**RM plc** INTERIM REPORT AND ACCOUNTS 2005

# *where* technology *and* education *meet*

## – Improving life chances –

RM is about improving the life chances of people – worldwide – by delivering outstanding educational products and services that help teachers to teach and learners to learn.

## – Who we are –

The RM Group is a leading provider of educational products and services to schools, colleges and universities, local government and central government education departments and agencies. Recognised as a leading innovator in the educational information and communications technology (ICT) arena, RM works closely with educationalists to use new products, processes and technology to improve teaching and learning.

## – Our values –

Customer success
High standards
Innovation and improvement
Openness
Respect for others
Enjoying ourselves

Contents

# Chairman's Statement

***The first half of 2005 has been a positive period for the RM Group with results in line with expectations. We are delivering customer success in our major education projects and continuing to improve customer satisfaction across the business, whilst at the same time investing in the Group's future.***

**JOHN LEIGHFIELD**

**Results** As we commented at the time, RM's performance in the first half of last year benefited from non-recurring, one-off factors. This year there has been a return to a more normal seasonal pattern, with a small first half loss.

Group turnover increased by £0.3 million to £109.2 million (2004: £108.9 million). This increase reflects a combination of contributions from recent acquisitions and growth in education projects revenue replacing the one-off hardware shipments that were a feature of last year's first half.

Gross profit percentage was up slightly at 26.9% (2004: 26.6%), resulting in gross profit of £29.4 million (2004: £29.0 million).

Operating costs excluding goodwill charges increased by £3.3 million to £30.0 million (2004: £26.7 million). Of this increase, £2.1 million is directly attributable to recent acquisitions, with the balance of the increase reflecting the Group's priority investment areas – research and development and establishing RM as the leading provider of ICT to the government's Building Schools for the Future (BSF) programme.

As expected, the seasonal nature of RM's business resulted in a small loss before tax (excluding goodwill charges) of £0.3 million (2004: £2.7 million profit).

Reflecting RM's practice of amortising goodwill arising from acquisitions over five years, and including an impairment charge of £1.1 million relating to peakschoolhaus, goodwill amortisation and impairment

## – CHAIRMAN'S STATEMENT –

increased to £4.5 million (2004: £2.0 million). After this charge the loss before tax was £4.8 million (2004: profit of £0.8 million).

Net funds at 31 March 2005 were £12.7 million compared to £34.4 million a year earlier. This reflects the investment of £27 million in acquisitions and long-term contracts over the 12-month period.

The Board has declared an increased interim dividend of 1.05p per share (2004: 1.0p) payable on 1 July 2005 to shareholders on the register at 3 June 2005.

**Market** Education remains a public sector spending priority, with the most recent Comprehensive Spending Review allocating real-terms budget increases of 4.4% in each of government years 2005/06 and 2006/07. Of particular importance to RM is the BSF programme, a £30 billion, 15-year initiative to rebuild or refurbish all English secondary schools; the 2005 Budget further reinforced the Labour Government's commitment to BSF and provided additional funding from 2009 for primary school renewal.

ICT continues to have a high profile in education policy, with the recently published Department for Education and Skills (DfES) e-Learning Strategy clearly positioning ICT as a fundamental enabler of the government's education plans.

As part of its workforce remodelling programme, the DfES has identified ICT as a key factor in managing schools efficiently and effectively. However, phase three of the programme, which requires that all teachers have at least 10% of their timetabled teaching time available for planning, preparation and assessment, is likely to result in increased pressures on school budgets in the immediate short term.

The increasing focus on public service efficiency is resulting in greater central government engagement in education procurement. RM's scale means that we are better placed to respond to centrally-driven purchasing initiatives than many of our competitors; however, there remains a risk that poorly conceived initiatives will cause turbulence in the market and reduce educational value.

At individual school level, changes in the school funding mechanism mean that head teachers will have three-year visibility of their budgets. The ability to make medium-term investment decisions is particularly helpful in allowing schools to construct strategic investment plans for ICT.

## – CHAIRMAN'S STATEMENT –

**Delivery** We commented at the time of the 2004 preliminary results that our number one focus in 2005 would be delivering improving levels of performance for all our stakeholders. Progress has been strong across the business: our seven established long-term education projects are all on plan and are delivering real benefits for our customers; whilst customer satisfaction levels continue to rise across the business.

