

*Where Technology  
and  
Education Meet*

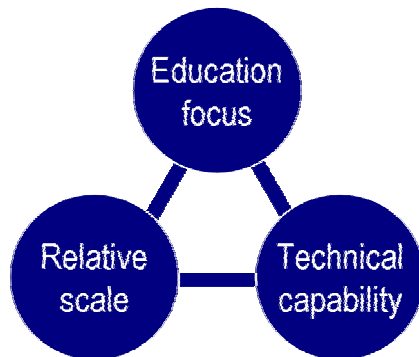
# RM plc

## Preliminary Results

Year ended 30 September 2006

Tim Pearson – CEO

Mike Greig – Group Finance Director



# Headlines

## **Solid results ...**

Achieved planned profit growth

## **... against a difficult market background ...**

School budgets under pressure (particularly in first half)

Greater than expected decline in eLC spend

## **... achieved through effective management of costs**

## **Significant progress in the development of the business**

Further improvements to the business model

Further increase in profit margin – even after increased investment in BSF

Four BSF wins

Third year of increase in Customer Satisfaction score

## **Four areas of focus**

Infrastructure – including BSF

Assessment & Data

Education Management Systems

Education Resources



# Financial headlines

	Year to 30 September	
	2006	2005*
<b>Revenue</b>	<b>£262.3m</b>	£262.7m
<b>Profit before tax</b>	<b>£14.5m</b>	£11.5m
<b>Profit before tax</b> before amortisation of acquisition related intangibles and goodwill impairment	<b>£14.6m</b>	£14.0m
<b>BSF bid costs expensed</b>	<b>£3.8m</b>	£1.8m
<b>Diluted EPS</b>	<b>11.5p</b>	8.7p
<b>Dividend per share</b> proposed and paid	<b>5.17p</b>	4.85p
<b>Net cash inflow from operating activities</b>	<b>£24.2m</b>	£14.1m
<b>Net funds less deferred consideration</b>	<b>£28.5m</b>	£18.2m

\*restated under IFRS



# IFRS

## Profit increased by £1.3m

### Pensions

Income statement charge  
reduced

Deficit on balance sheet

### R&D

No projects met capitalisation  
criteria

### Share-based payments

Profits increased because co-  
investment scheme costs  
expensed under UK GAAP

Total charge: £0.8m, of which,  
options: £0.1m

The table below is provided for illustrative purposes only and summarises the impact of the transition to IFRS from UK GAAP. UK GAAP is as adopted in the 2005 financial statements; it has not been updated for subsequent changes in UK GAAP.

Year to 30 September £'000	2006 unaudited	2005
<b>IFRS profit before tax</b>	<b>14,544</b>	<b>11,528</b>
Amortisation of acquisition related intangibles	53	-
Goodwill impairment	-	2,469
<b>IFRS profit before tax</b> before amortisation of acquisition related intangibles & goodwill charges	<b>14,597</b>	<b>13,997</b>
Pensions	(1,233)*	(1,260)
Research & Development	-	-
Share based payments	(104)	(14)
Holiday pay accrual	30	122
Foreign exchange hedging investments	14	-
<b>2005 UK GAAP profit before tax &amp; goodwill charges</b>	<b>13,304</b>	<b>12,845</b>
<i>Goodwill charges</i>		(7,386)
<b>2005 UK GAAP profit before tax</b>		<b>5,459</b>

note: had the Group reported under UK GAAP in 2006 it would have recorded pensions and share based payment charges similar to those under IFRS

\*the 2006 pensions impact has been calculated as the difference between the IFRS charge and an estimated SSAP 24 charge



# Revenue

## Continuing improvement in mix of businesses

Growth in software and services

Growth in long-term contracts

### FY2006

Growth in:

Long-term contracts

Particularly Glow (SSDN)

