



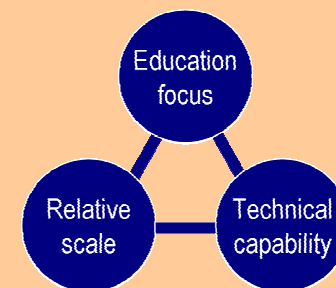
RM plc

Preliminary Results

Year ended 30 September 2005

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



Headlines

- Strong performance
 - ... despite tricky market conditions and BSF investment
 - Profit growth: up 11% on last year (after £1.8m BSF expenditure)
 - Order growth: up 15% on last year
 - Successful education project delivery
 - Customer satisfaction continues to increase
- Positive medium-term outlook
 - SSDN: pioneering new approach for educational ICT
 - BSF: well positioned, bidding > 17 BSF projects in 2006
 - Examinations and assessment
 - Improving visibility





Financial headlines

- Turnover
- Operating profit margin*
- Profit before tax* up 11%
- Diluted EPS* up 12%
- Dividend per share up 5%
- Net funds

(£10.4 million of PFI capex in 2005 — now complete)

2005	2004	2003
£263m	£263m	£215m
4.4%	4.0%	3.5%
£12.8m	£11.6m	£8.6m
10.5p	9.4p	6.9p [†]
4.85p	4.6p	4.35p
£21.8m	£25.8m	£38.4m

*excluding goodwill charges

†normalised tax charge



Turnover

- Group turnover: £263 million

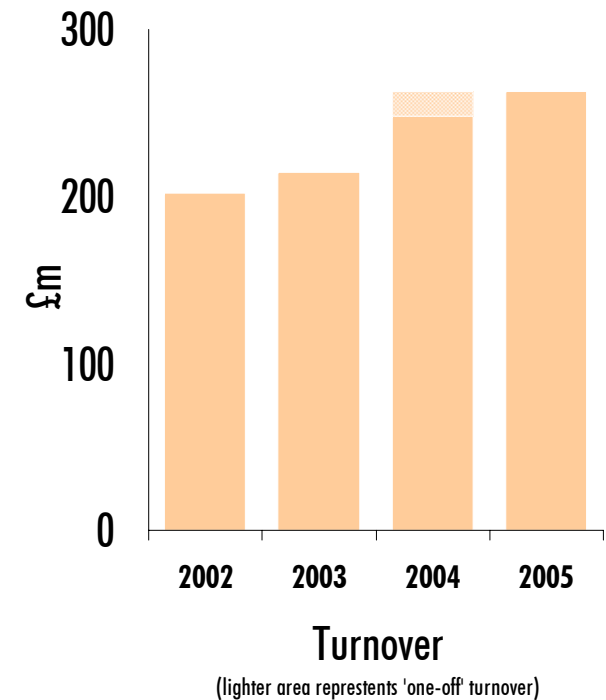
Replacement of £15 million of 'one-off' turnover last year

PC average selling price decline: 11%

particularly impacted university and college sectors

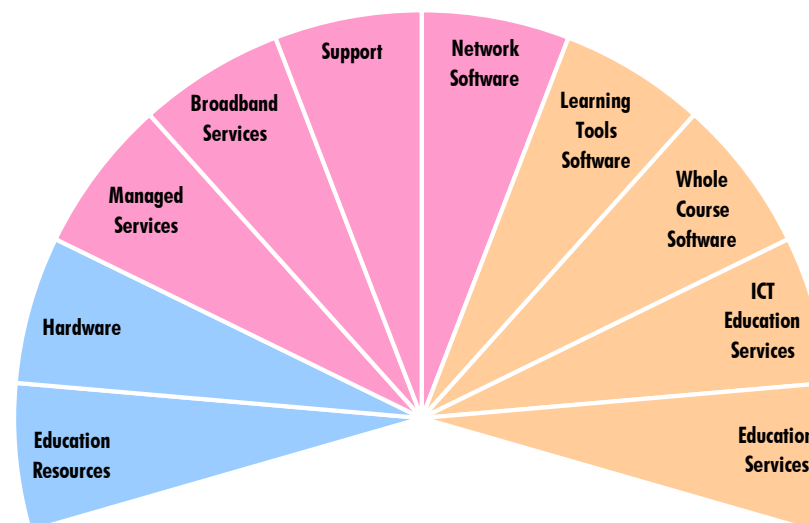
Full-year contribution from 2004 acquisitions (TTS and Sentinel)

