



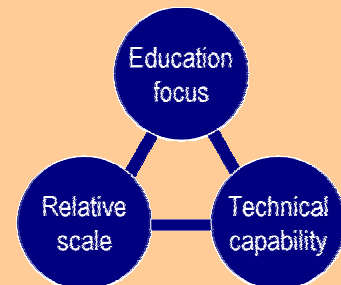
RM plc

Interim Results

Six months ended 31 March 2006

Tim Pearson - CEO

Mike Greig - Group Finance Director



Headlines

- Good performance against a background of tough individual schools market conditions
 - Strong cash generation
 - First half profit
 - and investment in Building Schools for the Future
- Improving business model
- Successful delivery of large, complex government ICT contracts

Financial headlines

First interim results under IFRS

	Six months to 31 Mar		Year to 30 Sep
	2006	2005*	2005*
Revenue up 5%	£114.2m	£109.2m	£262.7m
Profit/(loss) before tax	£2.0m	(£0.9m)	£11.5m
EPS	1.6p	(1.1p)	8.9p
Dividend per share up 7%	1.12p	1.05p	4.85p
Net cash inflow/(outflow) from operating activities	£10.7m	(£2.1m)	£14.1m
Cash & cash equivalents up £10.7m	£24.5m	£13.8m	£22.9m

*restated under IFRS

IFRS – UK GAAP* reconciliations

£'000	Six months to 31 Mar		Year to 30 Sep
	2006	2005	2005
IFRS profit/(loss) before tax	1,967	(904)	11,528
Goodwill impairment	-	1,247	2,469
IFRS profit before tax and goodwill charges	1,967	343	13,997
Share based payments	81	(8)	(14)
Pensions	(670)	(443)	(1,260)
Holiday pay accrual	(103)	(147)	122
Foreign exchange hedging instruments	(41)	-	-
UK GAAP* profit/(loss) before tax and goodwill charges	1,234	(255)	12,845
Goodwill amortisation	(2,749)	(3,441)	(6,294)
Goodwill impairment	-	(1,092)	(1,092)
UK GAAP* (loss)/profit before tax	(1,515)	(4,788)	5,459

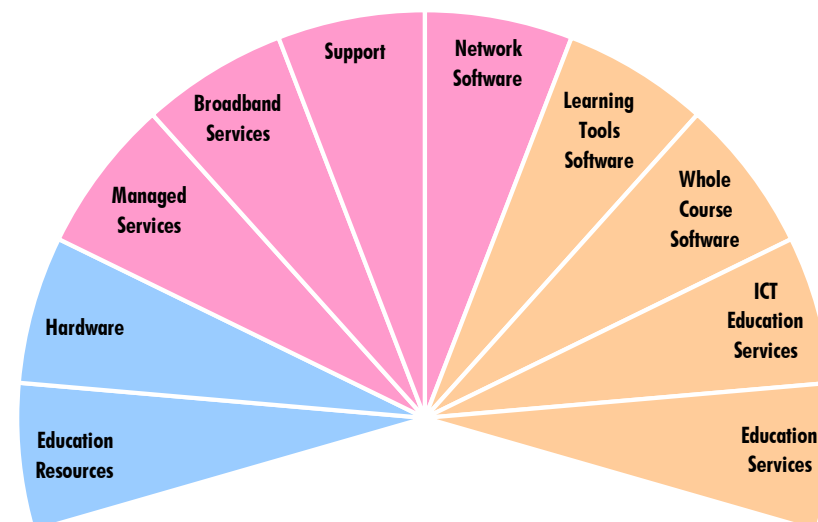
note: no R&D expenditure capitalised in any of these periods (no material expenditure met criteria)

*for comparative purposes 2006 UK GAAP figures are stated on the same basis as 2005's reported UK GAAP figures

Revenue: up 5%

- Achieved against tight budgets in individual schools market
- Improving business model
 - Increased revenue from long-term contracts
 - Reduced proportion of PC hardware revenues
- Infrastructure software & services
 - Increase in revenues from PFI projects
- Education software & services
 - H1 revenue contribution from SSDN project
 - peakschoolhaus: £0m (2005: £1.6m)
 - Weak education software market – eLC impact
- Hardware & distribution
 - Education resources growth (TTS) offset impact of competitive PC market
 - Other distribution (inc. whiteboards) flat

