

2004: Delivering Results

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RM plc Interim report and accounts 2004

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Chairman's Statement



RM's performance in the first half of 2004 has been strong, partially as a result of some sizeable one-off factors. We have secured two further major education projects and the projects we won last year are well under way; we are establishing a position in the emerging electronic testing market; and revenues from our individual schools and colleges ICT business have remained steady during a difficult period for education funding and despite continued price pressure on commodity ICT products.

Results Results for the six months to 31 March 2004 are considerably better than for the same period last year. However, much of this year-on-year improvement is the result of non-recurring, one-off factors.

Turnover was 28% up on the same period last year at £108.9 million (2003: £85.4 million), with education project shipments and recent acquisitions accounting for the large majority of this increase.

Profit before tax (before goodwill amortisation of £2.0 million) was £2.7 million (2003: £0.8 million loss before goodwill amortisation of £1.0 million), reflecting the benefit of the increased turnover and of favourable US dollar exchange rate movements during the period.

Once again RM's business has delivered strong cash generation. Net funds at 31 March 2004 were up at £34.4 million (2003: £33.2 million), despite the £9 million cost of acquisitions over the last 12 months. Net cash inflow from operating activities for the period was £7.9 million (2003: £4.3 million).

The Board has declared an interim dividend up 5% at 1.0p (2003: 0.95p), payable on 2 July 2004 to shareholders on the register at 4 June 2004.

Chairman's Statement continued

Individual schools and colleges ICT business RM's revenues from individual schools and colleges were broadly flat year-on-year. Increased shipment volumes, increased demand for interactive whiteboards and growth in broadband and Internet activities were balanced by a relatively tight education funding environment, along with declining average selling prices in the Group's more commodity ICT activities.

RM continues to develop differentiated and innovative product and service propositions. Hardware products such as RM's All-in-One PC™ and Tablet PC offer real educational value and will go some way to counterbalance margin pressure and declining average selling prices. In the area of broadband and Internet, the Group is increasingly concentrating on activities such as email, filtering and local caching, where there is a specific educational need to be met.

RM acquired Sentinel Products Ltd in February 2004 for a maximum consideration of £6.1 million. Sentinel develops and distributes the Ranger suite of network management tools. Ranger appeals to a different customer base from RM's existing product ranges and strengthens RM's position against potential new competitors. Sentinel also provides RM with an indirect (dealer) channel.

The outlook for the UK education software market is more positive following the European Commission's decision, in November 2003, regarding the BBC Digital Curriculum. After a period of reduced investment in this area, the Board has authorised additional R&D expenditure in the second half in order to address opportunities now presented by this market.

The Department for Education and Skills (DfES) is making available dedicated funding of £25 million in each of Government years 2003/04 and 2004/05 for the purchase of interactive whiteboards. This market is fiercely competitive with limited margin potential. However, the growing installed base of interactive whiteboards has contributed to strong demand for the Group's RM Easiteach® family, which is now in use in approximately 20% of primary schools and is increasingly becoming a standard for whole-class teaching software.

Education projects Last year's £110 million order intake from large, multi-year education projects has been followed by a further £36 million of project wins so far this year. RM has signed contracts for a £20 million / eight-year project in Newham and a £16 million / eight-year project in Warwickshire. The Group is also sole

bidder for an £18 million project in Lambeth, though this bid is still at an early stage.

These three projects require the delivery of sophisticated and complex educational ICT services. They build on and allow the further development of the Group's software intellectual property including Community Connect 3™ and Kaleidos®.

Looking forward, the Group has identified further potential education project business and is already at the early stage of bidding for some of these projects.

RM was bidding, as a subcontractor, for the DfES' National Strategies programme, but has now withdrawn from this project. Bidding for education projects always has risk associated with it and a key element of the Group's education project bid process is rigorous risk/benefit analysis of all potential opportunities. In the case of this project the Board concluded that the balance of risk and reward was not in shareholders' interests.