Education Resources

Assessment & Data

International: up 50% from a low base

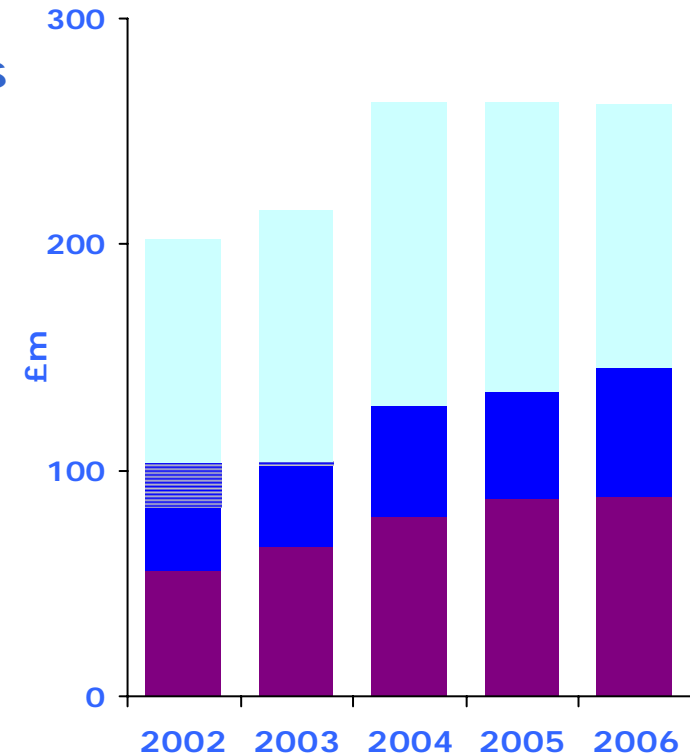
Offset by:

Education software

PC hardware

Whole-class teaching

End of Government scheme in prior year



Revenue

■ PCs, distribution and education resources  
▨ Learning Schools Programme  
■ Education software and services  
■ Infrastructure software and services

# Gross profit and business mix

## Education software & services

Glow currently traded at zero margin

Reduction in high margin curriculum software

Decreased effectiveness of eLCs

## PCs, distribution & education resources

Increased contribution from differentiated PC hardware

Increase in contribution from education resources

	FY2006			FY2005*		
	Rev £m	Gross Profit £m	Gross Profit %	Rev £m	Gross Profit £m	Gross Profit %
Infrastructure software & services	88.1	26.7	30.3	87.6	25.3	28.9
Education software & services	57.7	23.7	41.1	47.5	28.2	59.4
PCs, distribution & education resources	116.5	20.7	17.8	127.6	20.8	16.3
<b>Total</b>	<b>262.3</b>	<b>71.1</b>	<b>27.1</b>	<b>262.7</b>	<b>74.3</b>	<b>28.3</b>

\*restated under IFRS



# Operating costs

## Costs well managed

Rapid response to Q1 market conditions

Non-BSF costs down £4.9m on 2005

## Selling & distribution

BSF bid costs: £3.8m (2005: £1.8m)

Reductions in HE/FE, Schools & non-BSF projects

Increased Internet sales and effectiveness

## Research & development

Decreased spend on educational software

Increased project related R&D

Shown in cost of sales

## Acquisitions

CAZ Software: July; MES: August

## Investment income

Includes income from provision of leases to customers

	FY2006	FY2005*
<b>Selling &amp; distribution</b>	<b>33.2</b>	33.9
<b>Research &amp; development</b>	<b>14.9</b>	16.7
<b>Administration</b>	<b>10.2</b>	10.6
<b>Operating costs</b>	<b>58.3</b>	61.2
Amortisation of acquisition related intangible assets	0.05	-
Goodwill impairment	-	2.5
<b>Total</b>	<b>58.3</b>	63.6

