

# 2010

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RWS GROUP

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THE QUEEN'S AWARDS  
FOR ENTERPRISE:  
INTERNATIONAL TRADE  
2009

**RWS GROUP**  
[www.rws.com](http://www.rws.com)

The Group has achieved a strong underlying operational performance, reflecting a robust performance in the core patent translations business partially offset by the more challenging trading conditions facing our technical translations business, especially in Germany. Group results for the six months to 31 March 2010 were held back by reduced interest income and less favourable exchange rates, with half year on half year comparisons exacerbated further by the benefit of particularly favourable exchange gains in the six months to 31 March 2009 (as stated in the interim results announcement on 2 June 2009).

### Business Overview

RWS is Europe's leading provider of intellectual property support services and high level technical, legal and financial translation services. Its main business – patent translations – is the largest operation of its kind in Europe, translating over 50,000 patents and intellectual property related documents each year. It addresses a blue-chip multinational client base from Europe, North America and Japan, active in patent filing in the medical, pharmaceutical, chemical, aerospace, defence, automotive and telecoms industries, as well as patent agents acting on behalf of such clients. The Group has two principal business activities; Translations, which accounts for over 90% of sales and incorporates patent, commercial and technical translation services, and Information, which includes a comprehensive range of patent search, retrieval and monitoring services as well as PatBase, the largest searchable commercial patent database, available as a subscription service.

### Strategy

Our strategy is focused upon organic growth complemented by deploying our substantial cash holdings for selective acquisitions, providing they can be demonstrated to enhance shareholder value. Organic growth has, in the past, been driven by the increasing numbers of patent applications worldwide, the growing demand for language services and our ability to increase our market share by exploiting our leading position and reputation in an otherwise fragmented sector. Whilst the global number of applications has fallen during the recession, we have successfully grown market share amongst our target blue-chip customers who have historically remained committed to protecting their intellectual property through the cycle.

In terms of acquisitive growth, having been pleased with the return on acquisitions made to date, we continue to search for suitable potential acquisitions in the high level technical translation and intellectual property support services spaces. We seek niche businesses capable of delivering well above industry average levels of profitability. Whilst developed economies have been in recession, and profits have fallen, we have found that sellers' price expectations have been too high to fulfil our acquisition criteria.

### Results & Financial Review

Sales for the six months ended 31 March 2010 were in line with budget at £29.4M, a rise of 10% over sales of £26.8M in 2009. This was a clear indication that the Group has successfully absorbed the full impact of the London Agreement.

Underlying operating profit before amortisation of intangibles was up 16% to £6.9M (2009: £5.9M), after eliminating the £1.9M negative impact of currency fluctuations.

Profit before tax and amortisation of intangibles fell by 15% to £6.8M (2009: £8.0M). In comparing the two periods, foreign exchange differences amounted to £1.9M and interest income declined by £0.2M.

Diluted adjusted earnings per share were down by 14.8% to 11.5p (2009: 13.5p) on an increased number of shares in issue following the exercise of options in December 2009 and before the £4.4m exceptional credit in 2009 due to the release of a corporation tax provision agreed with HMRC in February 2009. Earnings per share as disclosed in the Interim Report were 11.1p (2009: 24.2p after the £4.4M exceptional credit).

At 31 March 2010, shareholders' funds had reached £49.0M (2009: £44.8M) of which net cash represented £23.8M (2009: £24.5M) reflecting continued solid underlying cash generation before taking into account a £2.5M development loan and £0.7M acquisition in the second half of 2009.

Significant outlays included corporation tax and the final dividend for 2009 of £3.7M. Free cash flow declined to £3.1M from £7.2M in 2009 because of the lower profits, higher tax payments in 2010, and capital expenditure in anticipation of the move to new premises of £1.3M.

Currency movements played a significant role in the decline in profitability. In 2009 the opening balance sheet was converted at a Euro/GBP rate of 79.4 and the closing balance sheet at 93.5, giving rise to substantial unrealised gains at 31 March 2009. For the current period, the opening rate was 91.7 and the closing rate 89.3, giving rise to unrealised losses. The average rate in 2009 was 88.0 and in 2010 was 89.5. The Group has endeavoured to hedge its net trading exposure to currency movements. Currently US\$ exposure is hedged at 1.65 = £1 until 30 September 2010, and Euro exposure is hedged at rates averaging 1 Euro = 89 pence, until 31 December 2010.

