2006
Interim Report RWS Holdings plc

RWS GROUP

THE QUEEN'S AWARDS
FOR ENTERPRISE:
INTERNATIONAL TRADE
2004

RWS GROUP

www.rws.com

Contents

Chairman's Statement

I have pleasure in presenting a further record set of results for your Company for the six months ended 31 March 2006.

Business Overview RWS is Europe's leading provider of intellectual property support services and high level technical, legal and financial translation services. The core business – patent translations – is the largest operation of its kind in Europe, translating over 30,000 patents and intellectual property related documents each year. It services 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 similar clients. The Group comprises two principal business units – Translations and Information. The Translations' activities account for over 90% of sales. The Information unit offers a comprehensive range of patent search, retrieval and monitoring services and has recently developed PatBase, the largest collection of patent families, available as a subscription service.

Strategy Our strategy is to focus upon organic growth driven by the rising numbers of patent applications worldwide. We expect to build market share through the exploitation of our leading position and reputation in what is otherwise a fragmented sector. We will deploy our substantial cash holdings for selective acquisitions providing they can be demonstrated to enhance shareholder value.

Results RWS has continued to grow, driven by its market leading position in its core patent translation activity.

Sales and profit for the six months ended 31 March 2006 again achieved record levels. Sales grew by 13% to £19.4M; profit before tax and goodwill amortization rose by 29% to £4.5M (2005: £3.5M). The Group benefited from margin improvement, a full contribution from Eclipse and favourable currency movements.

Earnings and Dividend Normalised earnings per share were 8.1p (2005: 6.4p) on an increased number of shares in issue.

The Directors have approved an interim dividend of 1.85p per share, an increase of 12% over the 2005 interim dividend of 1.65p per share.

Operating Review **Translations** Patent translations account for 80% of our business and showed continued progress from a combination of increased patent grants and new corporate clients. The RWS "translate and file" service commends itself to multinational corporates seeking comprehensive geographical patent protection, and is both competitive and of high quality. We have successfully replicated the European model in Japan and will now seek to capitalise upon strong client interest in our embryonic operation in China.

Commercial translations (medical, legal, financial etc.) have performed well in a competitive marketplace. In particular, Eclipse Translations which was acquired in February 2005, has more than exceeded our expectations and maintained its margins.

Information The Information business unit now accounts for somewhat less than 10% of sales. The core patent search and watch services remain flat as corporate budgets are constrained. However, costs are under good control and margins, already superior, have improved further.

The PatBase subscription database service continues to attract worldwide subscriber interest and has already become a useful contributor to Group profits. We are about to complete a comprehensive upgrade to the functionality of the service and to market simplified access to broaden the appeal to corporate research departments.

Financial Review RWS' financial position has strengthened considerably with net assets of £18.6M, to include net cash of £13.3M. Free cash inflow was £2.7M, and overall net cash inflow was £1.4M. As a people-intensive business, capital expenditure has historically been modest and was £113,000 in the six month period. Additional working capital of £800,000 funded the growth in sales.

As at 31 March 2006 the Group had hedged much of its Euro/Sterling exposure at rates averaging 69.75, to the end of the financial year. US Dollar exposure is similarly hedged at 1.74 per £ sterling.

People RWS relies entirely upon the quality of its staff to deliver the services demanded by our worldwide clientele. As at 31 March 2006 the Group employed 344 people and their productivity showed further improvement over 2005. As ever, we have vacancies for good technical translators and linguists. Recruitment of the right calibre of staff to match client requirements remains the key challenge.

Outlook With economic recovery beginning in the Eurozone, especially in Germany, our core overseas market, and the continuing focus of our clients upon comprehensive intellectual property protection, RWS has every reason to expect further progress. Our financial position is strong; our major client base continues to expand and your Board is therefore justifiably confident about the outturn for 2006.

Andrew Brode
Executive Chairman

30 May 2006

Group Profit and Loss Account

	Note	6 months ended 31 March 2006 £'000	Year ended 30 Sept. 2005 £'000	6 months ended 31 March 2005 £'000
Turnover	1	**19,400**	35,875	17,185
Cost of sales		**(11,488)**	(21,198)	(10,170)
Gross profit		**7,912**	14,677	7,015
Administrative expenses		**(3,607)**	(7,648)	(3,739)
Amortization of goodwill		**(323)**	(616)	(289)
Total administrative expenses		**(3,930)**	(8,264)	(4,028)
Group operating profit before goodwill amortization		**4,305**	7,029	3,276
Group operating profit and profit on ordinary activities before interest		**3,982**	6,413	2,987
Net interest		**210**	412	219
Profit on ordinary activities before taxation		**4,192**	6,825	3,206
Taxation	2	**(1,372)**	(2,265)	(1,076)
Profit for the financial period (Profit attributable to shareholders)		**2,820**	4,560	2,130

All amounts relate to continuing activities.

