Delivering Engineering Services to UK Infrastructure

Renew Holdings plc
Interim Report and Accounts 2013

renew

Delivering Engineering Services to UK Infrastructure through our branded businesses nationwide

Renew provides multidisciplinary engineering services to maintain and develop UK infrastructure focused in the Energy, Environmental and Infrastructure markets

Contents

Chairman's statement
R J Harrison OBE, Chairman

Record interim results

The first half of 2013 has seen the Group deliver record interim results achieving further growth in both operating profit and operating margin accompanied by good cash generation. These results illustrate the benefit of the Group's position in robust markets maintaining the UK's key infrastructure assets.

Results

Group operating profit, prior to amortisation charges, increased by 8% to £5.2m (2012: £4.8m), on revenue of £152.4m (2012: £182.4m). Operating margin grew to 3.4% (2012: 2.6%) with adjusted earnings per share increasing by 10% to 6.20p (2012: 5.65p).

Engineering Services revenue increased by 4.8% to £110.4m (2012: £105.3m) and accounted for 72% of Group revenue (2012: 58%) and 83% (2012: 82%) of operating profit, prior to central costs.

Specialist Building maintained its operating profit at £1.0m (2012: £1.0m) on reduced revenue of £42.0m (2012: £76.8m). Specialist Building revenue is expected to increase in the second half as site activity accelerates following receipt of previously delayed project awards. The Board's focus in Specialist Building will remain on maintaining its level of operating profit.

Net debt has reduced to £3.2m (2012: £6.9m). The Board expects a further reduction in net debt in the second half of the financial year.

Dividend

In line with its progressive policy, the Board is increasing the interim dividend by 5% to 1.10p per share (2012: 1.05p) which will be paid on 8 July 2013 to shareholders on the register at 7 June 2013.

Outlook

The Group's order book at 31 March 2013 was £361m (2012: £304m), an increase of 19%. The Engineering Services order book grew by 14% to £261m (2012: £229m). The value of potential future work which may arise from project frameworks is not included in the order book. All of our forecast revenue for the second half of the financial year is fully secured.

The Group is successfully positioned as a key provider of engineering services to its clients in the UK's Energy, Environmental and Infrastructure markets. The UK's critical assets in these markets are supported by programmes of essential non-discretionary maintenance and renewal. Renew's continued focus on these programmes provides good visibility of future workstreams and resilience of earnings.

We have a strong pipeline of work, and see compelling opportunities for both organic and acquisitive growth which, following a record first half, gives the Board confidence in the full year outcome.

R J Harrison OBE
Chairman
21 May 2013

Chief Executive's review
Brian May, Chief Executive

The Group is an established provider of multidisciplinary Engineering Services

The Group is an established provider of multidisciplinary Engineering Services supporting critical UK infrastructure in the Energy, Environmental and Infrastructure markets most of which are highly regulated and have high barriers to entry. The services we provide to undertake essential maintenance and renewal of these assets are delivered through our directly employed multiskilled workforce operating from local and independently branded businesses which provide responsiveness to clients' needs, the foundation of our strong client relationships. In addition the Group has a smaller Specialist Building business which concentrates on established and sustainable markets in the South.

Engineering Services

Our operations concentrate on markets where the majority of spending is driven by regulatory requirements and as such is backed by secured funding. We focus on work which is mainly budgeted by our clients in their operating expenditure plans rather than their discretionary capital expenditure budgets.

The majority of our activity is generated from long term maintenance and renewal frameworks which then provide opportunities to secure selected improvement projects through our established relationships. Frameworks provided two thirds of our revenue in the period and represent three quarters of our order book.

During the first half of the year, Engineering Services revenue grew by 4.8% to £110.4m (2012: £105.3m), representing 72% of Group revenue. Operating profit increased by 6.5% to £4.9m (2012: £4.6m) with operating margin maintained at 4.4% (2012: 4.4%). The Board believes that Renew's direct delivery of multidisciplinary Engineering Services to mainly regulated markets will result in continued growth in operating profit and cash generation.