Education services With the acquisitions of Forvus in 2003 (specialising in data and statistical analysis) and Peakschoolhaus (a school inspection contractor), the Group has a broader range of capabilities in the education service market. These

subsidiaries performed in line with management's expectation in the first half.

A recent change in policy at Ofsted (the Government agency responsible for school inspections) means that the future potential for Peakschoolhaus is now less than anticipated at the time of the acquisition. The Peakschoolhaus share purchase agreement has been renegotiated and the maximum consideration envisaged at the time of acquisition will not now be paid.

The Group is investing to establish a strong position in the emerging market for the use of ICT in educational testing and assessment. The annual cost of the public examination system in the UK is approximately £750 million and the QCA (Qualifications and Curriculum Authority – the regulator of public examinations in England) is committed to increasing the role of technology in the delivery and administration of assessment.

RM is already working with the QCA to develop the first national test to be delivered on-screen. This will be a process-based assessment for the curriculum subject of ICT for 14 year-olds and initial pilot tests will take place this summer. The Group is building on this experience in working with two of the three leading examination boards – AQA and UCLES – to develop examination and

Chairman's Statement continued

assessment services. With UCLES we are piloting an e-marking infrastructure, with RM developing ICT-based systems and services that support the marking process. For AQA we are piloting software approaches and technology services to enable the delivery of on-screen tests.

Board We were pleased to appoint Rob Sirs to the Board as an Executive Director in March 2004. He has been a key part of the senior management team since Tim Pearson took over as CEO and brings with him thirteen years of experience with RM.

Mike Tomlinson joined the Board in January 2004. Mike is one of the UK's leading educationalists and is the former Chief Inspector of Schools (Ofsted). He has most recently been responsible for the DfES' review of education and training for 14-19 year olds. Mike's educational insights and experience will be of enormous value as we continue our transition to a more broadly-based education Group.

I'm delighted that, following the completion of his assignment as the DfES' London Schools Commissioner, Professor Tim Brighouse rejoined the Board in May 2004. Tim's contribution in the brief time he spent with us before was extremely useful.

The Group's two founders – Mike Fischer and Mike O'Regan – have both

stood down from the Board. In their thirty-year involvement with RM, they have been pioneers of educational ICT and have played a leading role in establishing the UK and RM as a world-leader in this area. I am pleased that RM will continue to benefit from their educational insights through their membership of the RM Education Advisory Council.

Following these changes, RM has an exceptionally strong Board, including five highly independent Non-Executive Directors. The wide range of skills and experience this brings to the Group is a real asset.

Education funding Last year, school budgets were affected by unusual cost increases related to teacher employment. Government year 2004/05 presents a more positive funding environment. This year the DfES has set a guaranteed minimum per-pupil increase of 4%, which is intended to exceed the unavoidable cost increases faced by head teachers. Nonetheless, some schools are still recovering from deficit budget positions set a year ago and we do not anticipate major increases in individual schools' ICT spend in the near future.

The Government has also announced, in the March 2004 Budget, that total UK education spending will increase by 4.4% year-on-year (in real terms) over the three Government years 2005–2008.

Looking further ahead, the DfES is planning substantial capital investment in schools over the next decade through the Building Schools for the Future programme. As yet it is unclear what the benefits of this will be to RM; however, the Government has stated that the programme will provide "world-class technology in every school."

Prospects As already reported, the Group's performance so far this year includes one-off benefits from education project shipments and favourable US dollar exchange rate movements. These factors will have a positive effect this year, but are unlikely to have the same impact next year.

RM has a very strong cash position, which positions it well to finance our PFI projects in Dudley, Warwickshire and Newham, which have an aggregate cash requirement of approximately £16 million over the next two years.

There is still more to do to compensate for continued declining margins in our more commodity ICT

activities; however, the progress in developing a more robust and resilient business model continues. The Group has made progress in winning and delivering education projects; we are making renewed investment in education software; and RM is well positioned to take advantage of emerging opportunities in the examinations and assessment market.

As always, the seasonality of RM's business (which reflects school buying patterns, with significantly more than half of the Group's revenues occurring in the second half) means that first-half results are not a good indicator of the full-year outcome. Nonetheless, for the year as a whole, education projects and the contribution from our recent acquisitions will contribute to turnover growth.