Business Mix	Six months to 30 Mar		
	2006	2005	Change
	Revenue £m	Revenue £m	%
Infrastructure software & services	39.9	37.9	5%
Education software & services	26.3	22.9	15%
Hardware & distribution	48.0	48.4	-1%
Total	114.2	109.2	5%



Gross profit percentage

- Gross profit percentage: 26.7% (2005*: 27.2%)
- Infrastructure software & services
 - Increasing maturity of education projects business
- Education software & services
 - Initial SSDN revenues traded at zero margin in accordance with RM's accounting policies
- Hardware & distribution
 - Increased contribution from TTS
 - As expected PC hardware market conditions tough

Operating costs

- Well-controlled: rapid response to Q1 market conditions

Effective operational management

Diversion of effort onto projects

- Selling & distribution

BSF bid costs: £2.0m (2005: £0.4m)

Reduction in other sales costs — particularly HE

- Research & development

Further benefit from RM Education Solutions India

Now 160 people in software development and support

- Administration

Reduction in peakschoolhaus and elsewhere

- Income from customer leases

2005 (interims): £0.1m credit to Administration

2006 (interims): £0.4m included in Investment income

Operating Costs £m	Six months to 31 Mar	
	2006	2005*
Selling & distribution	16.2	15.9
Research & development	7.5	7.5
Administration	5.6	6.0
Total (exc. Goodwill impairment)	29.3	29.4
Goodwill impairment	-	1.3
Total	29.3	30.7

*restated
under IFRS

Income statement

£m		Six months to 31 Mar	Year to 30 Sep
	2006	2005*	2005*
Revenue	114.2	109.2	262.7
Cost of sales	(83.7)	(79.5)	(188.4)
Gross profit	30.5	29.7	74.3
Selling & distribution	(16.2)	(15.9)	(33.9)
Research & development	(7.5)	(7.5)	(16.7)
Administration	(5.6)	(6.0)	(10.6)
Other expense	-	(1.3)	(2.5)
Profit/(loss) from operations	1.2	(1.0)	10.6
Investment income	0.9	0.5	1.3
Finance costs	(0.1)	(0.4)	(0.4)
Profit/(loss) before tax	2.0	(0.9)	11.5
Tax	(0.6)	(0.1)	(3.6)
Profit/(loss) for the period	1.4	(1.0)	7.9
Earnings/(loss) per ordinary share	1.6p	(1.1p)	8.9p
Proposed dividend per share	1.12p	1.05p	4.85p

*restated under IFRS

Balance sheet

IFRS impacts

- Pension deficit on balance sheet
- Deferred tax assets primarily relate to pension deficit and share-based payments
- Long-term WIP now included in trade and other receivables

£m	Six months to 31 Mar 2006	2005*	Year to 30 Sep 2005*
Goodwill	20.8	23.4	22.2
Other intangible assets	1.5	1.7	1.7
Property, plant & equipment	26.1	22.7	24.7
Deferred tax assets	5.5	6.5	7.1
Total non current assets	53.9	54.3	55.7
Inventories	9.5	12.0	11.9
Trade and other receivables	40.0	36.4	54.1
Cash and cash equivalents	24.5	13.8	22.9
Total current assets	74.0	62.2	88.9
Total assets	127.9	116.5	144.6
Current liabilities	69.0	59.0	78.6
Retirement benefit obligation	11.1	13.7	15.9
Other non current liabilities	7.7	12.1	11.9
Total liabilities	87.8	84.8	106.4
Net assets	40.1	31.7	38.2
Total equity	40.1	31.7	38.2

*restated under IFRS

Cash and cash generation

- Excellent cash generation
- RM continues to be a business that turns profits into cash
- Deferred consideration reduced by £1.4m
Corresponding reduction in goodwill
- PFI projects cash generative in this period
As expected

£m	31 Mar 2006	31 Mar 2005	30 Sep 2005
Cash and cash equivalents	24.5	13.8	22.9
Issued loan notes	1.9	1.1	1.1
Net funds	22.6	12.7	21.8
Issuable loan notes	-	1.2	1.2
Deferred cash consideration	1.0	2.4	2.4
Net funds less deferred consideration	21.6	9.1	18.2