\*restated  
under IFRS



# Profit margin

## FY2005 margin:

4.9% as reported under UK GAAP  
5.3% under IFRS

## FY2006 margin: 5.6%

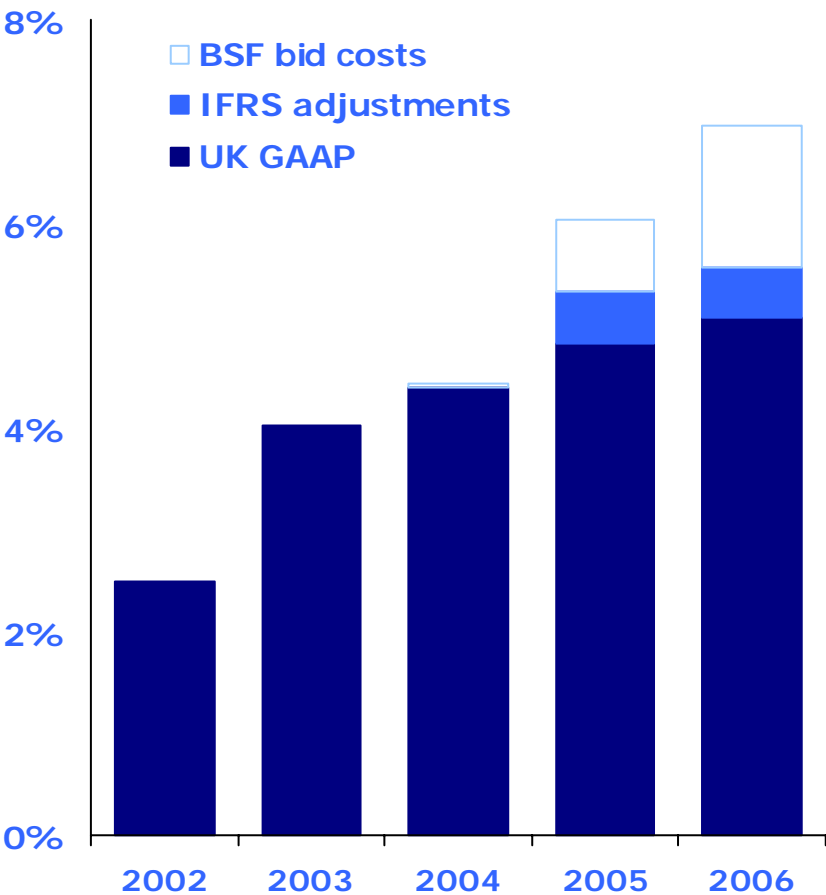
Increase of 0.3% over 2005

## BSF bid costs represent 1.4% of revenue

No profit contributions from three recent wins before 2008

### Profit before tax as % of revenue

Before amortisation of acquisition related intangibles, goodwill charges and exceptional items





# Income statement

£m	FY2006	FY2005*
<b>Revenue</b>	<b>262.3</b>	<b>262.7</b>
Cost of sales	(191.2)	(188.4)
Gross profit	71.1	74.3
Selling & distribution	(33.2)	(33.9)
Research & development	(14.9)	(16.7)
Administration	(10.2)	(10.6)
Amortisation of acquisition related intangible assets	(0.1)	-
Other income and expenses	-	(2.5)
<b>Profit from operations</b>	<b>12.8</b>	<b>10.6</b>
Investment income	1.9	1.4
Finance costs	(0.1)	(0.4)
<b>Profit before tax</b>	<b>14.5</b>	<b>11.5</b>
Tax	(4.1)	(3.8)
<b>Profit for the year</b>	<b>10.5</b>	<b>7.7</b>
<b>Diluted earnings per ordinary share</b>	<b>11.5p</b>	<b>8.7p</b>
<b>Paid and proposed dividend per share</b>	<b>5.17p</b>	<b>4.85p</b>

\*restated  
under IFRS



# Tax

£m	FY 2006		FY 2005	
Profit on ordinary activities before tax*	14,597		13,997	
Income statement tax	(4,055)	27.8%	(3,790)	27.1%
Tax credit on share based payments included in other recognised income & expense	113		374	
Effective total tax charge	(3,942)		(3,416)	

\*before amortisation of acquisition related intangible assets and goodwill charges

Income statement tax rate: 27.8% (2005: 27.1%)

IFRS impacts deferred tax and tax treatment of share based payments

Continuing benefit of R&D tax credit



# Balance sheet

## Capital expenditure: £9.7m

Glow: £3.5m; other projects: £1.5m;  
other: £4.7m  
Depreciation: £9.1m

## Pension deficit on defined benefit scheme shown in:

Retirement benefit obligation  
Deferred tax assets

## Non current assets held for sale

Current TTS building

£m	30 Sep 2006	30 Sep 2005 *
Goodwill	22.3	22.2
Other intangible assets	3.5	1.7
Property, plant & equipment	22.5	24.6
Deferred tax assets	7.4	7.1
<b>Total non current assets</b>	<b>55.7</b>	<b>55.7</b>
Inventories	10.8	11.9
Trade & other receivables	51.4	54.1
Cash & cash equivalents	30.1	22.9
<b>Total current assets</b>	<b>92.3</b>	<b>89.0</b>
Non current assets held for sale	1.1	-
<b>Total assets</b>	<b>149.0</b>	<b>144.6</b>
Current liabilities	(80.3)	(78.6)
Retirement benefit obligation	(18.7)	(15.9)
Other non current liabilities	(7.8)	(11.9)
<b>Total liabilities</b>	<b>(106.8)</b>	<b>(106.4)</b>
<b>Net assets</b>	<b>42.3</b>	<b>38.2</b>
<b>Total equity</b>	<b>42.3</b>	<b>38.2</b>