At 31 March 2013 the Engineering Services order book was £261m (2012: £229m), an increase of 14% since a year ago and of 11% since 30 September 2012.

Energy

The strength of our operating activities in Energy is in the Nuclear sector which has been the principal driver of growth. The majority of this activity is undertaken at Sellafield where we remain the largest mechanical and electrical contractor. Work at Sellafield concentrates on the high hazard reduction, decommissioning and operational asset care programmes delivered through a number of framework agreements.

During the period our position at Sellafield has strengthened further and we became the first contractor to receive Supply Chain Accreditation for the provision of services at the site. This accreditation recognises our ability to perform to the highest quality standards demanded in the Nuclear sector. In addition our exemplary safety performance at the site has received formal recognition from Sellafield Ltd who recently presented us with the Sellafield Contractors Safety Award for 2013.

A key award during the period was our reappointment as one of three participants to the Multi Discipline Site Works framework, which commenced in April 2013, to deliver work packages up to £280m over four years. On this framework, we continue to be aligned with the largest aspects of anticipated work volume, namely Production Operations Support, which includes a range of maintenance tasks together with asset care and restoration projects.

Our leading position at Sellafield also enables us to provide support to the major projects programme including the Separation Area Ventilation and Evaporator D schemes. The latter is the largest current Nuclear programme in the UK and a total work value of about £60m is now expected from this contract. We are also sole mechanical and electrical partner on the Site Wide Asset Care framework and to Morgan Sindall on the £1.1bn, 15 year framework for the Infrastructure Strategic Alliance.

The Group is well positioned on eight other nuclear licensed sites across the Nuclear Decommissioning Authority's estate including at the Springfields fuel production site where we are carrying out a range of long term decommissioning projects.

Elsewhere in Energy, the Group operates at five of the UK's traditional power generation plants providing long term Engineering Services for the maintenance and refurbishment of assets which form a critical part of the UK's energy provision. Our work in renewables is proceeding well and includes two hydroelectric schemes for Scottish Water, currently at the design and manufacture stage, where work is due to commence on site in 2014.

Environmental

In Water, the Group has continued its strong relationship with Northumbrian Water where it provides infrastructure development and ongoing operational engineering maintenance services including sewer maintenance, clean and wastewater rehabilitation, strategic water mains maintenance and trunk mains cleaning. During the period work continued on the 10 year AMP 5 Major Waste Water project framework as well as on our six non-discretionary maintenance frameworks, where we have seen a 54% increase in activity levels. Our work in trunk mains cleaning has seen good progress in the period on contracts valued at £12m. Flood protection and alleviation works together with river maintenance are also carried out under a number of frameworks for the Environment Agency.

In Land Remediation we are progressing a number of opportunities under our established frameworks with National Grid. Additionally, a major contract secured in the period was the £3m Luneside project at Lancaster for a residential developer.

Infrastructure

Our Infrastructure work is principally in the Rail sector, where the Group provides off-track civil, mechanical and electrical engineering services to Network Rail throughout the UK via our local delivery teams. We focus on delivering planned and reactive infrastructure maintenance, refurbishment and renewal services critical to keeping the rail network's assets operational.

As the only national provider of engineering maintenance services for Network Rail, we undertake the majority of our work under the Buildings and Civils Delivery Partnership and Asset Management frameworks.

During the period we have seen an increase in the requirement for our 24 hour emergency response services which we provide nationally across all 10 Network Rail routes. These works often lead on to further planned contracts as part of a long term solution. Recent projects have included works at Hatfield and Barrow-upon-Soar.

We remain a market leader in tunnel maintenance and refurbishment for Network Rail and have recently been awarded the enablement phase for a major project at Holme Tunnel.

Specialist Building

Specialist Building revenue was £42.0m (2012: £76.8m) delivering an operating profit of £1.0m (2012: £1.0m). The delayed award of projects has depressed revenue in the year to date, but this is expected to increase in the second half of the year as orders have been confirmed and site works gather momentum. The forward order book stood at £100m (2012: £75m).