Education project highlights include:

- Dudley LEA managed service: mid-term refresh completed to plan;
- South Lanarkshire Council managed service: first major refresh of all networks completed;
- UCLES e-assessment project: scaling to 1,000+ examiners, 500,000 scripts over summer 2005;
- QCA Key Stage 3 ICT assessment service: 500 schools participating in the 2005 summative test;
- Warwickshire LEA ICT PFI project: >800 'teacher toolkits' installed in over 100 schools;
- South Yorkshire eLearning Programme: 4,500 ICT level 2 qualifications achieved.

Building a track record for delivering complex education projects is important in the current market environment. The BSF programme is focusing both bidders and clients on identifying high quality partners to work with. Our aim is to become the leading ICT supplier to the BSF programme and our combination of relative scale, education focus and technical capability means that we are better placed than many of our competitors to achieve this.

**Innovation** Customer success, by which we mean providing products and services that help teachers to teach and learners to learn, is one of RM's core values. Our products and services have received an unprecedented number of external awards and accolades over the last six months, clearly indicating that we are widely viewed as a leading educational ICT innovator.

The Group's educational software products took four prestigious **BETT Awards** (the DfES-endorsed awards given to the year's most innovative and educationally effective products at the annual BETT exhibition). In addition, both the *RM One* (our unique 'all-in-one' PC designed specifically for education) and classroom resources from our recent acquisition, TTS, have won an **Education Resources Award** (the annual industry awards, presented at the Education Show).

## – CHAIRMAN'S STATEMENT –

Excellent service is the best way of retaining customers and building customer satisfaction. Over the last three years we have worked hard to improve the quality of our technical support. *Support Online*, our Internet-delivered technical support operation, has been named one of the world's **Ten Best Web Support Sites** for the second year running, whilst our telephone support team was a finalist in the Help Desk Institute's **UK Help Desk Support Excellence Awards**. We have also improved the geographical spread of our support operations with significant growth of our support team in Bellshill near Glasgow.

Research and development is a priority investment area for RM. During the first half we have enhanced our range of education software products, launching *Discover Alive*™ and extensions to the *Easiteach*® range at BETT in January 2005. We have also continued to develop *Kaleidos*® *Portal Plus*, the sophisticated 'learning platform' which is at the heart of several of our education projects; this learning platform approach is fundamental to the proposition we are developing for the BSF programme.

**International** We have made good progress in the initial steps of establishing *Easiteach*, our ground-breaking interactive whole-class teaching software range, as a world product. The opportunity for *Easiteach* in the USA is significant: only 4% of approximately 1.8 million classrooms in the USA currently have interactive whiteboards, compared with approximately 20% of the 300,000 classrooms in the UK. We now have contractual agreements in place with four of the five leading North American interactive whiteboard suppliers who between them represent 20% of the USA market; and each of them will be bundling *Easiteach Studio* with all of their educational sales.

**Business developments** Our recent acquisitions, TTS Group (a distributor of general educational resources) and Sentinel Products (which provides the Ranger suite of network-management software for educational establishments) are progressing to plan and have made good contributions to the business in the first half.

In February 2005, we signed a £17.1 million, eight-year PFI contract with Lambeth LEA. The Lambeth project was the last of four DfES-funded contracts, all of which aim to raise educational standards through the innovative use of technology. RM has bid for, and won, three of these four contracts.

Other business developments, during the first half, include: PANDA/PAT, a £1.9 million development and process-outsourcing project for Ofsted; a further two FE

## – CHAIRMAN'S STATEMENT –

college outsourced managed service contracts reaching preferred bidder status; and the appointment of both RM and our 3T subsidiary as preferred direct suppliers for the BBC Digital Curriculum.

As previously announced, peakschoolhaus, which we acquired in October 2003, was not selected by Ofsted as a preferred regional inspection services partner. We have now decided to close this business, which has resulted in a goodwill impairment charge of £1.1 million.

**Outlook and prospects** Education continues to represent a positive market opportunity: education spending is growing and the opportunities for ICT to deliver educational improvement continue to expand.

The BSF programme is likely to define the secondary school market for the next ten years; it is our major focus area and we believe we are well placed to achieve our aim to be the leading provider of educational ICT to the programme. We will not, however, see material revenues from BSF before 2007 and in the interim we will need to increase our investment in further developing technical and educational solutions and in bidding for contracts.

As always, the seasonality of RM's business, which reflects school buying patterns, with more than half of the Group's orders expected to occur in the second half, means that first half results are not a good indicator of the full-year outcome.

In the first half we have successfully replaced the one-off turnover relating to project shipments that was a feature of the comparative period last year. The factors that have allowed this – the contribution from acquisitions and growing education project revenues – will continue in the second half and we continue to anticipate modest turnover growth for the year as a whole.

