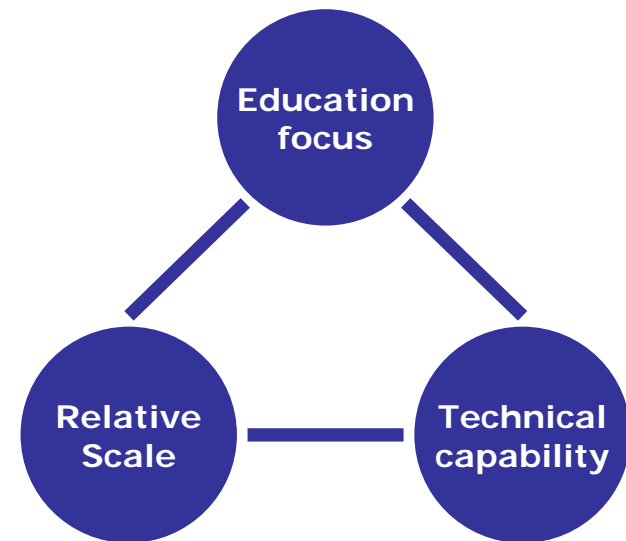




# RM plc – Interim Results

Six months to 31<sup>st</sup> March 2005



Tim Pearson - CEO

Mike Greig - Group Finance Director



# Headlines

- **Results in line with management's expectations**
  - Return to more normal seasonal pattern
  - In the context of broadly flat market
- **Progress across the business**
  - Delivery
  - Reputation
  - Innovation
- **Growing investment in BSF**



# Financial headlines

- **Turnover**
- **(Loss)/profit before tax** (before amortisation of goodwill)
- **Net funds at 31 March**  
£27m investment in acquisitions and long term contracts
- **Diluted EPS** (before amortisation of goodwill)
- **Dividend per share up 5%**

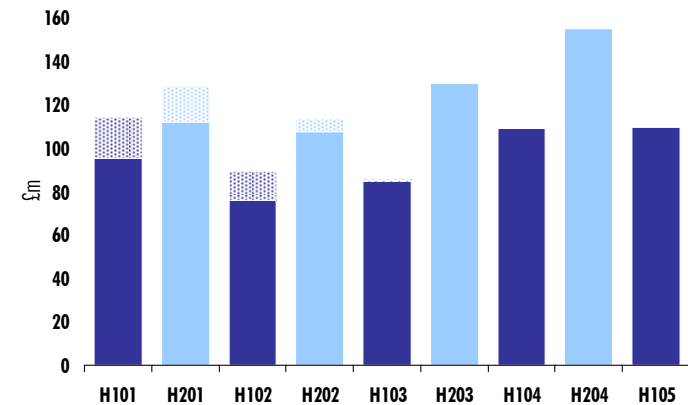
Six months to 31 March

2005	2004	2003
£109.2m	£108.9m	£85.4m
(£0.3m)	£2.7m	(£0.8m)
£12.7m	£34.4m	£33.2m
(0.2p)	2.2p	(0.6p)
1.05p	1.00p	0.95p



# Turnover

- **Turnover up £0.3m**  
Replacement of one-off H1 2004 turnover (£13m)  
Half year contributions from TTS and Sentinel  
Increased turnover from education projects
- **Infrastructure software and services +11%**  
Education projects
- **Education software and services +3%**  
Curriculum software: eLC spend down
- **Hardware and distribution –8%**  
–ve: absence of one-off project shipments  
+ve: TTS; interactive whole-class teaching technology



**Group turnover**  
(lighter areas indicate Learning Schools Programme turnover)

## Business mix

£m	Six months to 31 March		
	2005	2004	2003
Infrastructure software and services	37.9	34.2	26.2
Education software and services	22.9	22.3	16.7
Hardware and distribution	48.4	52.4	42.5
<b>Total</b>	<b>109.2</b>	108.9	85.4



# Gross profit percentage & operating costs

- **Evolving business mix – increased contribution from:**
  - Acquisitions
  - Education projects
- **Gross profit percentage: 26.9% (2004: 26.6%)**
  - TTS +ve; education project accounting –ve
  - PC hardware market continues to be highly competitive
  - Absence of H1 2004 benefits
- **Operating costs: up £3.2m**
  - Impact of acquisitions: £2.1m
  - Investment in BSF business development
  - R&D up (as previously indicated)
  - Small increase in international expenditure