Pensions, tax and forex

Pensions

- Pre-tax deficit at 31 Mar 2006 reduced to £11.1m (30 Sep 2005: £15.9m)
Assets and liabilities marked to market; asset returns good, discount rate 5.05% (unchanged)
Other assumptions as at 30 Sep 2005
Note: deficit is a volatile measure: 0.1% change in bond yield equates to c.£1.2m change in deficit
- Full triennial valuation due as at 31 May 2006
- Income statement charge reduced by £1.3m pa as a result of IFRS transition

Tax: effective rate 27.6%

- Continuing benefit from R&D tax credit

Forex

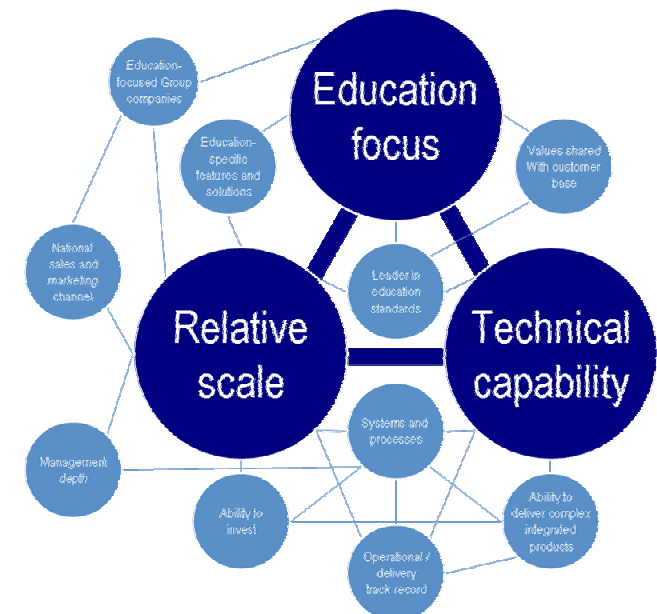
- RM's treasury strategy has effectively hedged foreign exchange purchases for many years
- IFRS requires hedges to be marked to market, likely to result in short term income statement volatility

Context

- **Education remains a key government priority**
Featured strongly in March 2006 budget
- **Government commitment to capital investment remains**
Now extended to primary schools
BSF procurement proceeding more slowly than expected
- **Unique position and improving business model**
Education projects
New areas of activity: assessment, data, education resources ...
Broader product and service range
Enhanced technical and educational capabilities
Reduced dependence on PC hardware and BBC-affected content

So in the coming five years investment in schools will rise from £5.6 billion today to reach £8 billions a year – a 50 per cent rise making a total of £34 billion new investment over five years.

Gordon Brown
Budget Speech – March 2006



First half overview

- Individual schools market: robust performance in difficult conditions

- English market weakness, particularly in first quarter

- Teaching and Learning allowances; Planning, Preparation and Assessment time

- As expected software market difficulties continue – BBC jam launch / eLCs

- Education projects

- Effective delivery across twelve projects

- Three new wins: Solihull, NPD-AAT, C2K Lot 6

- Pipeline: new prospects continue to emerge outside of BSF

- Active management of cost base

Building Schools for the Future

- **Early results:**
 - Solihull — contract awarded to RM (we believe the only contract so far); first school goes live in June
 - Newcastle — RM aligned with both short-listed consortia; however, Council removed ICT from project and retained their in-house ICT team
 - Three other procurements with ICT elements at preferred bidder stage
- **Waves 1 & 2 procurement slower than anticipated**
- **Bid costs reduced**
 - c.£3.5m in FY06, slightly lower in FY2007
- **Revenue and gross profit from BSF later than anticipated — both small in FY2007**

Our strategy	Our experience
Place on every shortlist should give 1-in-3 success rate	Achieved: 11 shortlisted bids*; 1 no bid
RM competitive position should give consortium > 1-in-3 success rate	Less marks awarded for ICT in consortium bids than expected
ICT-only contracts should give RM > 1-in-3 success rate	Some government reluctance to support to ICT-only approach
Expect initial enthusiasm from competitors to decline	Some evidence that terms and conditions and bid costs proving unattractive