\*restated under IFRS



# Pensions

## Defined benefit pension scheme

Closed to new members for four years

IAS19 pre-tax deficit: £18.7m (2005: £15.9m)

Triennial valuation

Deficit £12.7m (pre-tax) as at 31 May 2006 (2003: £12.9m)

Major factor: life expectancy mortality assumptions updated to PA 92 (medium cohort)

## Actions

SMART pensions scheme put in place during year

Savings (c.£300k pa) directed at deficit reduction

Consultation with active members on:

Cap on pensionable salary increases of 5% pa

will lower risk on future liabilities and give a £3.5m deficit reduction

or, increase in employee contributions (c. 5.5%)

One-off Company cash contribution of £3.5m to be made in calendar 2007

in addition to continuation of £1.3m pa contribution in excess of income statement charge, and SMART pension savings

Deferred members will be given specific option to transfer out

## Current modelling

No increase in income statement charge; much accelerated closure of deficit; use of some cash



# Cash and cash generation

## Excellent cash generation

Continued excellent working capital management

## Acquisition of subsidiaries

CAZ Software: £1.7m

MES: £1.0m

## Average cash: £18.4m

We remain a seasonal business

£m	30 Sep 2006	30 Sep 2005
Cash & cash equivalents	30.1	22.9
Issued loan notes	0.9	1.1
Net funds	29.2	21.8
Issuable loan notes	-	1.2
Deferred cash consideration	0.7	2.4
Net funds less deferred consideration	28.5	18.2

## Looking ahead

Capex:

TTS distribution centre: £2.8m

Pension scheme: £3.5m

BSF does not require significant capex

Operating expenses & WIP

Cash and cash equivalents - £m	FY2006	FY2005	FY2004
30 September	30.1	22.9	27.5
Year average	18.4	8.0	27.2
Year minimum	7.3	0.0	8.8



# Context

## Five years ago

- General PC market shrinking
- Education software market going to shrink
- Pupil numbers going to shrink
- Customer service needed improvement
- Evolving education requirements