Growth in long-term project turnover



Business mix and gross profit

- Infrastructure software and services up 11%
Increased contribution from long term projects
- Education software and services down 4%
Less eLC spend
peakschoolhaus down
- Hardware and distribution: down 5%
Includes TTS & whole class teaching hardware
PC hardware represented less than 1/3rd of turnover
- Gross profit percentage up 2.1pp
Education software & services: up 7.4pp
Increased contribution from education projects
Hardware and distribution: up 1pp
TTS higher than Group average margin
Competitive PC market
Whole class teaching hardware low margin



Activity	FY2005		FY2004	
	£million turnover	Gross profit	£million turnover	Gross profit
Infrastructure software & services	87.6	28.6%	79.1	28.4%
Education software & services	47.5	59.4%	49.7	52.0%
Hardware and distribution	127.6	16.0%	134.5	15.0%
Total	262.7	28.1%	263.3	26.0%



Operating costs*

- Up £4.2 million
 - Full year impact of last year's acquisitions: £3.3 million
 - Leasing cost changes: £0.4 million
- Selling and distribution includes education project bid costs
 - BSF bid costs: £1.8 million (FY2004: £0.1 million)
 - College & university sales and marketing expenditure reduced
- R&D up £2.3 million
 - Increase attributable to customer supported developments
 - Education enterprise solution development

£million	FY2005	FY2004
Selling & distribution	34.2	32.8
Research & development	16.8	14.5
Administration*	11.2	10.7
Total	62.2	58.0

*excluding goodwill charges

Leasing

- RM has always provided financing options to customers
Switched from outsourced to in-house at end FY2004
- Business benefits
Greater control and flexibility of offer to customers
Improved profits
- Accounting treatment
Under previous arrangement:
benefit showed as a reduction in operating costs
Now:
gain on sale of finance lease debt is included in other finance income
greater in-house operating costs
- FY2005 impact: £0.7 million income included in net interest receivable



Profit and loss

£million	FY2005	FY2004	change
Turnover	262.7	263.3	0%
Gross profit	73.7	68.5	8%
Selling & distribution	(34.2)	(32.8)	5%
Research & development	(16.8)	(14.5)	16%
Administration (excluding goodwill charges)	(11.2)	(10.7)	4%
Operating profit (excluding goodwill charges)	11.5	10.5	10%
Interest income	1.3	1.1	24%
Profit before tax (excluding goodwill charges)	12.8	11.6	11%
Goodwill charges*	(7.4)	(4.5)	63%
Profit before tax	5.5	7.1	-23%
Profit after tax	2.0	3.9	-49%
EPS — diluted, before goodwill charges	10.5p	9.4p	12%
Dividend per share	4.85p	4.6p	5%

*Goodwill amortised over 5 years under UK GAAP; includes £1.1 million impairment for peakschoolhaus taken in first half of FY2005

Tax and pensions

- Effective tax rate: 26.9% (FY2004: 27.3%)

R&D tax credit benefit

Benefit expected to continue in future years

- Pensions

FRS17 Pension deficit

pre-tax: £15.9 million (FY2004: £14.9 million)

post-tax: £11.1 million (FY2004: £10.4 million)

Investment return more than offset by discount rate reduction

Deficit increased by £1.4 million due to changed mortality assumptions; now PMA92(-4) / PFA92(-4)

3rd year of deficit reduction plan (£1.3 million pa) — funding of deficit under review

Uncertainty over size of risk-based pension protection fund levy

Cash flow

	£m		£m		£m
Operating profit (before goodwill charges)	11.5	Operating cash flow	17.2	Net funds - 30 Sep 2004	25.8
Depreciation/sale of fixed assets	8.4	Interest	1.0	Free cash flow	10.3
Change in working capital*	(2.7)	Tax	(3.7)	PFI capex (now complete)	(10.4)
		Dividends	(4.2)	Other capex (net)	(4.1)
				Other	0.2
Operating cash flow	17.2	Free cash flow	10.3	Net funds - 30 Sep 2005	21.8