John Leighfield CBE
24 May 2004

Consolidated Profit and Loss Account

€000	Half year ended 31 March 2004	31 March 2003	Year ended 30 September 2003
Turnover			
Existing operations	106,755	85,363	215,494
Acquisitions	2,189	-	-
Total turnover	108,944	85,363	215,494
Operating profit/(loss)	247	(2,352)	5,137
Operating profit/(loss) analysed between:			
Existing operations before amortisation of goodwill	1,942	(1,296)	7,567
Amortisation of goodwill – existing operations	(1,692)	(1,056)	(2,430)
Operating profit/(loss) for existing operations	250	(2,352)	5,137
Acquisitions	280	-	-
Amortisation of goodwill – acquisitions	(283)	-	-
Operating loss for acquisitions	(3)	-	-
Total operating profit/(loss)	247	(2,352)	5,137
Net interest receivable	519	532	1,082
Profit/(Loss) on ordinary activities before taxation	766	(1,820)	6,219
Profit/(Loss) on ordinary activities before taxation analysed between:			
Before amortisation of goodwill	2,741	(764)	8,649
Amortisation of goodwill	(1,975)	(1,056)	(2,430)
Total profit/(loss) on ordinary activities before taxation	766	(1,820)	6,219
Tax (charge)/credit on profit/(loss) on ordinary activities	(765)	214	(1,544)
Profit/(Loss) on ordinary activities after taxation	1	(1,606)	4,675
Dividends paid and proposed	(881)	(847)	(3,875)
Retained (loss)/profit	(880)	(2,453)	800
Earnings/(Loss) per ordinary share			
Basic	0.0p	(1.8p)	5.2p
Diluted	0.0p	(1.8p)	7.9p
Diluted - before amortisation of goodwill	2.2p	(0.6p)	7.9p
Diluted - before amortisation of goodwill at normalised tax rates	2.2p	(0.6p)	6.9p

Consolidated Balance Sheet

£000	As at 31 March 2004	As at 31 March 2003 (Restated)	As at 30 September 2003 (Restated)
Fixed assets			
Intangible fixed assets	16,344	5,952	10,777
Tangible fixed assets	15,179	17,420	17,091
	31,523	23,372	27,868
Current assets			
Stocks	11,997	8,452	13,759
Debtors	30,096	33,768	44,317
Investments – short term cash deposits	7,738	14,670	13,125
Cash at bank and in hand	27,479	22,307	27,500
	77,310	79,197	98,701
Creditors			
Amounts falling due within one year	(55,404)	(57,713)	(76,028)
Net current assets	21,906	21,484	22,673
Total assets less current liabilities	53,429	44,856	50,541
Creditors			
Amounts falling due after more than one year	(10,152)	(4,659)	(8,081)
Provisions for liabilities and charges	(3,174)	(1,726)	(1,245)
Net assets	40,103	38,471	41,215
Capital and reserves			
Called up share capital	1,794	1,794	1,794
Share premium account	20,349	20,349	20,349
Capital redemption reserve	94	94	94
ESOP reserve	(849)	(165)	(664)
Profit and loss account	18,715	16,399	19,642
Equity shareholders' funds	40,103	38,471	41,215

The balance sheet at 31 March 2003 and 30 September 2003 has been restated to reflect the requirements of the Urgent Issues Task Force Abstract 38 (see note 1).