**JOHN LEIGHFIELD CBE**
CHAIRMAN
*13 May 2005*

# Consolidated Profit and Loss Account

| £000 | Half year ended **31 March 2005** | 31 March 2004 | Year ended 30 September 2004 |
|---|---|---|---|
| **Turnover** | **109,211** | 108,944 | 263,264 |
| **Operating (loss)/profit** | **(5,128)** | 247 | 5,983 |
| **Operating (loss)/profit analysed:** | | | |
| Before goodwill charges | **(595)** | 2,222 | 10,502 |
| Goodwill charges | **(4,533)** | (1,975) | (4,519) |
| **Total operating (loss)/profit** | **(5,128)** | 247 | 5,983 |
| Net interest receivable | **340** | 519 | 1,071 |
| **(Loss)/Profit on ordinary activities before taxation** | **(4,788)** | 766 | 7,054 |
| **(Loss)/Profit on ordinary activities before taxation analysed:** | | | |
| Before goodwill charges | **(255)** | 2,741 | 11,573 |
| Goodwill charges | **(4,533)** | (1,975) | (4,519) |
| **Total (loss)/profit on ordinary activities before taxation** | **(4,788)** | 766 | 7,054 |
| Tax credit/(charge) on (loss)/profit on ordinary activities | **71** | (765) | (3,162) |
| **(Loss)/Profit on ordinary activities after taxation** | **(4,717)** | 1 | 3,892 |
| Dividends paid and proposed | **(932)** | (881) | (4,075) |
| **Retained loss** | **(5,649)** | (880) | (183) |
| **(Loss)/Earnings per ordinary share:** | | | |
| Basic | **(5.3p)** | 0.0p | 4.4p |
| Diluted | **(5.3p)** | 0.0p | 4.3p |
| Diluted - before goodwill charges | **(0.2p)** | 2.2p | 9.4p |

# Consolidated Balance Sheet

| £000 | **As at 31 March 2005** | As at 31 March 2004 | As at 30 September 2004 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible fixed assets | **20,151** | 16,344 | 24,737 |
| Tangible fixed assets | **24,420** | 15,179 | 20,202 |
| | **44,571** | 31,523 | 44,939 |
| **Current assets** | | | |
| Stocks | **17,928** | 11,997 | 16,492 |
| Debtors | **31,745** | 30,096 | 51,538 |
| Investments – short-term cash deposits | **-** | 7,738 | 5,000 |
| Cash at bank and in hand | **13,849** | 27,479 | 22,480 |
| | **63,522** | 77,310 | 95,510 |
| **Creditors** | | | |
| Amounts falling due within one year | **(60,962)** | (55,404) | (86,442) |
| **Net current assets** | **2,560** | 21,906 | 9,068 |
| **Total assets less current liabilities** | **47,131** | 53,429 | 54,007 |
| **Creditors** | | | |
| Amounts falling due after more than one year | **(9,851)** | (10,152) | (11,086) |
| **Provisions for liabilities and charges** | **(2,264)** | (3,174) | (2,320) |
| **Net assets** | **35,016** | 40,103 | 40,601 |
| **Capital and reserves** | | | |
| Called up share capital | **1,795** | 1,794 | 1,794 |
| Share premium account | **20,464** | 20,349 | 20,349 |
| Capital redemption reserve | **94** | 94 | 94 |
| ESOP shareholding | **(996)** | (849) | (1,010) |
| Profit and loss account | **13,659** | 18,715 | 19,374 |
| **Equity shareholders' funds** | **35,016** | 40,103 | 40,601 |

# Consolidated Cash Flow Statement

| £000 | Half year ended **31 March 2005** | 31 March 2004 | Year ended 30 September 2004 |
|---|---|---|---|
| **Net cash (outflow)/inflow from operating activities** | **(631)** | 7,863 | 22,399 |
| Returns on investments and servicing of finance | **340** | 519 | 1,071 |
| Taxation | **(1,468)** | (1,583) | (3,532) |
| Capital expenditure and financial investment | **(8,136)** | (1,818) | (9,691) |
| Acquisitions | **-** | (5,715) | (16,873) |
| Equity dividends paid | **(3,195)** | (3,020) | (3,909) |
| **Net cash outflow before use of liquid resources and financing** | **(13,090)** | (3,754) | (10,535) |
| Management of liquid resources | **5,000** | 5,387 | 8,125 |
| Financing | **(549)** | (1,633) | (2,607) |
| **Decrease in cash in the period** | **(8,639)** | - | (5,017) |