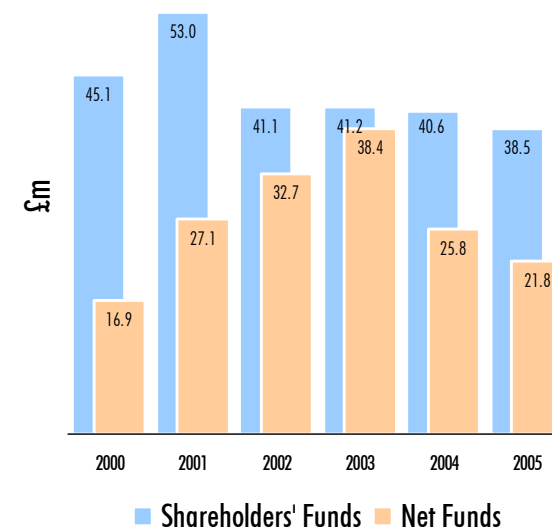
Cash conversion rate: 149%

*Working capital: long-term WIP up £3.8 million to £5.8 million

Cash and net funds balances

£million	30 September 2005
Cash and investments	22.9
Issued loan notes	1.1
Net funds	21.8
Issuable loan notes	1.2
Deferred cash consideration	2.4
Net funds less deferred consideration	18.2

- £34 million of exceptional spend over last 2 years:
Capital expenditure on 4 PFI projects: £15.8 million
3 acquisitions in FY2004: £18.6 million



- Looking ahead
Existing PFI projects now cash generative
BSF does not require capex (Opex & WIP)
We remain a seasonal business

£million	2005	2004	2003
Net funds - 30 September	21.8	25.8	38.4
Net funds - year average	8.0	27.2	31.5
Net funds - year minimum	(1.2)	7.1	18.6

IFRS

- Areas of significant impact

- Goodwill: amortisation will cease

- Pensions: deficit on balance sheet (FY2005: £11.1 million)

- Share-based payments:

- share options will be expensed: usage already significantly reduced in favour of co-investment scheme: already expensed but calculations change

- Research and development:

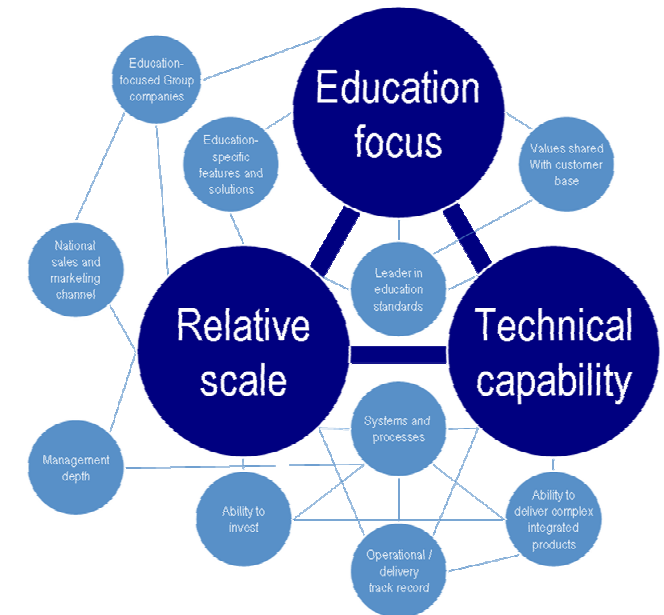
- policy must allow capitalisation of R&D: requirement to capitalise when six criteria met still finalising our view

- Holiday pay

- FY2005 reconciliations on 14 December

Context

- **Strong performance in FY2005**
 - Spend per customer up in primary and secondary
 - Increased number of Community Connect 3 customers
- **Building sustainable competitive advantages**
 - Education projects: track record of order wins and effective delivery
- **Market evolution**
 - Building Schools for the Future programme rolling forward
 - New requirements/opportunities for ICT continue to be identified
 - Personalisation and home-school links
 - Examination and assessment
 - Increasing central government direction — DfES has appointed a Director of Technology



FY2005 market challenges

- **Commodity PC hardware market**

University and college PC hardware market increasingly low margin – sales & marketing expenditure reduced

Differentiated PC offer performed well (RM ONE, RM Mobile ONE, RM Tablet)

- **Educational software market**

Evidence of eLC under-spend and leakage (note: eLCs now confirmed for two further years)

