NORTHBRIDGE

Northbridge Industrial Services plc
Interim report and accounts 2015

Creating a fully integrated, global industrial equipment group.

About us

Northbridge Industrial Services plc hires and sells specialist industrial equipment and has grown organically and by the acquisition of companies in the UK and abroad and through investing in those companies to make them more successful.

Highlights

- Group revenue down 12.3% to £18.6 million (2014: £21.2 million)
- Pre-exceptional operating loss of £0.3 million (2014: profit of £3.6 million)
- Cash generation from operations of £3.3 million (2014: £4.4 million)
- Pre-exceptional EBITDA of £3.4 million (2014: £6.6 million)
- Exceptional costs in response to current market conditions £1.5 million (2014: £nil)
- Net gearing 39.9% (31.6% at 31 December 2014)
- LPS 10.5 pence per share (2014 EPS: 14.8 pence)
- Interim dividend of 1.0 pence (2014: 2.2 pence)
- Disposal or closure of non-core activities now complete, raising around £1.5 million cash in 2015
- Further reduction of operating expenses has been made to save £1.5 million on an annualised basis

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So far this year we have exited non-core activities and reduced overheads, releasing cash and management time.

As had been highlighted in our previous announcement, and again at our AGM in May, market conditions are extremely difficult for the Group's activities that are involved in the oil and gas industry. The Group's performance for 2015, which followed our most successful year so far in 2014, underline this point.

The dramatic and unprecedented fall in the price of crude oil experienced in the last quarter of 2014 began to impact the Group's trading at the beginning of this six-month trading period, as existing contracts came to an end and new contracts became much harder to secure.

Many of our customers faced significant cutbacks in their own capital expenditure programmes, including postponements, long-term delays and project cancellations. This affected both the Tasman drilling tool businesses and the Crestchic load testing activities in the Middle and Far East. The impact of a rapidly slowing rental revenue stream disproportionately affected our trading profits, due to the much higher operational gearing of this activity.

Though other parts of the Group, operating mainly out of Europe, notably Crestchic loadbanks and transformers, fared much better, and profits were on a par with the comparative period in 2014, our actions to mitigate the very poor trading conditions in the oil and gas sector have been swift.

So far this year we have exited non-core activities and reduced overheads, releasing cash and management time. Despite the exceptional costs of these actions, this has positioned the Group in preparation for the future.

To date we have carried out the following actions:

- closed the loss-making Loadcell operation in Vietnam. The Loadcell activity in Singapore remains and continues to make a contribution;
- disposed of the generator hire fleet assets in TTERS in Dubai and closed the business;
- exited the compressor rental market in the UK and disposed of both the trade and the assets;
- disposed of the trade and assets of RDS, our subsidiary based in Baku, Azerbaijan, which rents generators, welding sets and lighting towers to the oil and gas industry in the Caspian region; and
- disposed of non-core, surplus and incompatible hire fleet.

The cash released from these actions will amount to around £1.5 million in 2015 and will be utilised to pay down debt.

In addition we have:

- reduced the future capital expenditure programme by £10.0 million up to December 2016;
- completed a further cost-cutting exercise since 30 June 2015 which will reduce operating expenditure by a further £1.5 million on an annualised basis; and
- agreed a delay in payment of part of the final deferred consideration for Tasman New Zealand (TNZ) and NZD$2.0 million will now be paid in 2017 (out of NZD$4.5 million). TNZ was acquired in September 2014 and remains profitable in the first six months of 2015.

We now have a much more streamlined Group focusing on its core activities, loadbanks, transformers and drilling tools, which have a worldwide presence.

Following these actions, we now have a much more streamlined Group focusing on its core activities, loadbanks, transformers and drilling tools, which have a worldwide presence. This will provide a platform for the Group to continue its growth in the future when more favourable conditions return.

Despite the losses, EBITDA was robust and the Group remains cash generative. It has sufficient headroom to meet all its scheduled bank repayments in the next fifteen months. However, it will need to agree a re-setting of certain covenants due to be tested on 31 December 2015 and thereafter. The Group has agreed with its bankers, who are very supportive, that the covenants will not be tested on 30 September, and negotiations are ongoing. The Directors believe that the outcome will be successfully completed prior to 31 December 2015. To underline this confidence, the Group will pay a reduced interim dividend of 1 pence to ordinary shareholders in October.