Consolidated Cash Flow Statement

£000	31 March 2004	Half year ended 31 March 2003 (Restated)	Year ended 30 September 2003 (Restated)
Net cash inflow from operating activities	7,863	4,339	18,612
Returns on investments and servicing of finance	519	532	1,082
Taxation	(1,583)	(291)	(1,889)
Capital expenditure and financial investment	(1,818)	(1,043)	(4,428)
Acquisitions and disposals	(5,715)	-	(3,263)
Equity dividends paid	(3,020)	(2,870)	(3,716)
Net cash (outflow)/inflow before use of liquid resources and financing	(3,754)	667	6,398
Management of liquid resources	5,387	5,487	7,032
Financing	(1,633)	(2,845)	(4,918)
Increase in cash in the period	-	3,309	8,512

Reconciliation of Net Cash Flow to Movement in Net Funds

£000	31 March 2004	Half year ended 31 March 2003	Year ended 30 September 2003
Increase in cash in the period	-	3,309	8,512
Capital element of finance lease payments	-	20	20
Cash outflow from change in liquid resources	(5,387)	(5,487)	(7,032)
Settlement of loan notes	1,422	2,660	4,234
Change in net cash resulting from cash flows	(3,965)	502	5,734
Exchange translation	(21)	30	20
Movement in net funds in the period	(3,986)	532	5,754
Net funds brought forward	38,417	32,663	32,663
Net funds carried forward	34,431	33,195	38,417

The cash flow for the periods to 31 March 2003 and 30 September 2003 have been restated to reflect the requirements of the Urgent Issues Task Force Abstract 38 (see note 1).

Notes to the Financial Information

1. Basis of preparation

The financial information for the half years ended 31 March 2003 and 31 March 2004 have been prepared on a basis consistent with the statutory accounts for the year ended 30 September 2003, with the exception that Urgent Issues Task Force Abstract 38 (UITF 38) "Accounting for ESOP trusts" has been adopted from 1 October 2003. This Abstract requires that shares in the reporting company that are held through an ESOP trust, be deducted in arriving at shareholders' funds. Previously such shares were required to be recognised as fixed assets under UITF 17. The RM plc Employee Share Trust has been established and funded by the Group in order to hedge future obligations in respect of shares awarded under the RM plc Co-Investment Plan. The caption 'Investment in own shares' that was shown on the face of the balance sheet in fixed assets is now described as 'ESOP reserve' and is shown in the capital and reserves section. The comparative balance sheets and cash flow statements have been restated to reflect this change. The cost of the Co-Investment Plan continues to be charged to the profit and loss account over the performance period during which the Company derives benefit from the services of the participants in the scheme.

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 2003 and 31 March 2004 has not been audited. The information relating to the year ended 30 September 2003 is an extract from the audited statements for that year on which the auditors gave an unqualified audit report. A copy of those financial statements has been filed with the Registrar of Companies.

2. Acquisitions

- (a) Peakschoolhaus Limited was acquired on 1 October 2003 for an initial payment of £1.6 million in cash. Following renegotiation of the share purchase agreement, deferred consideration of up to a maximum of £0.3 million is payable over a three year period conditional upon the performance of the business.
- (b) Sentinel Products Limited and a connected company, Hyperion Security Software Limited, were acquired for a maximum consideration of £6.1 million on 26 February 2004 satisfied by the initial payment of £4.3 million in cash, with a further maximum deferred consideration of £1.8 million, payable through the issue of loan notes over two years, conditional upon the performance of the business over the two year period.

3. Additional profit and loss account information

£000	Half year ended 31 March 2004	Half year ended 31 March 2003	Year ended 30 September 2003
Cost of sales	79,976	63,740	162,209
Gross profit	28,968	21,623	53,285
Operating expenses			
Selling & distribution	15,090	13,293	26,968
Research & development	6,614	5,760	11,729
Administration – excluding goodwill amortisation	5,042	3,866	7,021
Administration – goodwill amortisation	1,975	1,056	2,430
Total administration	7,017	4,922	9,451
Total operating expenses	28,721	23,975	48,148

Notes to the Financial Information continued

4. Tax charge on profit on ordinary activities

The tax charge for the half year ended 31 March 2004 has been provided at the estimated effective rate for the full year of 28% of profit before goodwill amortisation.

5. Dividend

The proposed interim dividend of 1.0p per ordinary share (2003: 0.95p) will be paid on 2 July 2004 to shareholders on the register on 4 June 2004.

6. Earnings/(Loss) per share

Earnings/(Loss) per share for the half year ended 31 March 2004 are based on a profit of £1,000 (2003: loss of £1,606,000).