BBC Digital Curriculum launches in January 2006

- **Competing school budget priorities**

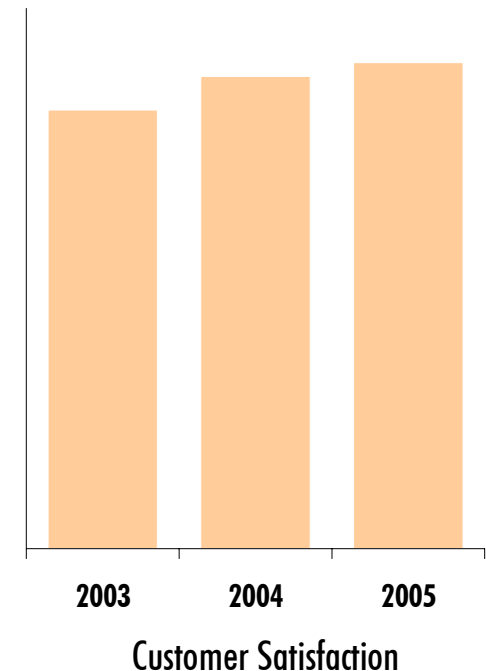
Workforce remodelling programme: every teacher to have 10% non-contact time from Sept 2005

Introduction of 'teaching and learning responsibility payments'



Customer success

- **Customer satisfaction continues to increase**
 - Our key non-financial performance measure
 - Three years of year-on-year improvement is a world-class performance*
 - Majority of staff have customer satisfaction element to remuneration
- **Reputation improving amongst non-customers**
 - ... but continues to be an area for improvement
- **Award winning products and services**
- **RM's continued success will be driven by our customers' success**
 - Education projects: each has an element of payment by success
 - eg: South Yorkshire Project has delivered 10,500 ICT qualifications



*ACSI (American Customer Satisfaction Index) data indicates that it is extremely rare to achieve improvement in three consecutive years

Hardware and distribution

- PC hardware

Educationally differentiated PCs have been successful

RM ONE significant volume shipped to schools

RM Mobile ONE launched in September



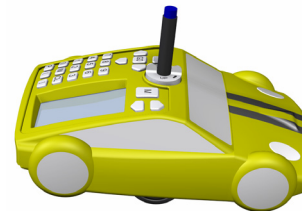
- Interactive whiteboards

Dedicated funding was available until end March 2005

- TTS

Turnover and profit slightly ahead of expectations

Innovative new products



- Leasing



Delivery

RM building a track record of excellence

- Excellent progress on all projects

Customer satisfaction above average for established projects

All education projects operating at 'reference site' standard

QCA	47,000 pupils taking online tests compared with 1,200 in 2004
Cambridge Assessment	225,000 exam scripts processed electronically
Warwickshire LEA	1,500 teachers using Tablet PC based teacher toolkits
Newham LEA	4,200 laptop computers available for pupils to take home
Lambeth LEA	Full managed service supporting over 6,000 users
South Lanarkshire Council	9,000 computers over 200 sites
SYeLP	10,500 new ICT qualifications achieved so far
Dudley Grid for Learning	8,000 computers in over 100 schools updated

- Project R&D contributes to building unique 'education enterprise' intellectual property

Virtual Learning Environments

Multi-school networks and infrastructure

Education 'portals'

Online examinations and assessment

QCA Cambridge Assessment	eAssessment	Education Enterprise
Warwickshire SSDN	Learning Platform	
Dudley South Lanarkshire Classroom 2000	Managed networks	
Warwickshire SYeLP	Educational delivery	

The 'education enterprise solution'