	Note			
Earnings per share	4	Pence	Pence	Pence
Basic		**7.3**	11.9	5.6
Diluted		**6.8**	11.1	5.2

Group Statement of Total Recognised Gains and Losses

	6 months ended 31 March 2006 £'000	Year ended 30 Sept. 2005 £'000	6 months ended 31 March 2005 £'000
Profit for the financial period	**2,820**	4,560	2,130
Exchange adjustments on retranslation of net assets of subsidiary undertakings	**(24)**	(25)	12
Total recognised gains and losses for the financial period	**2,796**	4,535	2,142

Group Balance Sheet

	Note	31 March 2006 £'000	30 Sept. 2005 £'000	31 March 2005 £'000
Fixed assets				
Intangible assets		**6,726**	7,049	7,376
Tangible assets		**896**	935	974
		7,622	7,984	8,350
Current assets				
Work in progress		**1,011**	773	742
Debtors: due within one year		**7,284**	6,571	6,423
Cash at bank		**13,494**	12,280	9,958
		21,789	19,624	17,123
Creditors: amounts due within one year	5	**(10,759)**	(10,437)	(10,223)
Net current assets		**11,030**	9,187	6,900
Total assets less current liabilities		**18,652**	17,171	15,250
Creditors: amounts due after one year		**–**	–	(27)
Net assets		**18,652**	17,171	15,223
Capital and reserves				
Called up share capital		**1,942**	1,922	1,914
Share premium account		**1,719**	1,378	1,199
Capital reserve		**157**	68	68
Share option reserve		**1,873**	1,962	1,962
Reverse acquisition reserve		**(8,483)**	(8,483)	(8,483)
Profit and loss account	6	**21,434**	20,314	18,553
Shareholders' funds – equity interests	7	**18,642**	17,161	15,213
Minority interest in equity		**10**	10	10
		18,652	17,171	15,223

Group Cash Flow Statement

	6 months ended 31 March 2006 £'000	Year ended 30 Sept. 2005 £'000	6 months ended 31 March 2005 £'000
Net cash inflow from operating activities	**3,650**	7,142	3,342
Returns on investments and servicing of finance			
Interest received	**204**	401	212
Interest paid	**(1)**	(1)	(3)
	203	400	209
Tax paid	**(1,077)**	(2,143)	(975)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	**(113)**	(233)	(91)
Free cash flow	**2,663**	5,166	2,485
Acquisitions and disposals			
Acquisition of subsidiary undertakings	**–**	(2,430)	(2,430)
Net overdraft in subsidiary undertakings acquired	**–**	(249)	(249)
	–	(2,679)	(2,679)
Equity dividends paid to shareholders	**(1,676)**	(1,970)	(1,338)
Cash inflow/(outflow) before financing	**987**	517	(1,532)
Financing			
Issue of ordinary shares	**361**	674	487
Increase/(decrease) in cash	**1,348**	1,191	(1,045)

Notes to the Group Cash Flow Statement

	6 months ended 31 March 2006 £'000	Year ended 30 Sept. 2005 £'000	6 months ended 31 March 2005 £'000
Reconciliation of operating profit to net cash flow from operating activities			
Group operating profit	**3,982**	6,413	2,987
Depreciation and amortization	**474**	958	449
Work in progress increase	**(238)**	(91)	(60)
Debtors increase	**(705)**	(1,341)	(683)
Creditors increase	**161**	1,218	649
Other non-cash movements	**(24)**	(15)	–
Net cash inflow from operating activities	**3,650**	7,142	3,342
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the period	**1,348**	1,191	(1,045)
Net funds at beginning of the period	**11,929**	10,738	10,738
Net funds at end of the period	**13,277**	11,929	9,693

Analysis of net funds	At 1 October 2005 £'000	Cash flow £'000	At 31 March 2006 £'000
Cash	12,280	1,214	**13,494**
Overdrafts	(351)	134	**(217)**
	11,929	1,348	**13,277**

	6 months ended 31 March 2006 £'000	Year ended 30 Sept. 2005 £'000	6 months ended 31 March 2005 £'000
1 Turnover and segmental information			
Turnover and operating profit derive from continuing operations.			
Turnover by class of business			
Translation and localization services	**18,143**	33,327	15,886
Information services	**1,257**	2,548	1,299
	19,400	35,875	17,185
Turnover by geographic location of Group undertakings			
United Kingdom	**17,454**	31,748	15,050
Continental Europe	**308**	611	301
Japan	**1,548**	3,339	1,701
United States of America	**90**	177	133
	19,400	35,875	17,185
Turnover by geographic market in which customers are located			
United Kingdom	**2,481**	4,882	2,212
Continental Europe			
Germany	**7,328**	13,284	5,908
France	**2,432**	3,698	1,956
Other	**3,855**	6,695	3,308
	13,615	23,677	11,172
Japan	**1,172**	2,446	1,287
United States of America	**2,052**	4,747	2,456
Other	**80**	123	58
	19,400	35,875	17,185

2 **Taxation** – the charge for the 6 months ended 31 March 2006 is at the rate that is anticipated will be applicable for the whole year.