In High Quality Residential, we operate in London and the South East and during the period a further £24m of projects have been secured, many of which have challenging temporary structural works in which the Group has particular expertise.

The New Build Affordable Housing market in the South East continues to provide a strong level of opportunities. Good progress is being made on a £15m residential development scheme for One Housing Group and at a £13m scheme for Notting Hill Home Ownership. New awards in the period include an £11m scheme for Gateway Housing Association.

The Group's particular experience and expertise is strongly aligned to these robust, specialist markets which continue to provide good visibility of future work and stable profits.

Strategy

In addition to organic growth, the Group continues to seek out suitable complementary acquisitions in the Engineering Services sector. Over the last 2 years, potential acquisitions have been both few in number and low in quality, however there have been recent signs of increasing activity in the market which may lead to better opportunities. The Board will continue to insist that any acquisition is both earnings enhancing and cash generative.

B. W. May

Brian May
Chief Executive
21 May 2013

Group income statement
for the six months ended 31 March 2013

	Note	Before amortisation of intangible assets 2013 Unaudited £000	Amortisation of intangible assets (see Note 3) 2013 Unaudited £000	Six months ended 31 March 2013 Unaudited £000	Six months ended 31 March *2012 Unaudited £000	Before exceptional items and amortisation of intangible assets 2012 Audited £000	Exceptional items and amortisation of intangible assets (see Note 3) 2012 Audited £000	Year ended 30 September 2012 Audited £000
Group revenue from continuing activities	2	**152,411**	**—**	**152,411**	182,436	337,423	—	337,423
Cost of sales		**(131,159)**	**—**	**(131,159)**	(161,472)	(301,040)	—	(301,040)
Gross profit		**21,252**	**—**	**21,252**	20,964	36,383	—	36,383
Administrative expenses		**(16,090)**	**(250)**	**(16,340)**	(16,435)	(26,115)	(1,620)	(27,735)
Operating profit	2	**5,162**	**(250)**	**4,912**	4,529	10,628	(1,620)	8,648
Finance income		**18**	**—**	**18**	35	45	—	45
Finance costs		**(193)**	**—**	**(193)**	(307)	(518)	—	(518)
Other finance (expense)/income – defined benefit pension schemes		**(150)**	**—**	**(150)**	59	246	—	246
Profit before income tax	2	**4,837**	**(250)**	**4,587**	4,316	10,041	(1,620)	8,421
Income tax expense	4	**(1,125)**	**63**	**(1,062)**	(1,117)	(1,713)	405	(1,308)
Profit for the period from continuing activities		**3,712**	**(187)**	**3,525**	3,199	8,328	(1,215)	7,113
Loss for the period from discontinued operation				**(105)**	(122)			(2,372)
Profit for the period attributable to equity holders of the parent company				**3,420**	3,077			4,741
Basic earnings per share from continuing activities	5			**5.89p**	5.34p			11.87p
Diluted earnings per share from continuing activities	5			**5.63p**	5.15p			11.38p
Basic earnings per share	5			**5.71p**	5.14p			7.91p
Diluted earnings per share	5			**5.46p**	4.95p			7.59p
Proposed dividend	6			**1.10p**	1.05p			3.15p

* Operating profit for the six months ended 31 March 2012 is after charging £250,000 of amortisation cost (see Note 3).