## Our plan

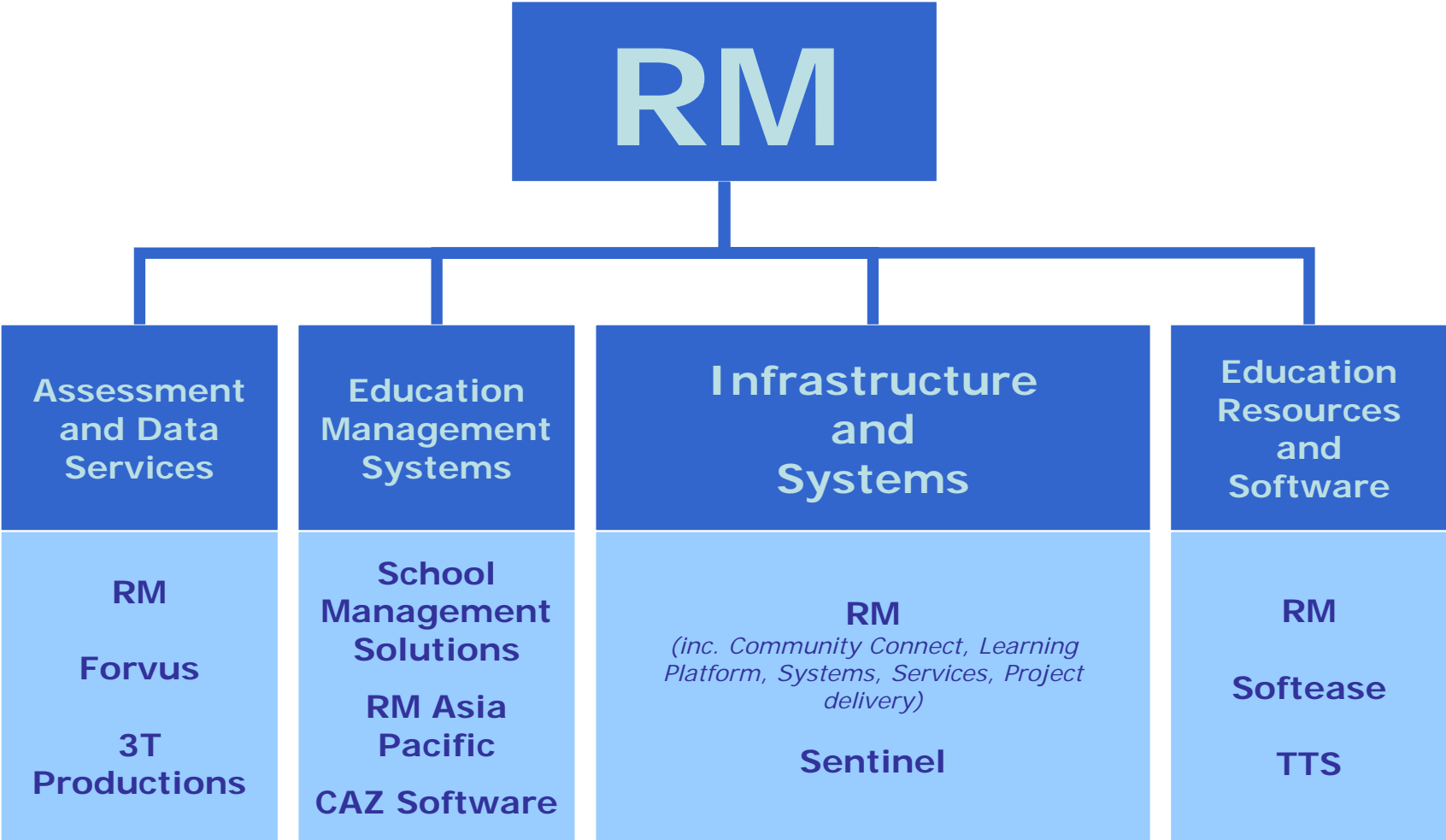
- Be the best at customer service
- Bid for and win more bigger projects
- Reduce PC dependence by diversifying
- Differentiate our PC products
- Develop education services business

## Progress:

- Now award winning
- 14 major projects won
- >70% non-PC revenues
- RM One / RM Mobile One / ecoquiet
- Assessment and Data Services



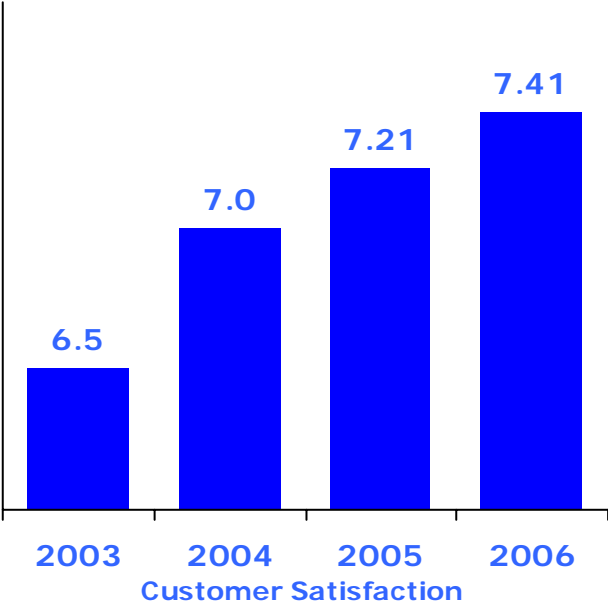
# RM's business



# Satisfaction measures

## Customer satisfaction score

Increase to 7.41 (FY2005: 7.21)  
Improvement every year since measure introduced  
Customers' improvement suggestions continue to drive business actions  
For example: pro-active customer calls



## Award-winning support

World's Ten Best Web Support site  
Third consecutive year  
Help Desk Institute awards finalist  
Second consecutive year