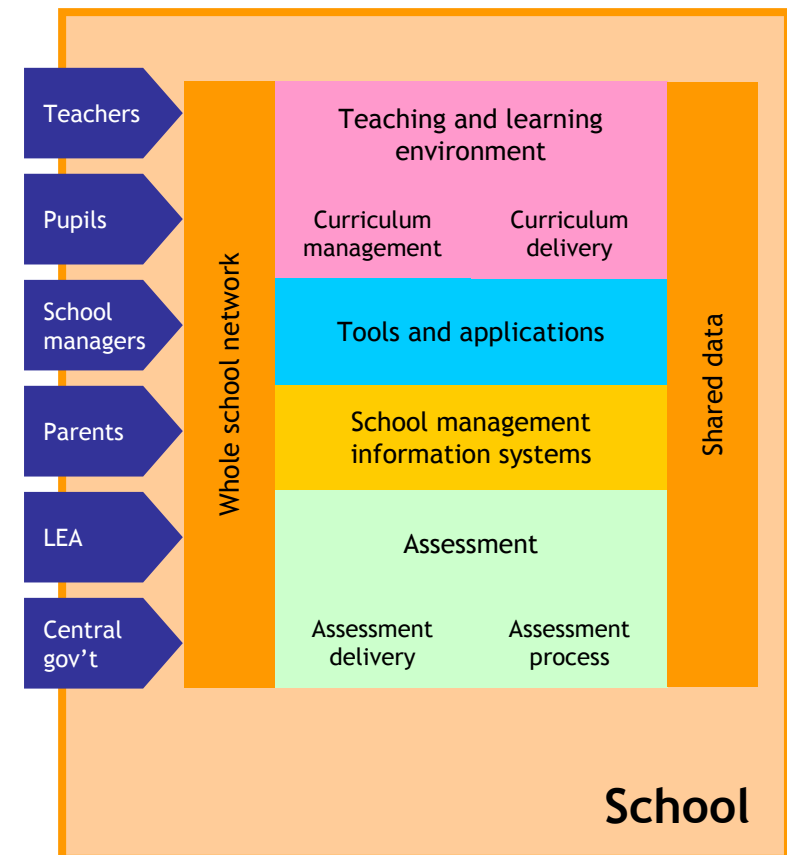
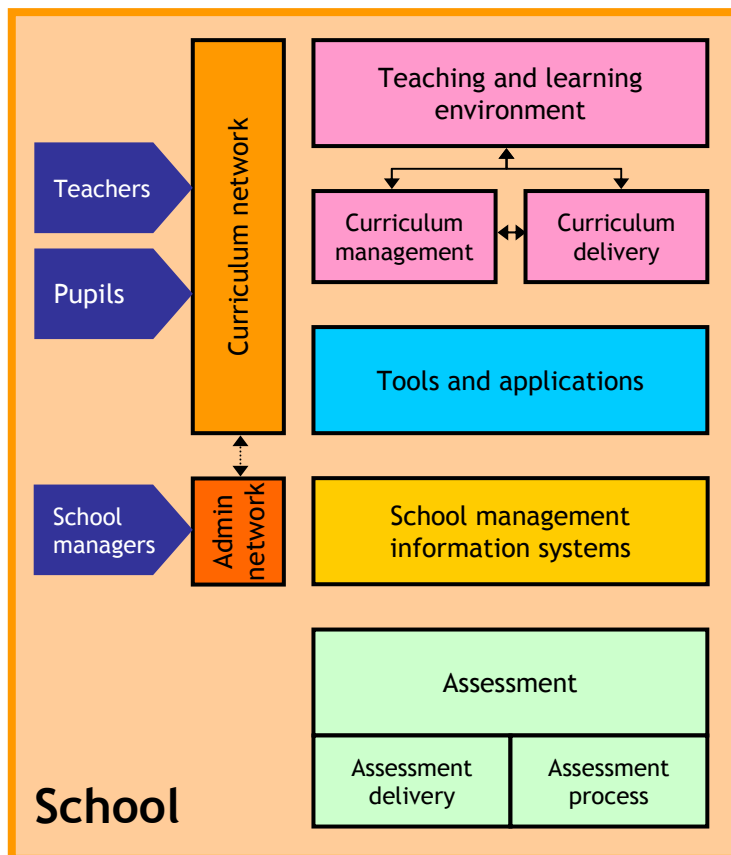
Current approach

Separate systems
Minimal interaction between systems / no shared data
Limited, piecemeal access outside the establishment



Enterprise approach

Integrated web-delivered systems
Common data standards / no barriers between systems
Consistent access inside and outside the school



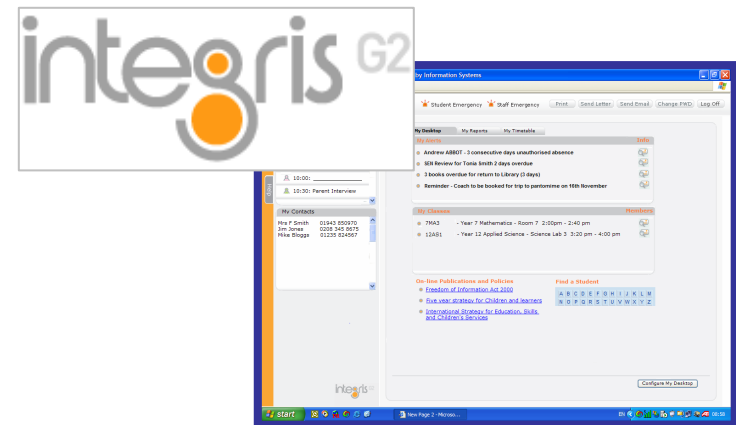
Education information systems

Leading position in education data services

- Welsh national pupil database
- Performance tables
- RAISEonline — single authoritative source of school performance data (formerly iPANDA)