Group statement of comprehensive income
for the six months ended 31 March 2013

	Six months ended 31 March 2013 Unaudited £000	Six months ended 31 March 2012 Unaudited £000	Year ended 30 September 2012 Audited £000
Profit for the period attributable to equity holders of the parent company	**3,420**	3,077	4,741
Exchange movement in reserves	**715**	(317)	(407)
Movements in actuarial deficit	**—**	—	(3,442)
Movement on deferred tax relating to the defined benefit pension schemes	**—**	—	847
Total comprehensive income for the period attributable to equity holders of the parent company	**4,135**	2,760	1,739

Group statement of changes in equity
for the six months ended 31 March 2013

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Cumulative translation adjustment £000	Share based payments reserve £000	Retained earnings £000	Total equity Unaudited £000
At 1 October 2011	5,990	5,893	3,896	1,182	283	(8,628)	8,976
Transfer from income statement for the period						3,077	3,077
Dividends paid						(1,196)	(1,196)
Recognition of share based payments					(10)		(10)
Exchange differences				(317)			(317)
At 31 March 2012	5,990	5,893	3,896	865	273	(6,387)	10,530
Transfer from income statement for the period						1,664	1,664
Dividends paid						(631)	(631)
Recognition of share based payments					16		16
Exchange differences				(90)			(90)
Actuarial losses recognised in pension schemes						(3,442)	(3,442)
Movement on deferred tax relating to the pension schemes						847	847
At 30 September 2012	5,990	5,893	3,896	775	289	(7,949)	8,894
Transfer from income statement for the period						3,420	3,420
Dividends paid						(1,258)	(1,258)
Recognition of share based payments					53		53
Exchange differences				715			715
At 31 March 2013	**5,990**	**5,893**	**3,896**	**1,490**	**342**	**(5,787)**	**11,824**

Group balance sheet
at 31 March 2013

	31 March 2013 Unaudited £000	31 March 2012 Unaudited £000	30 September 2012 Audited £000
Non-current assets			
Intangible assets – goodwill	**26,918**	27,727	26,918
– other	**2,000**	2,500	2,250
Property, plant and equipment	**4,433**	4,567	4,690
Retirement benefit assets	**3,496**	2,925	1,820
Deferred tax assets	**2,535**	2,909	2,929
	39,382	40,628	38,607
Current assets			
Inventories	**9,449**	8,744	9,109
Trade and other receivables	**64,229**	86,912	73,958
Current tax assets	**834**	906	834
Cash and cash equivalents	**1,812**	3,063	2,040
	76,324	99,625	85,941
Total assets	**115,706**	140,253	124,548
Non-current liabilities			
Borrowings	**–**	(5,000)	(2,500)
Obligations under finance leases	**(548)**	(345)	(676)
Retirement benefit obligations	**(569)**	(119)	(569)
Deferred tax liabilities	**(1,039)**	(1,469)	(1,039)
Provisions	**(566)**	(566)	(566)
	(2,722)	(7,499)	(5,350)
Current liabilities			
Borrowings	**(5,000)**	(5,000)	(5,000)
Trade and other payables	**(94,483)**	(115,862)	(104,302)
Obligations under finance leases	**(577)**	(386)	(570)
Current tax liabilities	**(934)**	(810)	(266)
Provisions	**(166)**	(166)	(166)
	(101,160)	(122,224)	(110,304)
Total liabilities	**(103,882)**	(129,723)	(115,654)
Net assets	**11,824**	10,530	8,894
Share capital	**5,990**	5,990	5,990
Share premium account	**5,893**	5,893	5,893
Capital redemption reserve	**3,896**	3,896	3,896
Cumulative translation adjustment	**1,490**	865	775
Share based payments reserve	**342**	273	289
Retained earnings	**(5,787)**	(6,387)	(7,949)
Total equity	**11,824**	10,530	8,894