## Employee satisfaction score

Increase to 73.2% (FY2005: 72.0%)  
Rated as a Top UK IT Employer  
By Corporate Research Foundation





# Market trends

## Policy

- Sustainable Schools programme

  - £375m for energy saving initiatives (including technology)

- Digital divide: Computers for Pupils (£60m over two years)

- School renewal: BSF and Primary Capital Programme

- Children's Services: bringing together education, health and social care

## Technology

- New focus on 'back-office' technology: assessment, management information

- 'Education 2.0': early educational use of wikis, blogs, podcasting, social networking

## Budgets

- Funding changes seen during 2006

  - Less 'ring-fencing', more delegation, change in teachers' pay arrangements

- Falling rolls

- Comprehensive Spending Review imminent



# Infrastructure and systems

## Educational networks

No major upgrade drivers in FY2006

New functionality to be introduced in FY2007

Including support for: Microsoft Windows Vista; thin client technology

## Differentiated PCs

PC average selling prices up

Shift to 'value-added' ranges

RM ONE

RM Mobile ONE

RM ecoquiet

## **ecoquiet – low power, low noise, low heat**

Up to two-thirds less power than a standard PC

Well received by customers

Good fit for Sustainable Schools initiative and BSF



# Learning Platform

## Education enterprise

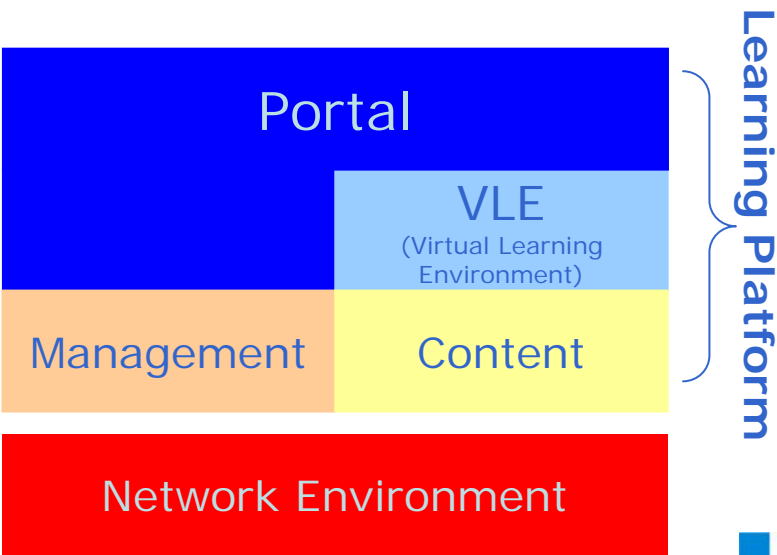
### Policy drive

DfES 2008 target: “every school learner in England having access to a personalised online learning space”

Major investment area for RM in FY2006 and FY2007

### RM leading provider of Learning Platforms

- Glow
- Warwickshire
- Newham
- Lambeth
- Hertfordshire
- ... and others



# Glow

## Scottish Schools Digital Network National Intranet

### Progress

- Early-stage functionality demonstrated at Scottish Learning Festival in September – very well received
- Piloting with Local Authorities
- Live with users in 2007

**Most ambitious educational intranet under development anywhere in the World**

### Glow Dimensions

Contract value	£37.5m
Contract term	5 years
Number of learners & teachers	800,000
Number of LAs involved	32
Development team	100+
Number of host servers	500
Data hosted	60TB

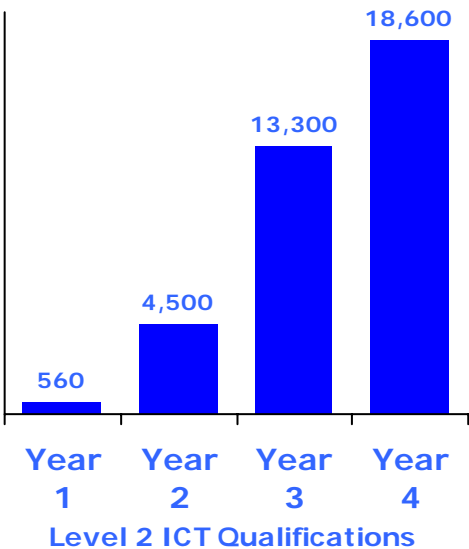


# Project progress

Good progress on all Education Projects

## South Yorkshire eLearning Project

Completes in FY2007 – extremely successful  
Educational success: >18,000 new Level 2 ICT qualifications  
Significant contribution to regional regeneration