<b>Operating costs</b> (excluding amortisation of goodwill)		
	Six months to 31 March	
£m	2005	2004
Selling and distribution	16.1	15.1
Research and development	7.5	6.6
Administration	6.3	5.0
<b>Total</b>	<b>29.9</b>	<b>26.7</b>



# Profit and loss

£'000	Six months to 31 March		Twelve months to 30 September
	2005	2004	2004
<b>Turnover</b>	<b>109,211</b>	108,944	263,264
<b>Gross profit</b>	<b>29,355</b>	28,968	68,507
<b>Selling and distribution</b>	<b>(16,095)</b>	(15,090)	(32,746)
<b>Research and development</b>	<b>(7,523)</b>	(6,614)	(14,546)
<b>Administration</b> (excluding amortisation of goodwill)	<b>(6,332)</b>	(5,042)	(10,713)
<b>Operating (loss)/profit</b> (excluding amortisation of goodwill)	<b>(595)</b>	2,222	10,502
<b>(Loss)/Profit before tax</b> (excluding amortisation of goodwill)	<b>(255)</b>	2,741	11,573
<b>Amortisation of goodwill</b>	<b>(4,533*)</b>	(1,975)	(4,519)
<b>(Loss)/Profit before tax</b>	<b>(4,788)</b>	766	7,054
<b>(Loss)/Profit after tax</b>	<b>(4,717)</b>	1	3,892
<b>(Loss)/Earnings per share – diluted</b> before amortisation of goodwill	<b>(0.2p)</b>	2.2p	9.4p
<b>Dividend per share</b>	<b>1.05p</b>	1.00p	4.60p

\*including £1.1 million impairment of goodwill relating to peakschoolhaus



# Balance sheet

- **Cash and investments at 31 March 2005: £13.8m (31 March 2004: £35.2m)**

Outflow as expected, due to:

TTS acquisition: £11.0m

PFI project capex: £10.0m

Stocks & WIP: £5.9m increase – long term contracts

- **Future factors**

Normal seasonal working capital peak in H2

short-term borrowing over summer

PFI projects

completion of Warwickshire, Newham, Lambeth: £7m

spend virtually complete by year end

cash generative next year

<b>Consolidated balance sheet extracts</b>			
		31 March	30 September
£m	<b>2005</b>	2004	2004
Intangible fixed assets	<b>20.2</b>	16.3	24.7
Tangible fixed assets	<b>24.4</b>	15.2	20.2
Stocks	<b>17.9</b>	12.0	16.5
Debtors	<b>31.7</b>	30.1	51.5
Cash & investments	<b>13.8</b>	35.2	27.5
Creditors & provisions	<b>(73.0)</b>	(68.7)	(99.8)
Net assets	<b>35.0</b>	40.1	40.6