Group cashflow statement
for the six months ended 31 March 2013

	Six months ended 31 March 2013 Unaudited £000	2012 Unaudited £000	Year ended 30 September 2012 Audited £000
Profit for the period from continuing operations	**3,525**	3,199	7,113
Amortisation of intangible assets	**250**	250	500
Depreciation	**513**	513	905
Profit on sale of property, plant and equipment	**(27)**	(84)	(17)
Decrease/(increase) in inventories	**192**	(59)	(501)
Decrease/(increase) in receivables	**9,949**	(2,030)	10,081
(Decrease)/increase in payables	**(10,047)**	278	(10,969)
Current service cost in respect of defined benefit pension schemes	**26**	28	54
Cash contribution to defined benefit schemes	**(1,676)**	(1,836)	(3,477)
Expense/(credit) in respect of share options	**53**	(10)	6
Finance expense/(income)	**132**	(94)	(291)
Finance costs	**193**	307	518
Interest paid	**(193)**	(307)	(518)
Income taxes paid	**—**	—	(333)
Income tax expense	**1,062**	1,117	1,308
Net cash inflow from continuing operating activities	**3,952**	1,272	4,379
Net cash outflow from discontinued operating activities	**(105)**	(109)	(794)
Net cash inflow from operating activities	**3,847**	1,163	3,585
Investing activities			
Interest received	**18**	35	45
Proceeds on disposal of property, plant and equipment	**40**	115	191
Purchases of property, plant and equipment	**(52)**	(88)	(270)
Net cash inflow/(outflow) from continuing investing activities	**6**	62	(34)
Net cash inflow from discontinued investing activities	**—**	19	36
Net cash inflow from investing activities	**6**	81	2
Financing activities			
Dividends paid	**(1,258)**	(1,196)	(1,827)
Loan repayments	**(2,500)**	(2,500)	(5,000)
Repayment of obligations under finance leases	**(338)**	(169)	(396)
Net cash outflow from financing activities	**(4,096)**	(3,865)	(7,223)
Net decrease in continuing cash and cash equivalents	**(138)**	(2,531)	(2,878)
Net decrease in discontinued cash and cash equivalents	**(105)**	(90)	(758)
Net decrease in cash and cash equivalents	**(243)**	(2,621)	(3,636)
Cash and cash equivalents at the beginning of the period	**2,040**	5,688	5,688
Effect of foreign exchange rate changes	**15**	(4)	(12)
Cash and cash equivalents at the end of the period	**1,812**	3,063	2,040
Bank balances and cash	**1,812**	3,063	2,040

Notes to the accounts

1 Basis of preparation

(a) The consolidated interim financial report for the six months ended 31 March 2013 and the equivalent period in 2012 have not been audited or reviewed by the Group's auditor. They do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. They have been prepared under the historical cost convention and on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. This interim financial report does not comply with IAS34 "Interim Financial Reporting", which is not currently required to be applied for AIM companies. This interim report was approved by the Directors on 21 May 2013.

(b) The accounts for the year ended 30 September 2012 were prepared under IFRS and have been delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498(2) or (3) of the Companies Act 2006. In this report, the comparative figures for the year ended 30 September 2012 have been audited. The comparative figures for the period ended 31 March 2012 are unaudited.

(c) For the year ending 30 September 2013, there are no new accounting standards, which have been adopted by the EU, applied and implemented for this interim financial report.

(d) The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future.

This interim statement is being sent to all shareholders and is also available upon request from the Company Secretary, Renew Holdings plc, Yew Trees, Main Street North, Aberford, West Yorkshire LS25 3AA, or via the website www.renewholdings.com.

2 Segmental analysis

Operating segments have been identified based on the internal reporting information provided to the Group's Chief Operating Decision Maker. From such information, Engineering Services and Specialist Building have been determined to represent operating segments.

	Six months ended 31 March 2013 Unaudited £000	Six months ended 31 March 2012 Unaudited £000	Year ended 30 September 2012 Audited £000
Revenue is analysed as follows:			
Engineering Services	**110,372**	105,276	214,102
Specialist Building	**42,039**	76,751	123,070
Inter segment revenue	**—**	(11)	(179)
Segment revenue	**152,411**	182,016	336,993
Central activities	**—**	420	430
Group revenue from continuing operations	**152,411**	182,436	337,423