On a positive note, over the last few months Tasman Oil Tools has been awarded a number of Master Service Agreements (MSA) for a range of drilling tools to cover both the Middle East and Asia Pacific region (MEAP). These are important awards with major international oil service companies which have been won competitively. They will be serviced from our existing locations in the UAE, Australia and New Zealand. This will give us the scope and opportunity to significantly increase our market share when drilling returns to more normal levels.

We are also on target to open our first loadbank location in North America imminently and we will thereafter have direct access to the lucrative US rental market. From this position we will also be better able to support our current customer base which will lead to additional sales in the medium term.

The cost-cutting exercise referred to above will mean a number of senior staff leaving their positions with the Group. This also includes our corporate head office and Craig Robinson, the Group Finance Director, will leave the Group at the end of September and will not be replaced. The Board of Northbridge would like to thank Craig and the rest of the staff affected for their hard work and wish them well in the future.

Financial results

Northbridge's revenue for the half year ended 30 June 2015 totalled £18.6 million (2014: £21.2 million) with gross profits of £8.1 million (2014: £11.6 million). Losses before tax totalled £2.1 million (2014: profit of £3.3 million) after an exceptional charge of £1.5 million (2014: £nil). The exceptional charge includes £0.9 million costs of closing down businesses, £0.2 million of redundancy costs relating to continuing entities, £0.1 million of acquisition costs and a £0.2 million impairment charge on the intangible assets relating to our loadcell business in Singapore. The Board has reviewed the carrying value of its other assets and does not believe that any further impairment is necessary.

Net assets at 30 June 2015 were £40.7 million (31 December 2014: £46.4 million). This includes a negative movement of £2.7 million on the foreign exchange reserve due to the relative strength of Sterling in the period.

The effective tax rate for the first half following the trading losses was zero, but there was a small tax credit of £0.1 million (2014: 22.4%).

The basic loss per share was 10.5 pence compared with earnings per share (EPS) of 14.8 pence in 2014. Fully diluted loss per share was 10.4 pence compared to EPS of 14.3 in 2014.

Financing and cash flow

Cash flow during the period continued to be positive despite the downturn in trading. Cash flow from operating activities (before movements on working capital) was £1.9 million (2014: £6.5 million) and a further £1.8 million (2014: £0.5 million) was received from sale of assets from the hire fleet. Investment into the hire fleet was £3.8 million (2014: £3.6 million); the majority of this was ordered during 2014. The final part of the first instalment of the deferred element of the consideration for Tasman New Zealand was made in January (after £1.2 million was paid in December 2014) and amounted to £1.0 million. Net financial gearing at the period end was 39.9% (31 December 2014: 31.6%).

Cash generated from operations

£3.3m

2014: £4.4m

Interim dividend

1.0p

2014: 2.2p

Earnings before interest, taxation, depreciation and amortisation (EBITDA) and before exceptional costs in the first six months of 2015 was £3.4 million (2014: £6.6 million), down 48%.

Dividends

The Board has declared an interim dividend of 1.0 pence (2014: 2.2 pence), down 55%, to be paid on 30 October 2015 to shareholders on the register on 9 October 2015.

Operations

Crestchic Loadbanks and Northbridge Transformers

Crestchic had mixed fortunes, the UK and European manufacturing, sales and rental operation performed well. Total turnover was £9.0 million (2014: £7.7 million) and rental, including Northbridge Transformers, reached £3.3 million (2014: £3.6 million). Gross margin on sales was 34.2% (2014: 27.0%), this was influenced by a large order being dispatched shortly after the period end in 2014. Hire margins at 68.4% (2014: 71.8%) were affected by the slightly lower volume overall.

The overseas operations of Crestchic, which are mostly rental, were badly affected by the downturn in the oil and gas sector. The total revenue in Crestchic Middle East was £0.7 million compared with £3.3 million in the equivalent period in 2014, when we completed a large turbine testing project in Iraq. In Singapore, total revenue was £2.2 million (2014: £3.9 million) as overall demand was considerably reduced as our prime customer base of the shipyards suffered from a continuing stream of cancellations and delays.