# IFRS

- **IFRS project on track**

September year end

first IFRS accounts: interims 2006

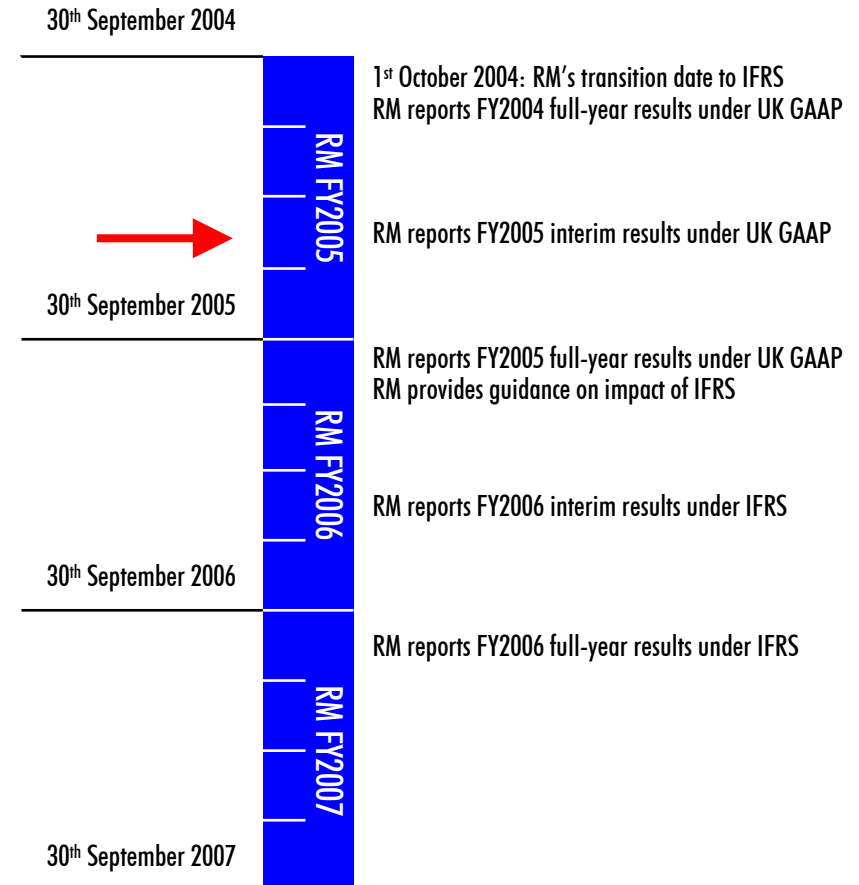
- **Areas of major impact**

Treatment of R&D

Share option expensing

Goodwill

Pensions





# Market context: opportunity and risk

## Education a high priority for the new Government

- **Education spend: 4.4% real-terms growth in GY2005/06 and GY2006/07**

Details of new administration's agenda yet to emerge

- **ICT expected to remain a high priority**

Schools are more likely to identify ICT as a 'main focus' for spend than any other resource area (though software and content not as highly prioritised)\*

DfES e-Learning Strategy: ICT seen as enabler for other education priorities

'Technology is the key to **personalised learning**.'

'... supporting the **reform of the school workforce**, through the more effective use management information and data systems ...'

'It is our goal to work towards **ICT as a universal utility**, creating more flexible learning opportunities ...'

- **Workforce remodelling agenda causing schools to focus on resourcing**

National Agreement Phase 3: all teachers to have 10% planning, preparation and assessment time

\*Source: Resources in English Schools, BESA, March 2005



# Market context: opportunity and risk

## Potential for significant changes in the market

- **Continuing talk about 'public sector efficiency'**
  - Gershon review of public services
  - DfES **Centre for Procurement Performance** established
- **Building Schools for the Future**
  - BSF-like procurement extending to primary schools
- **School budget changes**
  - Three-year allocations, moving to academic years
  - Government year end peak flattening
  - Less 'ring-fencing' likely
- **BBC Digital Curriculum expected to launch in January 2006**
  - eLCs not confirmed beyond GY2005/06
  - Industry concerns about BBC compliance

### Emerging central focus on procurement potential impacts on RM

Aggregated purchasing changes the competitive landscape	+/-
Focus on contracted / managed services	+
Small central advisory team – main purchasing responsibility remains with schools	+
Simplistic cost focus emphasises commodity rather than differentiated products	-
Centrally aggregated purchasing of equipment results in bad outcome for schools and suppliers	-

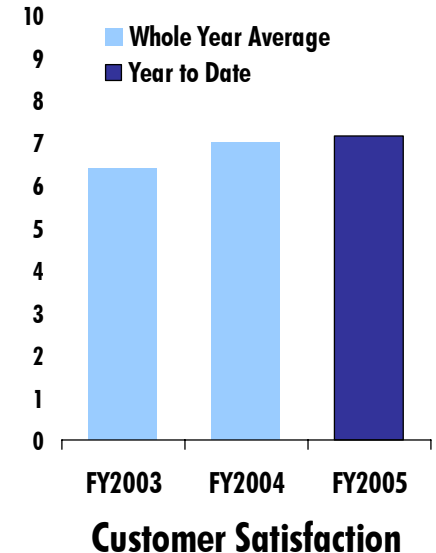
note: these are **potential** impacts – all decisions still to be made



# Progress: reputation

## Reputation is a key influence on buyer behaviour

- **Niche market: reputation communicates rapidly**
- **Finite market: limited number of customers**
- **Existing customers: satisfaction continues to improve**  
c.6,000 customer satisfaction survey responses in H1 2005  
Customer-driven process improvements delivering results
- **Non customers: improvement plan in development**  
Now measuring – on a regular basis – reputation with non-customers  
> 50% of non-customers would recommend or consider RM as a supplier
- **Internal reputation**  
83% of RM staff proud to work for the organisation  
vs. 62% in comparator organisations



# Progress: innovation

## Education-focused innovation drives customer success

- **Award-winning products**

BETT Awards: Kaleidos / Easiteach Literacy / Easiteach Maths / Maths Alive

Education Resources Awards: RM One / Active World Messy Mats (TTS)



- **Learning Platform**

Kaleidos / Kaleidos Portal Plus

- **New products**

Discover Alive

Easilearn

- **BSF solutions**

In distant, less enlightened times, RM was accused of arrogance, never listening to those at the chalk face, developing products which were perceived to suit the company rather than the classroom. Oh my, how things have changed: working with teachers, technicians, and network administrators from the inception, RM has come up with the most robust, secure, practical and compact solution for the classroom environment to date.