Interest income on the Group's substantial cash balances reduced significantly as the Bank of England maintained a base rate of 0.5% throughout the six months.

### Dividend

The Directors have approved an interim dividend of 3.15 pence per share, an increase of 12.5% over the 2009 interim dividend. The dividend will be paid on 16 July 2010 to shareholders on the register on 18 June 2010. The Group is committed to a progressive dividend policy and expects the total dividend for the year to continue to advance.

### Operating Review

#### Translations

The patent translations business continued to demonstrate its robust and resilient qualities despite the economic recession. Accounting for almost 70% of Group revenues, this specialism has delivered market leadership and an enviable array of blue-chip European and North American multinational clients. We provide a high quality and competitive "translate and file" service which has also been successfully extended to Japan and China. The US market offers particular promise given the large number of corporates with substantial R&D budgets; RWS is now benefitting from its increased direct sales effort and from its joint venture with a US-based consultancy focused on delivering cost saving patenting solutions to large corporate filers. Significant client wins in the US have been achieved by this combination.

Technical translation services account for 24% of Group revenues. These are non-patent related services requiring a high degree of accuracy and quality. The recessionary environment has both reduced the available work and intensified competition, acutely so in Germany, where sales and profitability declined markedly. We continued to review acquisition opportunities, which are mostly technical, non-patent translation businesses. However, their reduced profitability in 2009-10, coupled with sustained unrealistic price aspirations on the part of sellers, mean that the opportunities we have reviewed during the first half have not met our acquisition criteria.

We were pleased to see our Beijing patent translation service move into profit for the first time since its formation.

#### Information

The information services business accounts for 7% of sales but a somewhat higher proportion of profit. The core patent search and watch services have stabilised and are showing modest growth, but are still well below pre-recession levels.

The PatBase database subscription service has, however, enjoyed further worldwide subscriber interest. We continue to invest in improving its coverage and searchability. This investment has paid dividends in the form of a further 31% growth in subscription revenues in the period. The scalability and operational gearing of PatBase has allowed it to grow to approaching 10% of Group profits.

### People

RWS relies heavily upon the quality and commitment of its staff to provide the services required by our clients. We are particularly proud that in a lengthy period of economic downturn we have been able to retain and in some cases modestly increase our headcount and avoid redundancies, which will in turn support our ability to grow our share of the market.

### Premises

After the period end, on 4 May 2010, we exchanged contracts for the purchase of the freehold of a new headquarters building located in Chalfont St Peter, South Buckinghamshire. We expect to occupy the building in late September after extensive fit out. As a result, four separate office locations will be amalgamated with increased operational efficiencies and a saving in rents. The purchase price equates to a yield of 7.5% at the expense of limited interest income. The acquisition cost including fit out will be £12.5M.

### Current Trading and Outlook

Whilst currencies are highly volatile as a result of the problems in the Eurozone, and the economic recovery remains feeble in most of our key markets, our strong financial position and market leadership positions us well to continue to grow market share.

Trading in the opening weeks of the second half year has been solid and in line with budget and, with the anticipated benefit of new clients won in late 2009 to be realised incrementally during the second half of the financial year, our expectations for the year as a whole remain unchanged.