*directly or with a partner

Building Schools for the Future

- Element of lottery for ICT suppliers
- ... we think our strategy will work, but areas for improvement
- Learned a lot: where we bid, we will do an even better job in the future
 - For the customer: better understanding of requirements – local needs vary
 - For the bidding consortia: better understanding of what is required from an ICT partner
- Maybe still some rose-tinted glasses amongst the competition?
 - For bidders without experience in education, sales success may precede operational challenges – technical, financial, legal and educational risks
- Winning team
 - Outstanding education project track record – both winning and delivering
 - Non-BSF project bids: c.75% win rate

Education projects

Progress in period

- **C2K Lot 6**
 - RM network IPR and integration knowledge at heart of customer requirements
 - Every primary and post-primary school in Northern Ireland to run RM Community Connect
- **National Pupil Database — Assessment and Achievement Tables**
 - Renewal won at higher value - £16m over five years
 - RM-led consortium comprising RM, Forvus, Fischer Family Trust, University of Bath (SERAP)

Pipeline

- Continue to find new opportunities in addition to BSF
- Working on other early stage bids
 - Some bid effort/costs redirected from BSF

Data and assessment

- National Pupil Database – Achievement and Attainment Tables project

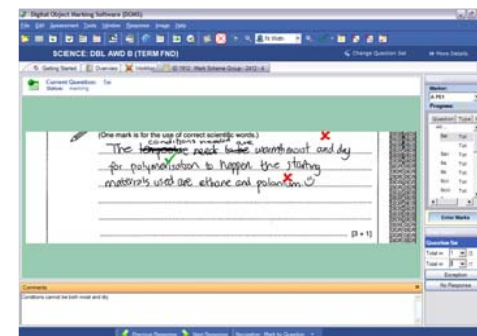
- e-Marking

Cambridge Assessment: large scale processing this summer

Successful launch of SCORIS

Excellent new e-Marking software application

Significant further interest



- On-screen testing: QCA Key Stage 3 ICT test

c. 2,500 secondary schools registered for the test this summer

c. 200,000 pupils will take the test

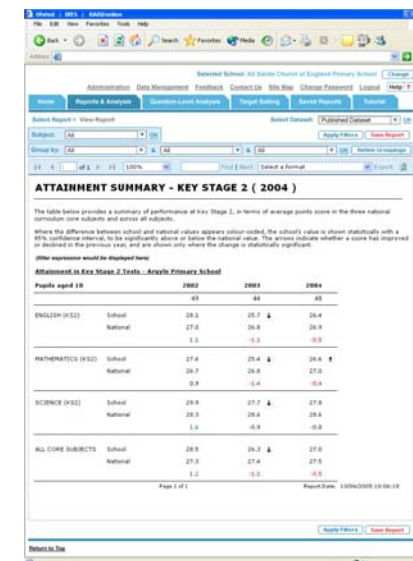
- RAISEonline – Web-delivered school performance database

Rich source of data covering every English school

Pilot live in next few weeks – available to all English schools in autumn

- Integris^{G2} – new Web-based MIS system

First customers just gone live



ATTAINMENT SUMMARY - KEY STAGE 2 (2004)

The table below provides a summary of performance at Key Stage 2, in terms of average points score in the three national curriculum core subjects, and across all subjects.

Where the difference between school and national values appears colour-coded, the school's value is shown statistically with a 95% confidence interval, to be significantly above or below the national value. The arrows indicate whether a score has improved or declined in the previous year, and are shown only where the change is statistically significant.

(Other information would be displayed here)

Attainment in Key Stage 2 Tests - Analysis Primary School

Pupils aged 10	2002	2003	2004
ENGLISH (KS2)	School: 28.5 National: 27.0	25.7 ↓ 26.8	26.4 26.9
MATHEMATICS (KS2)	School: 27.4 National: 26.7	25.4 ↓ 26.8	26.6 ↑ 27.0
SCIENCE (KS2)	School: 26.9 National: 26.3	27.7 ↓ 26.4	27.8 26.8
ALL CORE SUBJECTS	School: 28.3 National: 27.8	26.3 ↓ 27.4	27.6 27.8