Management information systems

- Web-delivered school MIS product to launch at BETT



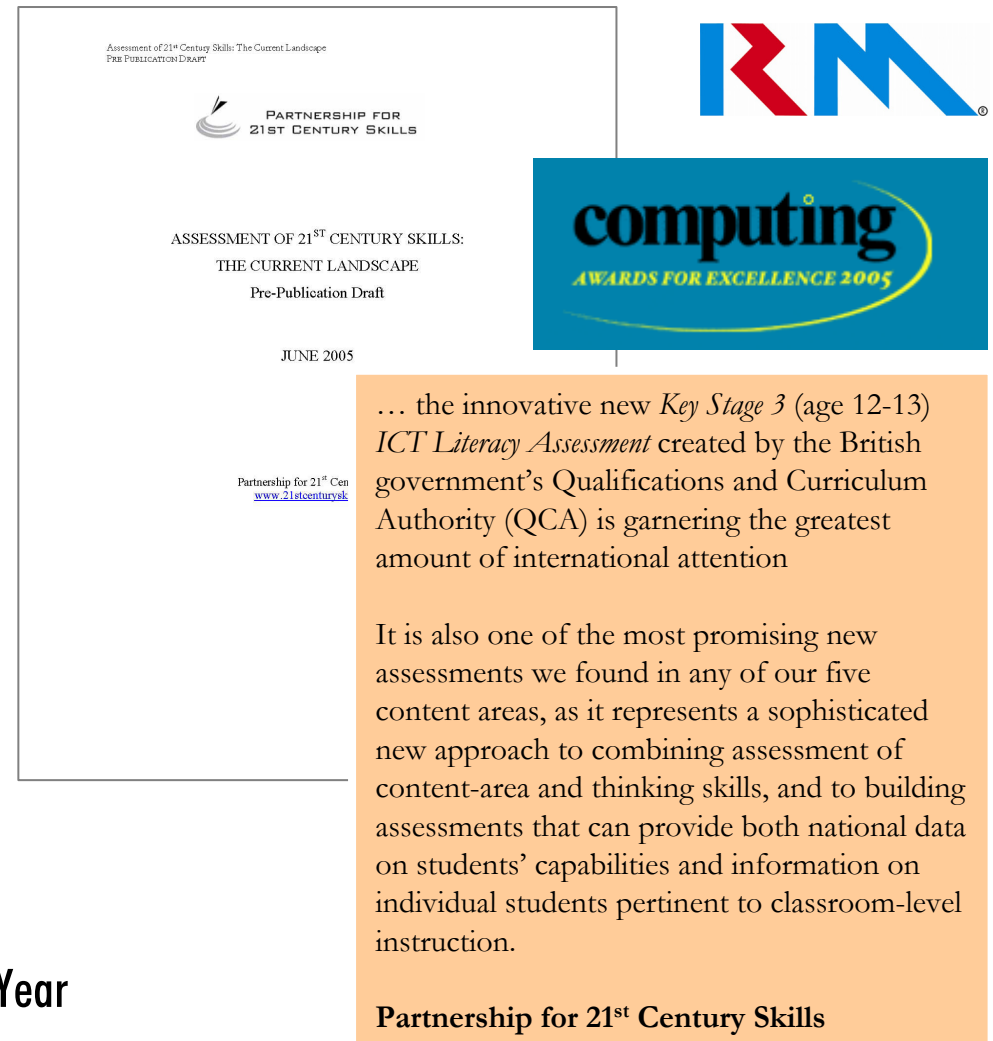
Teacher development

- TTRB — online resource banks for teacher development
- Continuing professional development for teachers (commissioned by the DfES)

