005 £'000 | Unaudited 6 months ended 31 March 2004 £'000 |
|---|---|---|
| Profit attributable to shareholders | 2,130 | 1,149 |
| Exchange adjustments on retranslation of net assets of subsidiary undertakings | 12 | 27 |
| Total recognised gains and losses | 2,142 | 1,176 |
| Dividends | (647) | (567) |
| Shares issued under options exercised | 487 | – |
| Shares held by existing HMG shareholders | – | 6,513 |
| Shares issued to Bybrook shareholders | – | 1,866 |
| Share options issued | – | 2,030 |
| Adjustments arising on reverse acquisition | – | (9,888) |
| Total movements in the period | 1,982 | 1,130 |
| Shareholders' funds at beginning of the period | 12,599 | 10,962 |
| Shareholders' funds at end of the period | 14,581 | 12,092 |

Unaudited Group Balance Sheet

| | Note | Unaudited 31 March 2005 £'000 | Unaudited 31 March 2004 £'000 |
|---|------|-------------------------------------|-------------------------------------|
| Fixed assets | | | |
| Intangible assets | | 7,376 | 5,722 |
| Tangible assets | | 974 | 587 |
| | | 8,350 | 6,309 |
| Current assets | | | |
| Work in progress | | 742 | 619 |
| Debtors: due within one year | | 6,423 | 4,681 |
| Cash at bank | | 9,958 | 10,420 |
| | | 17,123 | 15,720 |
| Creditors: amounts due within one year | 5 | (10,855) | (5,375) |
| Net current assets | | 6,268 | 10,345 |
| Total assets less current liabilities | | 14,618 | 16,654 |
| Provision for liabilities and charges | | (27) | (4,562) |
| Net assets | | 14,591 | 12,092 |
| Capital and reserves | | | |
| Called up share capital | 6 | 1,914 | 7,642 |
| Share premium account | | 1,199 | 737 |
| Capital reserve | | 68 | – |
| Share option reserve | | 1,962 | 2,030 |
| Reverse acquisition reserve | | (8,483) | (8,483) |
| Profit and loss account | | 17,921 | 10,166 |
| Shareholders' funds – equity interests | | 14,581 | 12,092 |
| Non-equity minority interests | | 10 | – |
| Shareholders' funds and minority interests | | 14,591 | 12,092 |

Unaudited Group Cash Flow Statement

| | Note | Unaudited 6 months ended 31 March 2005 £'000 | Unaudited 6 months ended 31 March 2004 £'000 |
|---|------|---|---|
| Net cash inflow from operating activities | | 3,342 | 2,944 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 212 | 405 |
| Interest paid | | (3) | (70) |
| | | 209 | 335 |
| Taxation | | (975) | (467) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (91) | (64) |
| Redemption of loan notes | | – | 17,500 |
| | | (91) | 17,436 |
| Acquisitions and disposals | | | |
| Acquisition of subsidiary | 7 | (2,430) | – |
| Net overdraft in undertakings acquired | | (249) | – |
| Overdraft in undertakings disposed | | – | 62 |
| Acquisition related expenses and other payments to third parties on the reverse acquisition | | – | (1,396) |
| | | (2,679) | (1,334) |
| Equity dividends paid to shareholders | | (1,338) | – |
| Equity dividends paid to shareholders of Bybrook Limited | | – | (10,000) |
| Cash (outflow)/inflow before financing | | (1,532) | 8,914 |
| Financing | | | |
| Issue of ordinary shares | | 487 | – |
| (Decrease)/increase in cash | | (1,045) | 8,914 |

Notes to the Unaudited Group Cash Flow Statement

| | Unaudited 6 months ended 31 March 2005 £'000 | Unaudited 6 months ended 31 March 2004 £'000 | |
|--|---|---|------------------------------|
| Reconciliation of operating profit to net cash flow from operating activities | | | |
| Group operating profit | 2,987 | 541 | |
| Depreciation and amortization | 449 | 2,322 | |
| Work in progress (increase)/decrease | (60) | 378 | |
| Debtors increase | (683) | (60) | |
| Creditors increase/(decrease) | 649 | (264) | |
| Other non-cash movements | — | 27 | |
| Net cash inflow from operating activities | 3,342 | 2944 | |
| Reconciliation of net cash flow to movement in net funds | | | |
| Increase in cash in the period | (1,045) | 8,914 | |
| Net funds at beginning of the period | 10,738 | 1,211 | |
| Net funds at end of the period | 9,693 | 10,125 | |
| Analysis of net funds | | | |
| | At 1 October 2004 £'000 | Cash flow £'000 | At 31 March 2005 £'000 |
| Cash | 11,107 | (1,149) | 9,958 |
| Overdrafts | (369) | 104 | (265) |
| | 10,738 | (1,045) | 9,693 |

| | Unaudited 6 months ended 31 March 2005 £'000 | Unaudited 6 months ended 31 March 2004 £'000 |
|---|---|---|
| 1 Turnover and segmental information | | |
| Turnover and operating profit derive from continuing operations. | | |
| Turnover by class of business | | |
| Translation and localization services | 15,886 | 14,183 |
| Information services | 1,299 | 1,457 |
| | <u>17,185</u> | <u>15,640</u> |
| Turnover by geographic location of Group undertakings | | |
| United Kingdom | 15,050 | 13,969 |
| Continental Europe | 301 | 233 |
| Japan | 1,701 | 1,332 |
| United States of America | 133 | 106 |
| | <u>17,185</u> | <u>15,640</u> |
| Turnover by geographic market in which customers are located | | |
| United Kingdom | 2,212 | 2,494 |
| Continental Europe | | |
| Germany | 5,908 | 5,407 |
| France | 1,956 | 1,537 |
| Other | 3,308 | 3,593 |
| | <u>11,172</u> | <u>10,537</u> |
| Japan | 1,287 | 763 |
| United States of America | 2,456 | 1,738 |
| Other | 58 | 108 |
| | <u>17,185</u> | <u>15,640</u> |

The value of total assets and net operating assets located outside of the UK is not material.