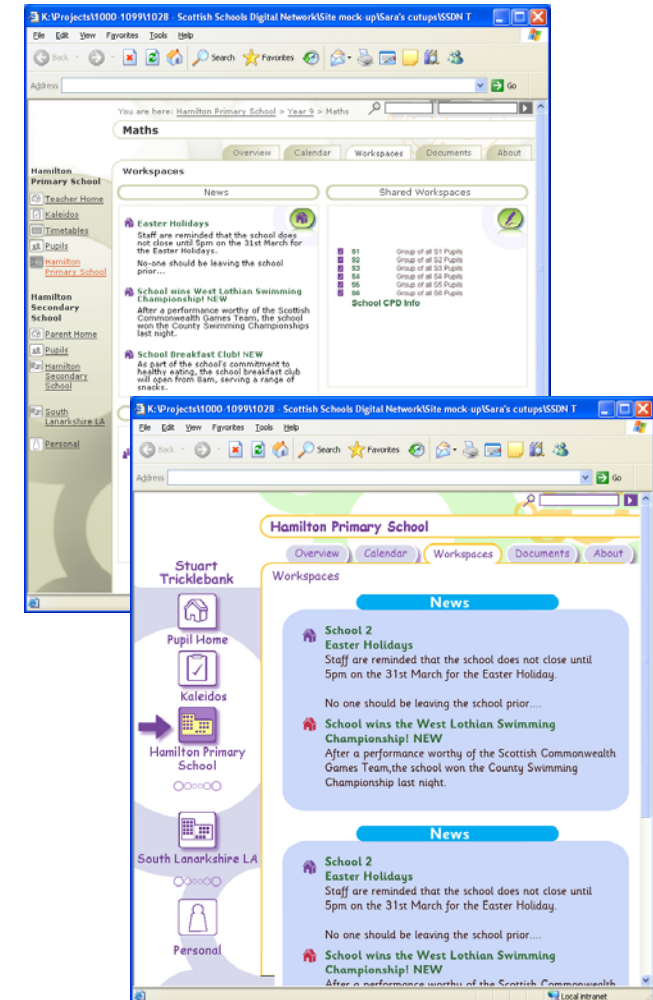
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Innovation and improvement

Delivering our values

Scottish Schools Digital Network

- National education intranet for Scotland
- Very large project
 - Over 800,000 users
 - £37.5 million over five years
- Well into development phase
 - Engagement with all 32 Scottish Local Authorities
 - Team of 100 people
 - First end-user deliverables – September 2006
- Integration with school admin systems
 - Working with Scottish schools MIS suppliers



Innovation and improvement

Delivering our values

- Differentiated PC hardware strategy

RM Mobile One

Launch of Ecoquiet

ecoquiet

Low power consumption, low noise PC range

Low heat generation – very suitable for BSF

100W power saving over equivalent product



- Sonica Spanish and Easiteach for Macintosh

- TTS: exciting, innovative growth

Electronic Learning Division

building on success of BeeBot

tts-shopping.com

eCommerce site based on RM.com development

Expanding into new distribution centre

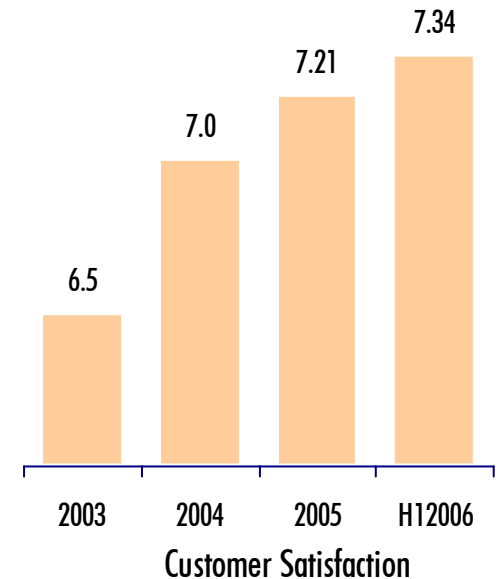
twice the size of current facility



Customer success

Delivering our values

- Customer satisfaction continues to improve
- Long-term business success depends on customer success
 - Putting programmes in place to measure our customers' success
- South Yorkshire eLearning Programme
 - 18,000 Level 2 ICT qualifications to be delivered in the South Yorkshire sub-region
- RM One customer research shows:
 - High levels of customer satisfaction
 - Strong recognition of direct educational benefits