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 year ended 30 September 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**

	6 months ended 31 March 2006	Year ended 30 Sept. 2005	6 months ended 31 March 2005
Ordinary shares			
Interim paid of 1.65p	–	632	–
Final dividends proposed for the prior year of: 4.35p, paid 16 February 2006 (3.50p, paid 7 March 2005) per share	**1,676**	1,338	1,338
	1,676	1,970	1,338

An interim dividend of 1.85p (interim 2005 – 1.65p, paid 30 June 2005) per Ordinary share will be paid on 14 July 2006 to Shareholders on the Register at 16 June 2006. This dividend, which was approved by the Directors after the balance sheet date, has not been recognised as a liability at 31 March 2006.

4 **Earnings per Ordinary share**

	6 months ended 31 March 2006		6 months ended 31 March 2005	
	Earnings £'000	EPS Pence	Earnings £'000	EPS Pence
Basic earnings	**2,820**	**7.3**	2,130	5.6
Goodwill amortization	**323**	**0.8**	289	0.8
Normalised earnings	**3,143**	**8.1**	2,419	6.4

	Number of shares 6 months ended 31 March 2006	Number of shares Year ended 30 Sept. 2005	Number of shares 6 months ended 31 March 2005
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	**38,566,268**	38,204,648	38,093,574
Dilutive potential Ordinary shares arising from unexercised share options	**2,887,388**	2,735,932	2,697,289
	41,453,656	40,940,580	40,790,863

The weighted average number of Ordinary shares in issue reflects the 400,000 Ordinary shares issued under options exercised during the period. At 31 March 2006 there were unexercised options over a total of 3,474,472 (2005 – 4,040,472) Ordinary shares.

5 **Creditors: amounts due within one year** include corporation tax of £5,804,000 (31 March 2005 – £5,474,000). The taxation amount includes £4,434,000 being the liability on the gain arising on the redemption of loan notes in the year ended 30 September 2004.

6 Reserves

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' funds £'000
At 31 March 2005 as previously stated	1,914	1,199	(6,453)	17,921	14,581
Prior year adjustment:					
Restatement on adoption of FRS 21 (note 8)	–	–	–	632	632
At 31 March 2005 as restated	1,914	1,199	(6,453)	18,553	15,213
At 30 September 2005 as previously stated	1,922	1,378	(6,453)	18,642	15,489
Prior year adjustment:					
Restatement on adoption of FRS 21 (note 8)	–	–	–	1,672	1,672
At 30 September 2005 as restated	1,922	1,378	(6,453)	20,314	17,161

7 Reconciliation of movements in shareholders' funds

	6 months ended 31 March 2006 £'000	Year ended 30 Sept. 2005 £'000	6 months ended 31 March 2005 £'000
Profit for the financial period	**2,820**	4,560	2,130
Dividends (note 3)	**(1,676)**	(1,970)	(1,338)
	1,144	2,590	792
Other net recognised gains and losses relating to the financial period	**(24)**	(25)	12
Shares issued under options exercised	**361**	674	487
Net additions to shareholders' funds	**1,481**	3,239	1,291
Opening shareholders' funds as previously stated	**15,489**	12,599	12,599
Prior year adjustment:			
Restatement on adoption of FRS 21 (note 8)	**1,672**	1,323	1,323
Opening shareholders' funds as restated	**17,161**	13,922	13,922
Shareholders' funds at end of the period	**18,642**	17,161	15,213

8 Basis of preparation

The interim financial statements were approved by the Board of Directors on 30 May 2006 and the interim results for the half years ended 31 March 2006 and 31 March 2005 are neither audited nor reviewed by our auditors. The accounts in this interim report do not constitute statutory accounts in accordance with Section 240 of the Companies Act 1985. Save as set out below, 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 2005, which received an unqualified report and have been lodged with the Registrar of Companies. The figures for the year ended 30 September 2005 have been extracted from those statutory accounts.

Change in accounting policies

The Group has adopted FRS 21 "Events after the balance sheet date". Previously, equity dividends declared after the balance sheet date were recognised as liabilities at the period end, as required by company law and SSAP 17 "Accounting for post balance sheet events". In accordance with FRS 21 and recent changes to the law, if an equity dividend is declared after the balance sheet date but before the financial statements are authorised for issue, the dividend is not recognised as a liability at the balance sheet date.

The adoption of FRS 21 has resulted in an increase in shareholders funds of £1,672,000 at 1 October 2005 (1 October 2004 – £1,323,000) due to the write back of the dividend proposed at the balance sheet date.

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