## Newham LA

1,000 pupils taking laptops home regularly

## C2K Lot 6 (Northern Ireland post-primary schools)

Preferred bidder: Feb 2006  
Development in progress

Successful project delivery continues to lead to follow-on revenue opportunities



# BSF

## BSF programme progress

Slower than anticipated during 2006  
Only three contracts signed by anyone so far

## RM progress

On track for our longer term plan  
Won four projects  
Preferred bidder: 3; contract awarded: 1

Authority	Status	Value	Pupils
Solihull	Contract award – Feb 2006	£6.4m	4,500
Stoke-on-Trent	Preferred bidder – Sep 2006	-	14,000
Leeds	Preferred bidder – Nov 2006	-	16,500
Knowsley	Preferred bidder – Nov 2006	-	8,100

Won four out of five ICT-only projects  
Demonstrating the competitive strength of RM's ICT proposition  
Note: Contracts so far at lower average margin than other Education Projects

RM strategy	RM experience
Place on every shortlist should give 1-in-3 success rate	On almost every shortlist we bid for
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 ICT-only approach
Expect initial enthusiasm from potential competitors to decline	Some evidence that terms & conditions and bid costs proving unattractive



# BSF – looking forward

## Project pipeline

c. £250m of initial opportunity currently in progress

Won't all complete in 2007 (c.5 projects will reach preferred bidder in 2007)

Wave 4 projects announcement expected in December 2006

c.17 projects

Some will be extensions of existing BSF programme

Element of lottery remains for building consortium bids

## RM FY2007 financial impact

Revenue small; traded at zero margin in early stages

Bid costs: c.£3.5m

## Learned lots and adapted our approach

Every contract is individual and requires an individual solution

A much more compelling and cost-effective offer



# Assessment and Data

## On-screen testing

- QCA: Key Stage 3 ICT project progressing well
- WJEC: pilot tests
- IFS School of Finance: pilot tests for Certificate and Diploma in Financial Studies
- AQA: pilot on-screen tests for GCSE science

## e-Marking

- SCORIS: innovative e-marking service
- Cambridge Assessment: moving from pilots to long-term relationship
- CCEA: pilot with 30 examiners / 10,000 scripts



## Data / management information

- National Pupil Database –Achievement and Attainment Tables: £16m / five-year contract
- RAISEonline: searchable, Web-based pupil performance database
- Welsh National Pupil Database





# Education Management Systems

## **Integris<sup>G2</sup>: changing the school MIS landscape**



Local Authority/enterprise level rather than school LAN-based

Centrally-hosted, Web-delivered, platform independent

Potential for £tens-of-millions savings to UK education service

Selected to supply Service Children's Education schools worldwide

Knowsley BSF project extends Integris<sup>G2</sup> to meet 14-19 agenda

Strategic partnership with CODA

Integrating Web-based, world class CODA Financials

Major ongoing R&D programme

## **Acquisition of CAZ Software in Australia**



Grows our position in Asia Pacific

RM becomes clear leader in Australian school management software market

Opportunities elsewhere in Asia Pacific



# Education Resources – TTS

## TTS Shopping: Enhanced Web presence

Enables additional sales  
Joint venture between TTS and RM IS team

## New distribution centre

45,000 square feet  
Nottinghamshire



## Electronic products division



## Further expansion into new product areas

Music: acquisition of MES  
Special Education Needs: SpecialDirect.com  
1,500 new products (including 200 teacher ideas)



# Education Resources - software

## International

- Focusing on Easiteach and RM Math
- 100% increase in revenues (from a low base)

## Very tough UK market

- eLCs – increasing ‘leakage’
- Impact on RM revenues and profits
- BBC jam – first content available, not obviously different from industry products
- Future development focused on ‘low-risk’ areas