**Andrew Brode**  
Executive Chairman

2 June 2010

## Condensed Consolidated Income Statement

	Unaudited 6 months ended 31 March 2010	Audited Year ended 30 Sept. 2009	Unaudited 6 months ended 31 March 2009
Note	£'000	£'000	£'000
<b>Revenue</b>	<b>29,360</b>	55,321	26,804
Cost of sales	(16,422)	(30,068)	(14,395)
<b>Gross profit</b>	<b>12,938</b>	25,253	12,409
Administrative expenses	(6,618)	(11,859)	(4,976)
<b>Operating profit</b>	<b>6,320</b>	13,394	7,433
Analysed as:			
Operating profit before amortization of customer relationships and trademarks	6,608	13,889	7,645
Amortization of customer relationships and trademarks	(288)	(495)	(212)
<b>Operating profit</b>	<b>6,320</b>	13,394	7,433
Finance income	189	593	368
Finance expense	(15)	(1)	(1)
<b>Profit before taxation</b>	<b>6,494</b>	13,986	7,800
Taxation (charge)/credit	2 (1,858)	490	2,179
<b>Profit for the period</b>	<b>4,636</b>	14,476	9,979
<b>Attributable to:</b>			
Equity holders of the Company	4,636	14,476	9,979
Basic earnings pence per Ordinary share	4 11.1	35.0	24.2
Diluted earnings pence per Ordinary share	4 11.0	34.3	23.6

## Condensed Consolidated Statement of Comprehensive Income

	Unaudited 6 months ended 31 March 2010 £'000	Audited Year ended 30 Sept. 2009 £'000	Unaudited 6 months ended 31 March 2009 £'000
Profit for the period	4,636	14,476	9,979
Currency translation differences	(232)	1,745	1,901
<b>Total comprehensive income for the period attributable to equity holders of the Company</b>	<b>4,404</b>	<b>16,221</b>	<b>11,880</b>



## Condensed Consolidated Statement of Financial Position

	Unaudited at 31 March 2010	Audited at 30 Sept. 2009	Unaudited at 31 March 2009
Note	£'000	£'000	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	13,173	13,281	13,829
Intangible assets	4,502	4,885	3,793
Property, plant and equipment	1,953	762	794
Investment in joint venture	170	170	–
Deferred tax assets	362	1,143	1,034
Other receivables	2,585	2,467	–
	<b>22,745</b>	<b>22,708</b>	<b>19,450</b>
<b>Current assets</b>			
Trade and other receivables	12,327	11,641	11,067
Cash and cash equivalents	5 23,778	24,269	24,495
	<b>36,105</b>	<b>35,910</b>	<b>35,562</b>
<b>Total assets</b>	<b>58,850</b>	<b>58,618</b>	<b>55,012</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7,116	6,496	7,226
Income tax payable	958	2,139	1,991
	<b>8,074</b>	<b>8,635</b>	<b>9,217</b>
<b>Non-current liabilities</b>			
Provisions	586	586	–
Deferred tax liabilities	1,229	1,328	989
	<b>1,815</b>	<b>1,914</b>	<b>989</b>
<b>Total liabilities</b>	<b>9,889</b>	<b>10,549</b>	<b>10,206</b>
<b>Total net assets</b>	<b>48,961</b>	<b>48,069</b>	<b>44,806</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	2,116	2,065	2,065
Share premium	3,583	3,401	3,401
Reverse acquisition reserve	(8,483)	(8,483)	(8,483)
Foreign currency reserve	2,195	2,427	2,583
Retained earnings	49,540	48,649	45,230
	<b>48,951</b>	<b>48,059</b>	<b>44,796</b>
<b>Minority interest</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Total equity</b>	<b>48,961</b>	<b>48,069</b>	<b>44,806</b>

## Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Reverse acquisition reserve	Foreign currency reserve	Retained earnings	Minority interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 October 2008	2,065	3,401	(8,483)	682	38,724	10	36,399
Dividend paid	–	–	–	–	(3,263)	–	(3,263)
Equity element of deferred tax on share options	–	–	–	–	(210)	–	(210)
Total comprehensive income for the period	–	–	–	1,901	9,979	–	11,880
Balance at 31 March 2009 (unaudited)	2,065	3,401	(8,483)	2,583	45,230	10	44,806
Dividend paid	–	–	–	–	(1,157)	–	(1,157)
Equity element of deferred tax on share options	–	–	–	–	79	–	79
Total comprehensive income for the period	–	–	–	(156)	4,497	–	4,341
Balance at 30 September 2009 (audited)	2,065	3,401	(8,483)	2,427	48,649	10	48,069
Dividend paid	–	–	–	–	(3,745)	–	(3,745)
Issue of shares	51	182	–	–	–	–	233
Total comprehensive income for the period	–	–	–	(232)	4,636	–	4,404
<b>Balance at 31 March 2010 (unaudited)</b>	<b>2,116</b>	<b>3,583</b>	<b>(8,483)</b>	<b>2,195</b>	<b>49,540</b>	<b>10</b>	<b>48,961</b>