Education Computing & Technology: March 2005



# Progress: delivery

## Effective services



## Hugely improved services drive customer success

- **Core component of RM's offer**

Education projects: managed services / process outsourcing / educational delivery  
Individual schools: product support

- **Growing Scottish support centre**

- **Operational excellence**

2005 Help Desk Institute Support Excellence Team Award finalist

'World's Ten Best Web Support Sites' 2004 & 2005

Innovative community support web service

### Scale

16,000 establishments call each year  
50,000 desktops directly managed by RM  
25,000 telephone calls received each month  
16,000 logged support calls each month  
80,000 online visits each month  
85,000 knowledge articles viewed each month  
33,000 email bulletin subscriptions  
5,000 customer training delegate days per year  
2,000 community postings per month



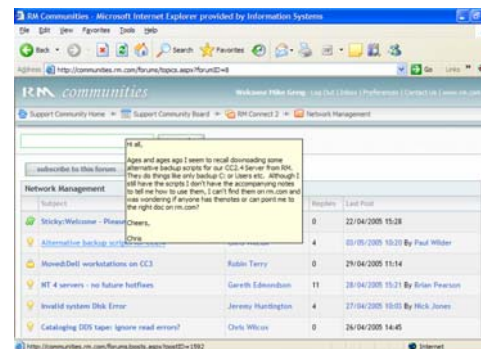
The Year's Ten Best  
Web Support Sites



The Year's Ten Best  
Web Support Sites



Finalist in 2005 Help Desk Support  
Excellence Team Award



# Progress: delivery

## Successful education projects

### RM managed services deliver customer success

- **Operational delivery, change management and process development**  
... enabling sophisticated new educational approaches for our customers
- **Established projects: avg customer satisfaction > 8**  
Dudley / QCA / SYeLP / SLC
- **Early stage projects starting to deliver results**  
UCLES / Warwickshire / Newham / Lambeth
- **All projects reference site standard**
- **Successful track record a key differentiator for BSF bids**  
LEAs and commercial providers looking for partners  
No other organisation delivering education ICT projects at RM's scale

#### Project Delivery Highlights

Dudley: mid-term refresh completed

South Lanarkshire Council: first major refresh of all networks completed

UCLES: scaling to 1,000+ examiners, 500,000 scripts over Summer 2005

QCA: > 500 schools participating in the 2005 summative test

Warwickshire: > 800 'teacher toolkits' installed in over 100 schools

SYeLP: 4,500 ICT level 2 qualifications achieved



# Progress: education projects

- **Lambeth**  
£17.1m / 8-year educational ICT PFI project signed
- **BBC Digital Curriculum development**  
3T Productions and RM appointed preferred Direct Suppliers
- **Lifelong Learning managed services**  
Two more further education colleges at preferred bidder stage
- **PANDA/PAT – web-delivered school performance reporting environment**  
£1.9m / 3-year development and process outsourcing project for Ofsted  
In conjunction with Forvus



# Progress: international

## North America – RM Educational Software Inc

- **Market opportunity**

c. 1.8 million classrooms (6x UK)

Whiteboard penetration: 4% of classrooms (UK 20% of classrooms)

- **Progress**

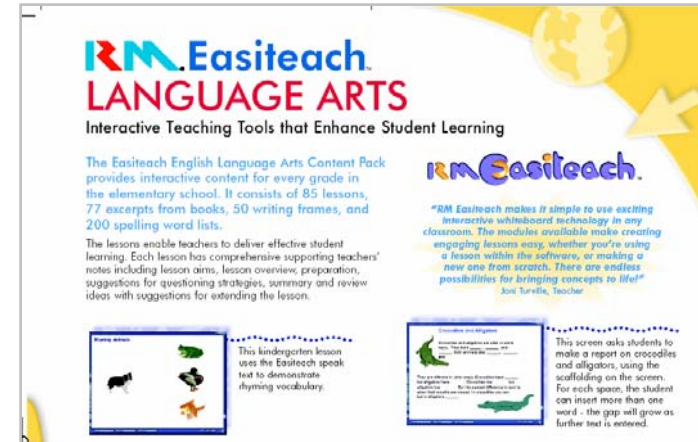
Partnerships with four whiteboard manufacturers (accounting for c. 20% of US supply)

OEM agreements with all of them to bundle Easiteach Studio with all education whiteboard sales

Distribution agreements for the rest of the Easiteach range

*note:* the largest US whiteboard supplier has its own proprietary software offer

Easiteach launch at NECC (major US education technology show) in June 2005



**RM Easiteach**  
**LANGUAGE ARTS**  
Interactive Teaching Tools that Enhance Student Learning

The Easiteach English Language Arts Content Pack provides interactive content for every grade in the elementary school. It consists of 85 lessons, 77 excerpts from books, 50 writing frames, and 200 spelling word lists.