# Reconciliation of Net Cash Flow to Movement in Net Funds

| £000 | Half year ended **31 March 2005** | 31 March 2004 | Year ended 30 September 2004 |
|---|---|---|---|
| **Decrease in cash in the period** | **(8,639)** | - | (5,017) |
| Cash outflow from change in liquid resources | **(5,000)** | (5,387) | (8,125) |
| Settlement of loan notes | **600** | 1,422 | 2,208 |
| Change in net cash resulting from cash flows | **(13,039)** | (3,965) | (10,934) |
| Issue of loan notes | **-** | - | (1,699) |
| Exchange translation | **8** | (21) | (3) |
| **Movement in net funds in the period** | **(13,031)** | (3,986) | (12,636) |
| Net funds brought forward | **25,781** | 38,417 | 38,417 |
| **Net funds carried forward** | **12,750** | 34,431 | 25,781 |

# Notes to the Financial Information

## 1. Basis of preparation

The financial information for the half years ended 31 March 2004 and 31 March 2005 has been prepared on a basis consistent with the statutory accounts for the year ended 30 September 2004. The financial information contained in this statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The information for the six months ended 31 March 2004 and 31 March 2005 has not been audited. The information relating to the year ended 30 September 2004 is an extract from the audited statements for that year on which the auditors gave an unqualified audit report and did not contain a statement under section 237(2) of the Companies Act 1985. A copy of those financial statements has been filed with the Registrar of Companies.

## 2. Additional profit and loss account information

| £000 | Half year ended **31 March 2005** | Half year ended 31 March 2004 | Year ended 30 September 2004 |
|---|---|---|---|
| **Cost of sales** | **79,856** | 79,976 | 194,757 |
| **Gross profit** | **29,355** | 28,968 | 68,507 |
| **Operating expenses:** | | | |
| Selling & distribution | **16,095** | 15,090 | 32,746 |
| Research & development | **7,523** | 6,614 | 14,546 |
| Administrative expenses – excluding goodwill charges | **6,332** | 5,042 | 10,713 |
| Administrative expenses – goodwill charges | **4,533** | 1,975 | 4,519 |
| Total administrative expenses | **10,865** | 7,017 | 15,232 |
| Total operating expenses | **34,483** | 28,721 | 62,524 |

## 3. Goodwill

The Group continues to amortise goodwill at rates estimated to write off the cost of goodwill on a straight-line basis over a period of five years. The charge for the half year ended 31 March 2005 has increased as a result of the inclusion of charges for the full period on goodwill arising on the acquisitions of TTS Group Limited and Sentinel Products Limited and also an impairment of the goodwill arising on peakschoolhaus Limited.

At 31 March 2005, a Group company peakschoolhaus, was engaged in bidding to be a preferred partner to Ofsted for regional inspection services. On 7 April 2005, the Group announced that peakschoolhaus had been unsuccessful in its bid. An impairment review was performed on the goodwill arising on the acquisition of peakschoolhaus using cash flows updated to reflect the status of the bid. This review indicated that the unamortised goodwill of £1.1m was impaired. Consequently, an impairment charge of £1.1m has been made to operating profit for the period.

## 4. Tax credit on loss on ordinary activities

The tax credit for the half year ended 31 March 2005 has been provided at the estimated effective rate for the full year of 28% (2004: 28%) of profit before goodwill charges.

## NOTES TO THE FINANCIAL INFORMATION

### 5. Dividend

The proposed interim dividend of 1.05p per ordinary share (2004: 1.0p) will be paid on 1 July 2005 to shareholders on the register on 3 June 2005.

### 6. (Loss)/Earnings per share

(Loss)/Earnings per share for the half year ended 31 March 2005 are based on a loss of £4,717,000 (2004: profit of £1,000).

Basic (loss)/earnings per share is based on 88,750,795 ordinary shares (2004: 88,927,918), being the weighted average number of ordinary shares in issue during the half year ended 31 March 2005.

The diluted (loss)/earnings per share is based on a weighted average of 89,704,258 (2004: 89,313,849) ordinary shares issued and issuable.