Tasman Oil Tools

Tasman Oil Tools, our oil tool rental business in the Middle East Asia Pacific region (MEAP), now operates from Perth and Darwin in Australia, New Plymouth in New Zealand and Dubai in the Middle East. Since the acquisition of Tasman New Zealand in 2014, the businesses all work as a single identity "Tasman", and operate off the same platform and have a shared hire fleet. They have a substantial presence in the market despite the severe downturn in drilling activities. Overall revenue during the period was £6.1 million (2014: £6.4 million). The previous year comparison excludes Tasman New Zealand which was acquired in the second half of 2014.

Outlook

During the last three months we have seen a substantial reduction in the price of crude oil again, together with some emerging problems in the Chinese economy. In the short term this will impact our industry and, consequently, the Group's trading results for 2015 and 2016.

The steps we have taken over the last few months, to reduce costs and streamline the business, will help mitigate these market driven problems. We will focus on ensuring our customer facing activities remain intact and we are ready for the recovery when it comes.

Recent contract wins under Master Services Agreements and other partnerships will ensure that we continue to improve our market share in those areas that we operate. We are also expecting a modest return of some geothermal drilling in New Zealand in 2016, following the slow down after the recent privatisation of the geothermal utilities.

We will continue to concentrate on cash generation and reduction of gearing over the next 18 months, ensuring that we can invest when the recovery is underway. We remain confident that our strategy is the correct response to current market conditions and that some recovery in the market will lead to a return to profits in the future.

Peter Harris
Chairman
30 September 2015

Independent review report to Northbridge Industrial Services plc

For the six months ended 30 June 2015

Introduction
We have been engaged by the Company to review the condensed set of financial information in the half-yearly financial report for the six months ended 30 June 2015 which comprises the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related explanatory notes to the unaudited interim accounts.

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 interim set of financial statements.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

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

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 enquiries, 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 information in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

Emphasis of matter – going concern
In forming our opinion on the condensed financial information, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the unaudited interim statements concerning the Group's ability to continue as a going concern. Group forecasts indicate the existing banking facilities are required to enable the Group to settle its obligations as and when they fall due. Whilst the quantum of the facilities is sufficient, the downturn in trading has impacted a number of the financial covenants associated with these facilities. The Directors are confident of being able to agree suitable changes to the covenants before 31 December 2015, however, these conditions indicate the existence of material uncertainty which may cast doubt about the Group's ability to continue as a going concern. The condensed financial information does not include the adjustments that would result if the Group was unable to continue as a going concern.

BDO LLP
Chartered accountants and registered auditors
Birmingham
30 September 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

For the six months ended 30 June 2015

	Notes	**Six months ended 30 June 2015 Unaudited £'000**	Six months ended 30 June 2014 Unaudited £'000	Year ended 31 December 2014 Audited £'000
Revenue		**18,560**	21,171	44,871
Cost of sales		**(10,477)**	(9,612)	(23,150)
Gross profit		**8,083**	11,559	21,721
Operating costs				
Excluding exceptional costs		**(8,336)**	(7,974)	(14,229)
Exceptional costs	3	**(1,475)**	—	(655)
Total operating costs		**(9,811)**	(7,974)	(14,884)
(Loss)/profit from operations		**(1,728)**	3,585	6,837
Finance income		**3**	17	33
Finance costs		**(331)**	(293)	(570)
(Loss)/profit before taxation excluding exceptional costs		**(581)**	3,309	6,955
Exceptional costs		**(1,475)**	—	(655)
(Loss)/profit before taxation		**(2,056)**	3,309	6,300
Income tax credit/(charge)		**120**	(741)	(1,228)
(Loss)/profit for the period attributable to the equity holders of the parent		**(1,936)**	2,568	5,072
Other comprehensive income				
Exchange differences on translating foreign operations		**(2,737)**	(485)	472
Other comprehensive income for the period, net of tax		**(2,737)**	(485)	472
Total comprehensive income for the period attributable to equity holders of the parent		**(4,673)**	2,083	5,544
(Loss)/earnings per share attributable to the equity holders of the parent	4			
– basic (pence)		**(10.5)**	14.8	28.8
– diluted (pence)		**(10.4)**	14.3	28.0
Dividend per share (pence)	5	**1.00**	2.20	6.20

All amounts relate to continuing operations.