The lessons enable teachers to deliver effective student learning. Each lesson has comprehensive supporting teachers' notes including lesson aims, lesson overview, preparation, suggestions for questioning strategies, summary and review ideas with suggestions for extending the lesson.

**RM Easiteach**  
"RM Easiteach makes it simple to use exciting interactive whiteboard technology in any classroom. The modules available make creating engaging lessons easy, whether you're using a lesson within the software, or making a new one from scratch. There are endless possibilities for bringing concepts to life!"  
Joel Turville, Teacher

**Kindergarten activities**  
This kindergarten lesson uses the Easiteach speak text to demonstrate rhyming vocabulary.

**Interactive writing**  
This screen asks students to make a report on crocodiles and alligators, using the scaffolding on the screen. For each space, the student can insert more than one word - the gap will grow as further text is entered.





# Progress: acquisitions

- **Sentinel**

Progressing to plan

- **TTS**

Good contribution in first six months as an RM Group company

Innovative product developments

Potential for Group-wide benefits

- **peakschoolhaus**

As previously announced, not selected by Ofsted as a preferred regional inspection services partner



# Building Schools for the Future

## A major opportunity for RM



Building schools for the future



- **Secondary schools: £30 billion, 15-year programme**  
Rebuild/refurbish all secondary schools in England, including:  
school build; facilities management; ICT managed service
- **Primary schools may follow BSF model**  
Budget 2005: additional capital funding announced from 2009  
Rebuild/refurbish approximately 50% of primary schools
- **Market structure moves from product supply to long term contract**
- **Groups of school procured together**  
potentially crossing LEA boundaries
- **RM uniquely well qualified to compete**

BSF – critical success factor	RM
Educational vision	✓
Technology expertise	✓
Education understanding	✓
Broad education and technical solutions expertise	✓
Secure network management	
Integration between MIS and curriculum systems	
Security management systems	
VOIP	
...	
Capability and scale to develop BSF-specific software solutions	✓
Existing relevant educational IPR	✓
Scale to bid multiple contracts	✓
Track record	✓

Note: Other school funding mechanisms continue. BSF funding only firmly allocated – so far – for current comprehensive spending review period.



# Building Schools for the Future

## Update



Building schools for the future



- **Procurement process started**  
Some Wave 1 projects may 'overtake' Pathfinders
- **Developing business model**  
Multiple approaches and channels to market  
Partnerships
- **Investment: >40 professionals by end 2005**  
Developing technical solution  
Establishing key partnerships  
Building the customer engagement team  
sales / finance / legal / project management  
educational and technical design

Wave 1 2005/06	Wave 2 2006/07	Wave 3 2007/08
Bradford*	Birmingham	Barnsley
Bristol*	Hackney	Durham
Gateshead	Haringey	Derbyshire
Greenwich*	Islington	Kent
Knowsley	Kingston-upon-Hull	Luton
Lancashire	Lambeth	North Lincolnshire
Leicester City	Liverpool	Salford
Leeds	Middlesbrough	Sandwell
Lewisham*	Nottingham City	Southwark
Manchester	Tower Hamlets	Tameside
Newcastle		Westminster
Newham		
Sheffield*		
Solihull		
South Tyneside		
Stoke on Trent		
Sunderland		
Waltham Forest		

\* Pathfinder projects



# Outlook

- **First half never a good indicator of full-year performance**  
... though have replaced one-off turnover from H1 2004
- **New Government agenda vs. existing policy priorities**
- **Increasing BSF investment in both H2 and 2006**  
No material revenues before 2007
- **Other second half factors**  
Full year contribution from TTS



# Conclusion

- **Delivery**

  - Building an excellent track record for education projects

  - Improving satisfaction with existing schools customers

  - Establishing a US position

- **Opportunity**

- **Finding the correct balance of investment and profit:**

  - BSF likely to define the secondary school market for the next ten years

  - Continuing other investments for the future, which we believe are in shareholders' interest