## Condensed Consolidated Statement of Cash Flows

	Unaudited 6 months ended 31 March 2010	Audited Year ended 30 Sept. 2009	Unaudited 6 months ended 31 March 2009
Note	£'000	£'000	£'000
<b>Cash flows from operating activities</b>			
Profit before taxation	6,494	13,986	7,800
Adjustments for:			
Depreciation of property, plant and equipment	130	289	151
Amortization of intangible assets	338	601	267
Finance income	(189)	(593)	(368)
Finance expense	15	1	1
<b>Operating cash flow before movements in working capital and provisions</b>	<b>6,788</b>	<b>14,284</b>	<b>7,851</b>
Increase in trade and other receivables	(781)	(672)	(36)
Increase/(decrease) in trade and other payables	523	(30)	289
<b>Cash generated from operations</b>	<b>6,530</b>	<b>13,582</b>	<b>8,104</b>
Interest paid	(15)	(1)	(1)
Income tax paid	(2,254)	(2,700)	(1,176)
<b>Net cash inflow from operating activities</b>	<b>4,261</b>	<b>10,881</b>	<b>6,927</b>
<b>Cash flows from investing activities</b>			
Interest received	162	656	418
Development loan	–	(2,363)	–
Acquisition of subsidiary, net of cash acquired	–	(2,826)	(2,259)
Purchases of property, plant and equipment	(1,323)	(279)	(151)
Purchases of intangibles (computer software)	(19)	(53)	(16)
<b>Net cash outflow from investing activities</b>	<b>(1,180)</b>	<b>(4,865)</b>	<b>(2,008)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares	233	–	–
Dividends paid	(3,745)	(4,420)	(3,263)
<b>Net cash outflow from financing activities</b>	<b>(3,512)</b>	<b>(4,420)</b>	<b>(3,263)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(431)</b>	<b>1,596</b>	<b>1,656</b>
Cash and cash equivalents at beginning of period	24,269	22,081	22,081
Exchange gains on cash and cash equivalents	(60)	592	758
<b>Cash and cash equivalents at end of the period</b>	<b>5 23,778</b>	<b>24,269</b>	<b>24,495</b>
<b>Free cash flow</b>			
Analysis of free cash flow			
Net cash generated from operating activities	6,530	13,582	8,104
Net interest received	147	656	417
Income tax paid	(2,254)	(2,700)	(1,176)
Purchases of property, plant and equipment	(1,323)	(279)	(151)
Purchases of intangibles (computer software)	(19)	(53)	(16)
<b>Free cash flow</b>	<b>3,081</b>	<b>11,206</b>	<b>7,178</b>

## 1 Accounting policies

### Basis of preparation

The interim financial statements were approved by the Board of Directors on 1 June 2010 and the interim results for the half years ended 31 March 2010 and 31 March 2009 are neither audited nor reviewed by our auditors. The accounts in this interim report do not constitute statutory accounts in accordance with Section 434 of the Companies Act 2006. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 September 2009. The Group's statutory accounts for the year ended 30 September 2009 have been filed with the Registrar of Companies. The auditors have reported on the accounts for the year ended 30 September 2009; their report was unqualified, did not contain any statements under s498 (2) or (3) of the Companies Act 2006 and did not contain any matters to which the auditors drew attention without qualifying their report.

The financial information presented in this document has been prepared on the basis of the IFRS in issue that are either endorsed by the EU and effective at 30 September 2010 or are expected to be endorsed before the financial statements are approved and authorised for issue. Based on these adopted and unadopted IFRS, the directors have made assumptions about the accounting policies expected to be applied when the annual IFRS statements are prepared for the year ended 30 September 2010. In addition, the adopted IFRS that will be effective in the annual financial statements for the year ended 30 September 2010 are still subject to change and to additional interpretations and therefore can not be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements for the Group are prepared for the year ended 30 September 2010.