Assessment

RM leads the way in online assessment

- UK assessment landscape
 - > 50 million individual scripts annually
 - c. £750 million spend
 - Still largely paper-based
- QCA KS3 ICT assessment project
 - Successful 'volume' trial (47,000 pupils)
 - All English secondary schools to participate in 2007
 - Regarded as a pathfinder for eAssessment
 - Computing Awards 2005: Innovative Project of the Year
- Cambridge Assessment
 - World leading on-screen marking solution developed
 - workflow engine for management and control
 - Pilot programme processed 225,000 scripts





Scottish Schools Digital Network

- **A national education intranet for Scotland**
Brings together education delivery and school management
Single 'portal' for > 800,000 users (educators, learners)
- **£37.5 million, five-year contract**
Design, implementation and managed delivery of the service
... no hardware, no broadband, no in-school networks
- **Highly competitive contract won against global competition**
Bidders included IBM, HP, Fujitsu, Serco and BT
- **Ground-breaking national 'education enterprise' system**
Positions RM as world leader in an emerging market sector

We had 96 expressions of interest and many excellent bids. It was a difficult choice but the winner's educational credentials shone through.

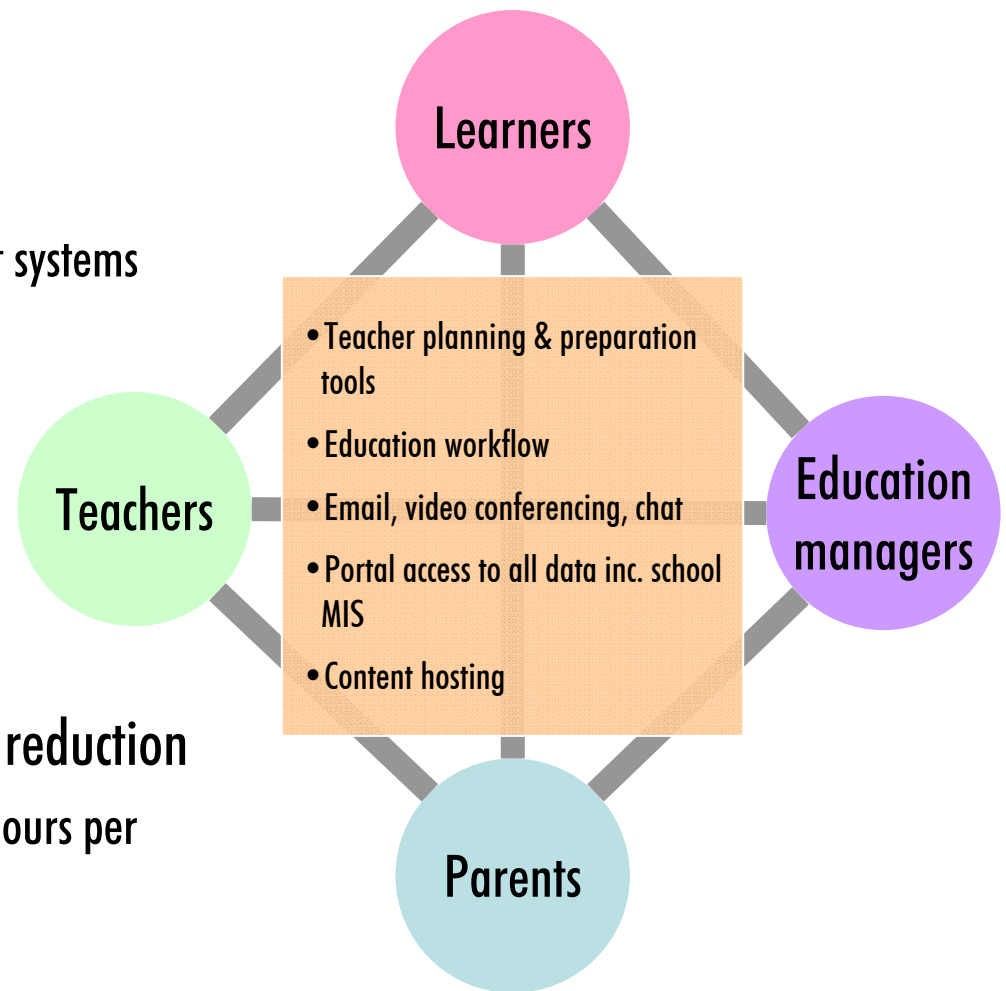
John Connell – SSDN
Director
Quoted in Times Educational
Supplement
September 2005