Consolidated balance sheet

As at 30 June 2015

	30 June 2015 Unaudited £'000	30 June 2014 Unaudited £'000	31 December 2014 Audited £'000
ASSETS			
Non-current assets			
Intangible assets	**16,980**	10,280	19,618
Property, plant and equipment	**36,921**	34,390	39,113
	53,901	44,670	58,731
Current assets			
Inventories	**4,848**	5,841	4,249
Trade and other receivables	**12,233**	12,805	12,858
Cash and cash equivalents	**2,356**	3,320	3,427
	19,437	21,966	20,534
Total assets	**73,338**	66,636	79,265
LIABILITIES			
Current liabilities			
Trade and other payables	**7,859**	8,442	6,510
Financial liabilities	**5,017**	4,592	4,726
Other financial liabilities	**1,867**	135	1,021
Current tax liabilities	**219**	953	887
	14,962	14,122	13,144
Non-current liabilities			
Financial liabilities	**13,572**	10,409	13,372
Other financial liabilities	**159**	269	2,244
Deferred tax liabilities	**3,993**	2,607	4,082
	17,724	13,285	19,698
Total liabilities	**32,686**	27,407	32,842
Total net assets	**40,652**	39,229	46,423
Equity attributable to equity holders of the parent			
Share capital	**1,864**	1,764	1,859
Shares to be issued	**—**	311	—
Share premium	**23,266**	19,645	23,188
Merger reserve	**2,810**	849	2,810
Treasury share reserve	**(451)**	(201)	(201)
Foreign exchange reserve	**(3,898)**	(2,118)	(1,161)
Retained earnings	**17,061**	18,979	19,928
Total equity	**40,652**	39,229	46,423

Consolidated cash flow statement

For the six months ended 30 June 2015

	Six months ended 30 June 2015 Unaudited £'000	Six months ended 30 June 2014 Unaudited £'000	Year ended 31 December 2014 Audited £'000
Cash flows from operating activities			
Net (loss)/profit from ordinary activities before taxation	**(2,056)**	3,309	6,300
Adjustments for:			
– amortisation and impairment of intangible fixed assets	**831**	417	895
– amortisation of capitalised debt fee	**146**	27	55
– depreciation of property, plant and equipment	**2,853**	2,594	5,451
– profit on disposal of property, plant and equipment	**(343)**	(152)	(423)
– non-cash movement in deferred consideration	**77**	(17)	(190)
– investment income	**(3)**	(17)	(33)
– finance costs	**331**	293	570
– share option expense	**48**	48	96
	1,884	6,502	12,721
Increase in inventories	**(408)**	(1,896)	(215)
Decrease/(increase) in receivables	**217**	(1,068)	1,096
Increase/(decrease) in payables	**1,597**	869	(5,016)
Cash generated from operations	**3,290**	4,407	8,586
Finance costs	**(331)**	(293)	(570)
Taxation	**(558)**	(745)	(1,180)
Hire fleet expenditure	**(3,322)**	(2,311)	(5,966)
Sale of assets within hire fleet	**1,825**	505	2,154
Net cash from operating activities	**904**	1,563	3,024
Cash flows from investing activities			
Finance income	**3**	17	33
Acquisition of subsidiary undertaking (net of cash acquired)	**—**	—	(4,126)
Payment of deferred consideration	**(1,025)**	(70)	(2,306)
Sale of property, plant and equipment	**99**	92	112
Purchase of property, plant and equipment	**(230)**	(347)	(1,052)
Net cash used in investing activities	**(1,153)**	(308)	(7,339)
Cash flows from financing activities			
Proceeds from share capital issued	**83**	350	3,721
Purchase of own shares	**(250)**	—	—
Proceeds from bank and other borrowings	**14,064**	6,562	4,721
Repayment of bank and other borrowings	**(12,861)**	(7,048)	(1,962)
Payment of finance lease creditors	**(915)**	(627)	(1,166)
Dividends paid in the year	**(735)**	(676)	(1,081)
Net cash (used in)/from financing activities	**(614)**	(1,439)	4,233
Net decrease in cash and cash equivalents	**(863)**	(184)	(82)
Cash and cash equivalents at beginning of period	**3,427**	3,513	3,513
Exchange losses on cash and cash equivalents	**(208)**	(9)	(4)
Cash and cash equivalents at end of period	**2,356**	3,320	3,427

During the period the Group acquired total property, plant and equipment with an aggregate cost of £3,769,000 (2014: £3,553,000) of which £217,000 (2014: £895,000) was acquired by means of finance lease. This includes £3,459,000 (2014: £2,982,000) of hire fleet additions of which £137,000 (2014: £671,000) was acquired by means of finance lease.