Basic earnings/(loss) per share is based on 88,927,918 ordinary shares (2003: 89,623,535), being the weighted average number of ordinary shares in issue during the half year ended 31 March 2004.

The diluted earnings/(loss) per share is based on a weighted average of 89,313,849 (2003: 89,624,717) ordinary shares issued and issuable.

A reconciliation of basic earnings/(loss) per share with diluted earnings/(loss) per share is as follows:

	Half year ended 31 March 2004		Half year ended 31 March 2003			
	Profit after tax £000	No. of shares ('000)	Pence per share	Loss after tax £000	No. of shares ('000)	Pence per share
Basic earnings/(loss) per share	1	88,928	0.0	(1,606)	89,624	(1.8)
Impact of share options	-	386	-	-	1	-
Diluted earnings/(loss) per share	1	89,314	0.0	(1,606)	89,625	(1.8)
Supplementary earnings/(loss) per share before amortisation of goodwill:						
Diluted earnings/(loss) per share	1	89,314	0.0	(1,606)	89,625	(1.8)
Effect of amortisation of goodwill	1,975	-	2.2	1,056	-	1.2
Diluted earnings/(loss) per share before amortisation of goodwill	1,976	89,314	2.2	(550)	89,625	(0.6)

An additional earnings per share measure is shown on the face of the profit and loss account, 'diluted – before amortisation of goodwill at normalised tax rates'. Included in the year to 30 September 2003 is a one-off benefit of a tax adjustment relating to prior years. This measure excludes the effect of this adjustment by using normal tax rates of 28%.

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

£000	Called up share capital	Share premium account	Half year ended Capital redemption reserve	31 March 2004 ESOP reserve	Profit and loss account	Total equity shareholders' funds
Beginning of the period as previously reported	1,794	20,349	94	-	19,642	41,879
UITF 38 restatement (see note 1)	-	-	-	(664)	-	(664)
Adjusted beginning of the period	1,794	20,349	94	(664)	19,642	41,215
Retained loss for the period	-	-	-	-	(880)	(880)
Purchase of shares	-	-	-	(211)	-	(211)
ESOP reserve transfer	-	-	-	26	(26)	-
Other	-	-	-	-	(21)	(21)
End of the period	1,794	20,349	94	(849)	18,715	40,103

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

£000	31 March 2004	Half year ended 31 March 2003	Year ended 30 September 2003
Operating profit/(loss)	247	(2,352)	5,137
Depreciation charge	3,822	3,953	7,836
Amortisation of intangible assets	1,975	1,189	2,656
Profit on disposal of fixed assets	(47)	(131)	(277)
Decrease/(Increase) in stock	1,762	1,502	(3,805)
Decrease/(Increase) in debtors	14,448	9,273	(715)
(Decrease)/Increase in creditors	(14,344)	(9,095)	7,780
Net cash inflow from operating activities	7,863	4,339	18,612

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 2004 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 policies 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 2004.

Deloitte & Touche LLP
Chartered Accountants
Reading
24 May 2004

Shareholder Information

Financial Calendar

Payment of 2004 interim dividend	2 July 2004
Announcement of 2004 preliminary results	November 2004
Annual General Meeting	January 2005

Corporate Website

Information about the Group's activities and financial information is available on the corporate website at www.rm.com. Other RM websites can be accessed at www.rm.com/company.

Investor Information

This is available via the Corporate website at www.rm.com/investors. Enquiries can be directed to Phil Hemmings, Director of Corporate Affairs and Investor Relations, at the address below.

Directors

J.P. Leighfield	Non-Executive Chairman
T.R. Pearson	Chief Executive Officer
M.D. Greig	Group Finance Director
R. Sirs	Executive Director
S.L. Coutu	Senior Non-Executive Director
T. Brighthouse	Non-Executive Director
B. Carsberg	Non-Executive Director
M. Tomlinson	Non-Executive Director
J.R. Windeler	Non-Executive Director

Company Secretary

A.J. Robson

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