High standards

Support excellence

- 'World's Ten Best Web Support Sites' — winner for third year running
Along with HP, Microsoft, Lucent, Dell, McAfee, Juniper and Reuters
- Help Desk Institute awards — top three helpdesk for second year running
- Technical seminar rating — 93% of attendees would recommend RM Services

Operational excellence

- Materials management
Improved delivery performance
Automated reverse auctioning



The Year's Ten Best
Web Support Sites



The Year's Ten Best
Web Support Sites



The Year's Ten Best
Web Support Sites



Help Desk Support Excellence Team Award

Opportunities

- Data and assessment
- Education resources
- BSF
- Education enterprise systems
 - MIS and Learning Platforms
- 'Every Child Matters' — education and wider children's services provision
- International

Outlook

- As always first half not a good indicator of full-year outcome

Good first half performance — revenue, profit, cash

Market outlook improved from six months ago

- Our expectations for the year remain the same

... but getting there via a different route

- Excellent operational performance

Thanks to Rob Sirs' team

Conclusions

- First-half results demonstrate our improving business model
- BSF — long-term opportunity
 - Further investment in FY2007
- Significant other opportunity areas
- Education remains a good area to be in



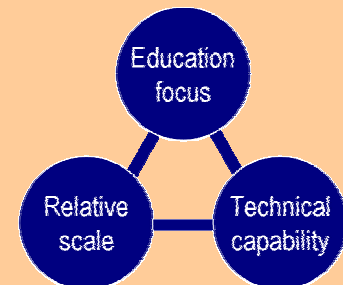
RM plc

Interim Results

Six months ended 31 March 2006

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

Customer Success — High Standards — Innovation and Improvement — Openness — Respect for Others — Enjoying Ourselves



Appendices

Education projects

Education projects		Value/phasing		Term
Dudley Grid for Learning	Contract award: Jan 1999	> £50m	broadly flat	10 years
Classroom 2000 Lot 3 (Northern Ireland)	Contract award: Feb 2003	£21m	early h/w shipments	5 years
QCA – Key Stage 3 online testing	Contract award: Feb 2003	£23m	broadly flat	6 years
South Yorkshire eLearning Programme	Contract award: May 2003	£34.4m	broadly flat	44 months
South Lanarkshire Council	Contract award: Jul 2003	> £30m	broadly flat	7 years
Warwickshire LEA PFI	Contract award: Apr 2004	£16m	broadly flat	8 years
Newham LEA PFI	Contract award: May 2004	£20m	broadly flat	8 years
Lambeth LEA PFI	Contract award: Feb 2005	£17m	broadly flat	8 years
South West Grid for Learning	Contract award: Aug 2005	> £30m	broadly flat	3 – 5 years
Scottish Schools Digital Network	Contract award: Sep 2005	£37.5m	some front-end revenue	5 years
DfES – achievement and attainment tables	Contract award: Jan 2006	£16m	broadly flat	5 years
Solihull BSF ICT	Contract award: Feb 2006	£6.4m	broadly flat	56 months

Education projects	
Complex service delivery	✓
Multi-year	✓
> £5m revenue	✓
RM characteristics	
Right size	✓
Dedicated bid team	✓
Project management skills	✓
Broad range of capabilities	✓
Education knowledge	✓
Partnerships	✓
Strong balance sheet	✓
Risk evaluation	✓
Track record	✓

Education projects

Accounting treatment and financial impact

- **Pre-contract costs not taken to the balance sheet unless contract award probable**
In practice appointment as preferred bidder
- **Separable elements**
Accounted for using relevant Group accounting policy for that element
Revenue and profit recognised as the goods and services are delivered
- **Bundled elements**
Accounted for as long-term contracts
Revenue recognition based upon proportion of fair value of contract delivered to date
Any expected contract loss recognised as soon as foreseen
Profit only recognised when outcome of contract can be assessed with reasonable certainty
Thereafter profit recognised proportional to revenue based upon expected outcome
Consequently revenue recognised but typically traded at 0% margin in early years
- **Overall positive margin impact expected**
Contracts at a range from below to above historic company operating margin