## Softease Podium

- World’s first dedicated educational podcast product
- Launches at BETT 2007



# Technological capability

Over 500 engineers with broad skill base

## Hosting

1,400 servers in more than 20 locations  
 More than 600,000 mailboxes hosted

## Information security

RM ESI: ISO/IEC 17799/27001 certified

## Internet and broadband

Connectivity: > 2,000 high bandwidth connections

## Integration skills

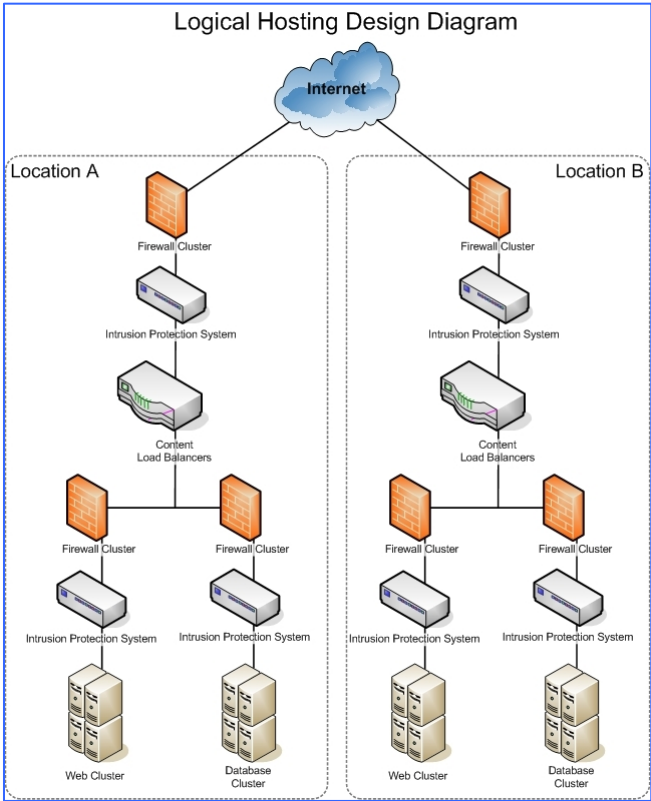
For example: Glow integrates technologies from  
 Cisco, EMC, Sun, Red Hat, Oracle, Marratech,  
 RealNetworks, Microsoft ...

## Software development

Applications software development centres in UK,  
 India and Australia

## Project management strength

PRINCE2 project management methodology



# Outlook

**Still early in the year**

## **FY2006 trends continue**

Individual schools market remains tough

Notably education software

BSF: investment in long-term opportunity

Bid costs at a similar level to FY2006

Increasing contribution from Education Projects



# Conclusions

## Solid results

- Achieved planned profit growth
- Further increase in profit margin
- Doubled investment in bidding for BSF
- Achieved BSF win rate target
- Proud of our performance in Customer Satisfaction

## Further progress in building more resilient business model

- Improved visibility
- BSF continues to be a major opportunity
  - Recent wins provide foundation for future profit from BSF programme
- Other opportunities in:
  - Assessment and Data
  - Education Management Systems
  - Education Resources

# Appendices



# Contracts

Education Projects	Awarded	Value	Term
Dudley Grid for Learning	Jan 1999	>£50m	10 years
Classroom 2000 Lot 3 (Northern Ireland)	Feb 2003	£21m	5 years
QCA – Key Stage 3 online testing	Feb 2003	£23m	6 years
South Yorkshire eLearning Programme	May 2003	£34.4m	44 months
South Lanarkshire Council	Jul 2003	>£30m	7 years
Warwickshire LEA PFI	Apr 2004	£16m	8 years
Newham LEA PFI	May 2004	£20m	8 years
Lambeth LEA PFI	Feb 2005	£17m	8 years
South West Grid for Learning	Aug 2005	>£30m	3 – 5 years
Glow / Scottish Schools Digital Network	Sep 2005	£37.5m	5 years
DfES – achievement and attainment tables	Jan 2006	£16m	5 years

BSF	Status	Value	Term
Solihull	Contract award – Feb 2006	£6.4m	56 months
Stoke-on-Trent City Council	Preferred bidder – Sep 2006	-	-
Leeds City Council	Preferred bidder – Nov 2006	-	-
Knowsley MBC	Preferred bidder – Nov 2006	-	-





# 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 profit margin

# FY2006 awards



Help Desk Support Excellence Team Award



The Year's Ten Best Web Support Sites



The Digital Industry Awards for the North-West.