An additional (loss)/earnings per share measure before goodwill charges is disclosed to give a clearer understanding of underlying trading performance.   A reconciliation of basic (loss)/earnings per share with diluted (loss)/earnings per share is as follows:

| | **Half year ended 31 March 2005** | | | Half year ended 31 March 2004 | | |
|---|---|---|---|---|---|---|
| | **Loss after tax £000** | **No. of shares ('000)** | **Pence per share** | Profit after tax £000 | No. of shares ('000) | Pence per share |
| Basic (loss)/earnings per share | **(4,717)** | **88,751** | **(5.3)** | 1 | 88,928 | 0.0 |
| Impact of share options | **-** | **953** | **-** | - | 386 | - |
| Diluted (loss)/earnings per share | **(4,717)** | **89,704** | **(5.3)** | 1 | 89,314 | 0.0 |
| Supplementary (loss)/earnings per share before goodwill charges: | | | | | | |
| Diluted (loss)/earnings per share | **(4,717)** | **89,704** | **(5.3)** | 1 | 89,314 | 0.0 |
| Effect of goodwill charges | **4,533** | **-** | **5.1** | 1,975 | - | 2.2 |
| Diluted (loss)/earnings per share before goodwill charges | **(184)** | **89,704** | **(0.2)** | 1,976 | 89,314 | 2.2 |

## NOTES TO THE FINANCIAL INFORMATION

### 7. Reserves and reconciliation of movements in equity shareholders' funds

| £000 | Called up share capital | Share premium account | Capital redemption reserve | ESOP shareholding | Profit and loss account | Total equity shareholders' funds |
|---|---|---|---|---|---|---|
| | **Half year ended 31 March 2005** | | | | | |
| Beginning of the period | **1,794** | **20,349** | **94** | **(1,010)** | **19,374** | **40,601** |
| Retained loss for the period | **-** | **-** | **-** | **-** | **(5,649)** | **(5,649)** |
| Share issues | **1** | **50** | **-** | **-** | **-** | **51** |
| Transfer in respect of issue of shares to employee trusts | **-** | **65** | **-** | **-** | **(65)** | **-** |
| ESOP shareholding transfer | **-** | **-** | **-** | **14** | **(14)** | **-** |
| Other movements | **-** | **-** | **-** | **-** | **13** | **13** |
| End of the period | **1,795** | **20,464** | **94** | **(996)** | **13,659** | **35,016** |

### 8. Reconciliation of operating (loss)/profit to operating cash flows

| £000 | Half year ended **31 March 2005** | Half year ended 31 March 2004 | Year ended 30 September 2004 |
|---|---|---|---|
| Operating (loss)/profit | **(5,128)** | 247 | 5,983 |
| Depreciation charge | **4,066** | 3,822 | 7,805 |
| Goodwill charges | **4,533** | 1,975 | 4,519 |
| Profit on sale of fixed assets | **(112)** | (47) | (205) |
| (Increase)/Decrease in stock | **(1,436)** | 1,762 | (1,952) |
| Decrease/(Increase) in debtors | **19,909** | 14,448 | (5,168) |
| (Decrease)/Increase in creditors | **(22,463)** | (14,344) | 11,417 |
| Net cash (outflow)/inflow from operating activities | **(631)** | 7,863 | 22,399 |

# Independent Review Report to RM plc

## Introduction

We have been instructed by the company to review the financial information for the six months ended 31 March 2005 which comprises the profit and loss account, the balance sheet, the cash flow statement and related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

## 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 Listing Rules of the Financial Services Authority which require that the accounting polices and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2005.

**Deloitte & Touche LLP**
**Chartered Accountants and Registered Auditors**
Reading
13 May 2005

# Shareholder Information

**Financial calendar**
**Payment of 2005 interim dividend**
1 July 2005

**Announcement of 2005 preliminary results**
November 2005

**Annual general meeting**
January 2006

**Corporate Web site**
Information about the Group's activities and financial information is available on the corporate Web site at **www.rm.com**

Other RM Web sites can be accessed at **www.rm.com/company**

**Investor information**
Information for investors is available via the corporate Web site at **www.rm.com/investors** Enquiries can be directed to Phil Hemmings, Director of Corporate Affairs at the Group head office address.

**Online shareholder services**
Shareholders can access the details of their holdings in RM plc via the Shareholder Services section of the corporate Web site at **www.rm.com/investors**

Shareholders can also make changes to their address details and dividend mandates online.

All enquiries about individual shareholder matters should be made to the Registrars either via email at ssd@capita-irg.com or telephone 0870 162 3100. The Capita Web site at **www.capitaregistrars.com** also contains a shareholders' frequently asked questions section.

**Directors**
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**T.R. Pearson** Chief Executive Officer
**M.D. Greig** Group Finance Director
**R.A. Sirs** Executive Director
**S.L. Coutu** Senior Non-Executive Director
**B. Carsberg** Non-Executive Director
**J.R. Windeler** Non-Executive Director
**M.J. Tomlinson** Non-Executive Director
**T.R.P. Brighouse** Non-Executive Director

**Company Secretary**
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