In the opinion of the Directors, analysis of profit by business sector and location of Group undertakings would be seriously prejudicial to the interests of the Group.

Notes (continued)

- 2 Taxation** – the charge for the 6 months ended 31 March 2005 is at the rate that is anticipated will be applicable for the whole year. The charge for the half year to 31 March 2004 included a tax credit of £1,400,000 which related to certain overseas trading losses in prior years within the Bybrook group that were available for group relief but had not been allowed for in deriving the tax charge in prior periods. The quantum was agreed subsequent to 31 March 2004.

The Group has estimated capital losses of £20 million available for offset against the capital gain arising on the redemption of loan notes in the 6 months ended 31 March 2004. As the quantum of the capital losses has not been agreed the offset of the capital losses has not been recognised in the current tax charge.

- 3 Dividends** – the interim dividend of 1.65p (31 March 2004 – 1.5p) per Ordinary share will be paid on 30 June 2005 to Shareholders on the Register on 17 June 2005.

4 Earnings per Ordinary share

| | Unaudited 6 months ended 31 March 2005 | | Unaudited 6 months ended 31 March 2004 | |
|--|---|-------------------|---|----------------------------|
| | Earnings £'000 | EPS Pence | Earnings £'000 | EPS Pence (restated) |
| Basic earnings | 2,130 | 5.6 | 1,149 | 3.9 |
| Goodwill amortization and write-off | 289 | 0.8 | 2,187 | 7.4 |
| | 2,419 | 6.4 | 3,336 | 11.3 |
| Exceptional tax credit from prior year trading losses | – | – | (1,400) | (4.8) |
| Normalised earnings | 2,419 | 6.4 | 1,936 | 6.5 |
| No significant tax effect arises from the adjustment for goodwill. | | | | |
| | Number of shares | | Number of shares (restated) | |
| Diluted earnings per share are based on the group profit for the period and a weighted average of Ordinary shares in issue during the period calculated as follows: | | | | |
| In issue | | 38,093,574 | | 29,374,891 |
| Dilutive potential Ordinary shares arising from unexercised share options | | 2,697,289 | | 1,484,278 |
| | | 40,790,863 | | 30,859,169 |

The weighted average number of Ordinary shares in issue reflects the 493,385 Ordinary shares issued under options exercised during the period. At 31 March 2005 there were unexercised options over a total of 4,040,472 Ordinary shares.

The weighted average number of shares in issue for the period to 31 March 2004 has been restated as the calculation of the weighted average has been changed from a monthly to a daily basis.

Notes (continued)

- 5 Creditors: amounts due within one year** include corporation tax of £5,474,000 (31 March 2004 – £1,165,000). The taxation amount includes £4,434,000 being the liability on the gain arising on the redemption of loan notes in the 6 months ended 31 March 2004.

- 6 Share capital** was reduced by cancelling the Deferred shares for no consideration in September 2004.

- 7** On 1 February 2005, the Group acquired Eclipse Translations Limited for a consideration of £2,250,000 paid in cash. In calculating the goodwill arising on acquisition, the provisional fair value of net assets acquired has been assessed and adjustments to book value made where necessary. These adjustments are summarised in the following table:

| | Book value £'000 | Provisional fair value adjustments £'000 | Fair value to the Group £'000 |
|--|---------------------|--|-------------------------------------|
| Fixed assets | 524 | (65) | 459 |
| Current assets | 281 | – | 281 |
| Creditors due within one year | (524) | (300) | (824) |
| Net liabilities acquired | 281 | (365) | (84) |
| Cash consideration (including acquisition expenses of £180,000) | | | 2,430 |
| Less: amount recoverable from the vendors in respect of taxation liabilities | | | (300) |
| Net liabilities acquired | | | 2,130 |
| Goodwill | | | 84 |
| Net overdraft included in undertakings acquired | | | 249 |

The effects of the acquisition on results for the Group for the half year to 31 March 2005, are not material and are therefore not shown separately on the Group Profit and Loss Account and Group Cash Flow Statement.

On 7 October 2003, Bybrook Limited sold the entire share capital of subsidiaries with operations based in California to its shareholders for a consideration of £500. The loss on disposal amounted to £126,000 and the overdraft included in the undertakings disposed was £62,000.

- 8** The interim results for the half years ended 31 March 2005 and 31 March 2004 are unaudited and unreviewed by our auditors. The accounts in this Interim Report do not constitute statutory accounts in accordance with Section 240 of the Companies Act 1985. The financial information contained in this document has been prepared on the basis of accounting policies consistent with those set out in the Group's statutory accounts for the year ended 30 September 2004, which received an unqualified report and have been lodged with the Registrar of Companies.

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