Scottish Schools Digital Network

Scottish Schools Digital Network

- Technically advanced
 - Personalised, highly secure access
 - Close integration with existing school management systems
 - Web-based: access anywhere
- National scale
 - 32 local authorities
 - > 800,000 users
 - Change management / training
- Significant contribution to teacher workload reduction
 - PwC estimate: ICT could save approximately four hours per teacher, per week



Building Schools for the Future

- 15-year programme to rebuild/refurbish all secondary schools in England
 - £45 billion total spend / £5 billion ICT spend
 - Indications that programme may extend to primary schools in future
- RM target
 - Leading ICT partner to the BSF programme, winning at least 30% of contracts
 - Expenditure in FY2006 on solution design, bidding etc: c.£4 million
- Procurement model means success not wholly dependent on quality of ICT offer
 - RM needs to be on high proportion of short lists
 - Distributing RM IP through other partners as well as direct delivery
- Early success
 - Shortlisted for every project we have submitted bids for
 - Preferred bidder for £6.4 million Solihull (ICT-only) BSF contract

Building Schools for the Future

Update on phasing data

	Number of LEAs in wave	Total schools In wave	Procurement starts from	Number of BSF schools opening (rebuids & refurbs completed)			
				GY 2007/08	GY 2008/09	GY 2009/10	GY 2010/11
Wave 1	18	170	2004	44	71	36	16
Wave 2	10	89	Q4 2005		42	42	5
Wave 3	11	116	Q1 2006			51	51
Wave 4	17*	149	2007*				55

Source: Partnerships for Schools Corporate Plan 2005/06

*RM estimates

Order book

Visibility improving

- Order intake in FY2005:
 - Up 15% on FY2004
 - Significantly exceeded shipments in year
- Year end order book and deferred revenue:
 - Up significantly on FY2004
 - £140 million increase since FY2002
 - Represent > 85% of FY2005 turnover
- Business remains subject to short-term market dynamics
 - Almost two-thirds of FY2006 business still to win and deliver

Outlook

- Still early in the year
Visibility improving
... but RM remains a seasonal business
- Individual schools market weakness since beginning of 2005/06 academic year
Workforce remodelling programme: every teacher to have 10% non-contact time from Sept 2005
Introduction of 'teaching and learning responsibility payments'
- Electronic learning credits confirmed for a further two years
- Further BSF investment in FY2006: c £4 million

Conclusions

- Strong performance
 - ... despite tricky market conditions and BSF investment
- Track record of delivery
 - Orders
 - Turnover
 - Profit
 - Customer satisfaction
- Improved visibility
- Well-positioned for long-term opportunity



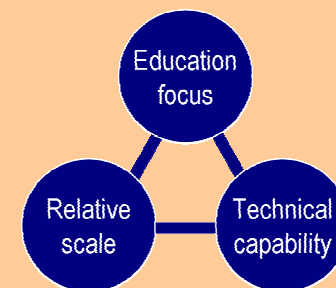
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Year ended 30 September 2005

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Appendices



Education projects

Contract		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

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 “virtually certain”
In accordance with UITF 34 “Pre-contract costs”
- Separable elements
Accounted for using relevant Group accounting policy for that element
Turnover and profit recognised as the goods and services are delivered
- Bundled elements
Accounted for in accordance with SSAP 9 “Stocks and long-term contracts”
Turnover 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 turnover based upon expected outcome
Consequently turnover 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

Building Schools for the Future

A major opportunity for RM

- Secondary schools: £45 billion, 15-year programme
Rebuild/refurbish all secondary schools in England, including:
school build; facilities management; ICT managed service
Secondary school ICT market could as much as double by 2009
- ICT allocation: £5 billion
- Primary schools may follow BSF model
Rebuild/refurbish approximately 50% of primary schools from 2009
- Market structure moves from product supply to long term contract
- Groups of schools procured together
potentially crossing LEA boundaries

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.

Awards

- **BETT Awards**
Easiteach Literacy / Easiteach Numeracy / MathsAlive / Kaleidos
- **E-learning Awards**
Sonica Spanish
- **Education Resources Awards**
RM ONE / TTS Active World Play Mats
- **Nursery World Awards**
TTS Active World Play Mats / Tizzy's First Tools
- **Helpdesk Institute**
Helpdesk Support Team Excellence Award finalist
- **Association of Support Professionals Year's Ten Best Web Support Sites**
2004 and 2005
- **Computing Awards for Excellence 2005**
QCA KS3 ICT assessment project