Notes to the unaudited interim statements

For the six months ended 30 June 2015

1. Basis of preparation
This interim report has been prepared in accordance with the accounting policies disclosed in the full statutory accounts for the year ended 31 December 2014.

These policies are in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board, as endorsed for use in the European Union, that are expected to be applicable for the year ending 31 December 2015.

The Group has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing the interim consolidated financial information.

The financial information in this statement relating to the six months ended 30 June 2015 and the six months ended 30 June 2014 has not been audited, but has been reviewed pursuant to guidance issued by the Auditing Practices Board.

The financial information for the year ended 31 December 2014 does not constitute the full statutory accounts for that period. The annual report and financial statements for 2014 has been filed with the Registrar of Companies.

The Independent Auditor's Report on the annual report and financial statement for 2014 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The interim report for the period ended 30 June 2015 was approved by the Board of Directors on 30 September 2015.

2. Going concern
The Group's business activities, together with factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement on pages 1 to 3. As described therein, the current economic conditions are challenging and the Group has taken action to streamline the business operations, reduce costs and manage its cash resources, whilst preserving the ability to support its customers in all key markets.

Based upon current and expected market conditions, the Directors have updated their forecasts of trading and cash flows, which take into account all reasonably foreseeable circumstances, and indicate that the existing banking facilities, which were agreed on 27 May 2015, provide sufficient headroom throughout the period to 31 December 2016. However, the downturn in trading has impacted a number of the financial covenants under which the facilities were granted and negotiations are ongoing with the Group's bankers to agree revised covenants. The banks remain supportive and have not indicated they will be seeking to reduce the facilities currently available to the Group. To date, they have confirmed that the covenants will not be measured at 30 September 2015 and negotiations to agree appropriate covenants are expected to be concluded before 31 December 2015, the next measurement date.

Whilst the Directors are confident that the negotiations will be concluded successfully and therefore have a reasonable expectation that the Group has adequate resources to continue to operate, they recognise that the potential future covenant breaches represent a material uncertainty that casts doubt upon the Group's ability to continue as a going concern at the date of issuing these interim statements.

3. Exceptional costs
The exceptional costs include £0.9 million of costs incurred in closing down businesses, £0.2 million of redundancy costs relating to continuing entities, £0.1 million of acquisition costs and a £0.2 million impairment charge on the intangible assets relating to our loadcell business in Singapore.

4. Earnings per share
The earnings per share figure has been calculated by dividing the loss (2014: profit) after taxation, £1,936,000 (2014: £2,568,000), by the weighted average number of shares in issue, 18,384,877 (2014: 17,348,040).

The diluted earnings per share assumes all share options are exercised at the start of the period or, if later, the date of issue of the share options. This increased the weighted average number of shares in issue by 303,860 (2014: 653,127). At the end of the period, the Company had in issue 440,980 (2014: nil) share options which have not been included in the calculation of the diluted earnings per share because their effects are anti-dilutive although these share options could be dilutive in the future.

5. Dividends

An interim dividend of 1.00 pence per share (2014: 2.20 pence) will be paid on 30 October 2015 to shareholders on the register as at 9 October 2015. In accordance with IFRS, no provision for the interim dividend has been made in these financial statements.

6. Interim report

Copies of the interim report are being sent to all shareholders and are available to the public from the offices of Northbridge Industrial Services plc at Second Avenue, Centrum 100, Burton on Trent, Staffordshire DE14 2WF. The interim report and the interim announcement will also be available from the Group's website at www.northbridgegroup.co.uk.

Directors and advisors

Directors

Peter Harris
Non-executive Chairman

Eric Hook
Chief Executive

Ian Gardner
Regional Managing Director

Ash Mehta
Non-executive Director

Michael Dodson
Non-executive Director (independent)

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Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

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