During the period the Group has adopted IAS 1 (amended) 'Presentation of Financial Statements'. The effect of adopting this standard is presentational and has no impact on the reported profit or net assets of any period. The adoption of IAS 1 (amended) has led to the inclusion of a 'Statement of Comprehensive Income' and a 'Statement of Changes in Equity' as primary statements.

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## 2 Taxation

The charge for the 6 months ended 31 March 2010 is at the likely effective tax rate that will be applicable for the whole year.

In 2009 a corporation tax provision of £4.4 million in respect of capital gains realised in 2003 was released as offsetting capital losses were agreed by HM Revenue & Customs.

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## Notes to the Condensed Consolidated Financial Statements (continued)

### 3 Dividends

	6 months ended 31 March 2010		Year ended 30 Sept. 2009		6 months ended 31 March 2009	
	Pence per share	£'000	Pence per share	£'000	Pence per share	£'000
Interim for 2009: paid July 2009 (2008: 2.50 pence)	–	–	2.80	1,157	–	–
Final for 2009: paid February 2010 (2008: 7.90 pence)	<b>8.85</b>	<b>3,745</b>	7.90	3,263	7.90	3,263
Dividends paid to shareholders	<b>8.85</b>	<b>3,745</b>	10.70	4,420	7.90	3,263

An interim dividend of 3.15 pence per Ordinary share will be paid on 16 July 2010 to Shareholders on the register at 18 June 2010. This dividend, declared by the Directors after the balance sheet date, has not been recognised in these financial statements as a liability at 31 March 2010.

### 4 Earnings per Ordinary share

The Group shows both a basic and an adjusted earnings per share figure as the Directors believe that this information will be of interest to the users of the accounts in measuring the Group's performance and underlying trends.

	6 months ended 31 March 2010		Year ended 30 Sept. 2009		6 months ended 31 March 2009	
	Earnings	EPS	Earnings	EPS	Earnings	EPS
	£'000	Pence	£'000	Pence	£'000	Pence
Profit attributable to equity holders of the Company for basic earnings per share calculation	<b>4,636</b>	<b>11.1</b>	14,476	35.0	9,979	24.2
Amortization of customer relationships and trademarks (after taxation)	<b>207</b>	<b>0.5</b>	356	0.9	153	0.3
Exceptional tax credit	–	–	(4,439)	(10.7)	(4,439)	(10.7)
Adjusted earnings	<b>4,843</b>	<b>11.6</b>	10,393	25.2	5,693	13.8
Basic diluted earnings	<b>4,636</b>	<b>11.0</b>	14,476	34.3	9,979	23.6
Adjusted diluted earnings	<b>4,843</b>	<b>11.5</b>	10,393	24.6	5,693	13.5

Basic and diluted earnings are based on the post-tax profit for the period and a weighted average number of Ordinary shares in issue during the period calculated as follows:

## Notes to the Condensed Consolidated Financial Statements (continued)

### 4 Earnings per Ordinary share (continued)

	Number of shares 6 months ended 31 March 2010	Number of shares Year ended 30 Sept. 2009	Number of shares 6 months ended 31 March 2009
Weighted average number of Ordinary shares in issue for basic earnings	41,876,702	41,303,988	41,303,988
Dilutive impact of share options	401,907	925,678	916,408
Weighted average number of Ordinary shares for diluted earnings	42,278,609	42,229,666	42,220,396
Ordinary shares issued under options exercised during the period	1,011,980	–	–
Unexercised options over Ordinary shares at end of the period	–	1,011,980	1,011,980

### 5 Cash and cash equivalents

	at 31 March 2010	at 30 Sept. 2009	at 31 March 2009
	£'000	£'000	£'000
Cash at bank and in hand	13,078	20,886	16,995
Short-term deposits	10,700	3,383	7,500
Cash and cash equivalents in the cash flow statement	23,778	24,269	24,495

Short-term deposits have maturity of three months or less.

## Contact information

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