	Before amortisation of intangible assets 2013 Unaudited £000	Amortisation of intangible assets 2013 Unaudited £000	Six months ended 31 March 2013 Unaudited £000	Six months ended 31 March 2012* Unaudited £000	Before exceptional items and amortisation of intangible assets 2012 Audited £000	Exceptional items and amortisation of intangible assets 2012 Audited £000	Year ended 30 September 2012 Audited £000
Analysis of operating profit							
Engineering Services	**4,895**	**(250)**	**4,645**	4,367	9,639	(986)	8,653
Specialist Building	**994**	**—**	**994**	985	2,134	(634)	1,500
Segment operating profit	**5,889**	**(250)**	**5,639**	5,352	11,773	(1,620)	10,153
Central activities	**(727)**	**—**	**(727)**	(823)	(1,505)	—	(1,505)
Operating profit	**5,162**	**(250)**	**4,912**	4,529	10,268	(1,620)	8,648
Net financing expense	**(325)**	**—**	**(325)**	(213)	(227)	—	(227)
Profit before income tax	**4,837**	**(250)**	**4,587**	4,316	10,041	(1,620)	8,421

* Operating profit for the six months ended 31 March 2012 is after charging £250,000 of amortisation cost.

Notes to the accounts continued

3 Exceptional items and amortisation of intangible assets

	Six months ended 31 March 2013 Unaudited £000	Six months ended 31 March 2012 Unaudited £000	Year ended 30 September 2012 Audited £000
Redundancy and restructuring costs	**—**	—	1,120
Total exceptional items	**—**	—	1,120
Amortisation of intangible assets	**250**	250	500
	250	250	1,620

4 Income tax expense

	Six months ended 31 March 2013 Unaudited £000	Six months ended 31 March 2012 Unaudited £000	Year ended 30 September 2012 Audited £000
Current tax:			
UK corporation tax on profits for the period	**(668)**	(579)	(266)
Adjustments in respect of previous periods	**—**	—	86
Total current tax	**(668)**	(579)	(180)
Deferred tax	**(394)**	(538)	(1,195)
Income tax expense	**(1,062)**	(1,117)	(1,375)
Deferred tax in respect of discontinued operation	**—**	—	67
Income tax in respect of continuing activities	**(1,062)**	(1,117)	(1,308)

5 Earnings per share

	Six months ended 31 March 2013 Unaudited			2012 Unaudited			Year ended 30 September 2012 Audited		
	Earnings £000	**EPS Pence**	**DEPS Pence**	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Earnings before exceptional costs and amortisation	**3,712**	**6.20**	**5.93**	3,386	5.65	5.45	8,328	13.90	9.24
Exceptional costs and amortisation	**(187)**	**(0.31)**	**(0.30)**	(187)	(0.31)	(0.30)	(1,215)	(2.03)	(2.14)
Basic earnings per share – continuing activities	**3,525**	**5.89**	**5.63**	3,199	5.34	5.15	7,113	11.87	11.38
Loss for the period from discontinued operation	**(105)**	**(0.18)**	**(0.17)**	(122)	(0.20)	(0.20)	(2,372)	(3.96)	(3.79)
Basic earnings per share	**3,420**	**5.71**	**5.46**	3,077	5.14	4.95	4,741	7.91	7.59
Weighted average number of shares		**59,899**	**62,593**		59,899	62,127		59,899	62,493

The dilutive effect of share options is to increase the number of shares by 2,694,000 (March 2012: 2,228,000; September 2012: 2,594,000) and reduce the basic earnings per share by 0.25p (March 2012: 0.19p; September 2012: 0.32p).

6 Dividends

The proposed interim dividend is 1.10p per share (2012: 1.05p). This will be paid out of the Company's available distributable reserves to shareholders on the register on 7 June 2013, payable on 8 July 2013. In accordance with IAS 1, dividends are recorded only when paid and are shown as a movement in equity rather than as a charge in the income statement.

Directors, officers and advisors

Directors

R Harrison OBE	(Non-executive Chairman)
B May	(Chief Executive)
J Samuel FCA	(Group Finance Director)
J Bishop FCA	(Independent Non-executive)
D Forbes	(Independent Non-executive)

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