



# RM plc

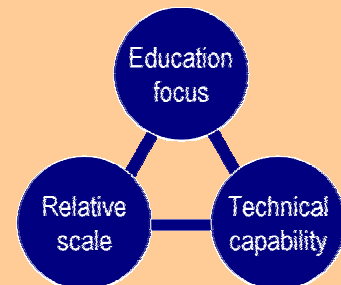
## IFRS transition

14 December 2005

Mike Greig – Group Finance Director

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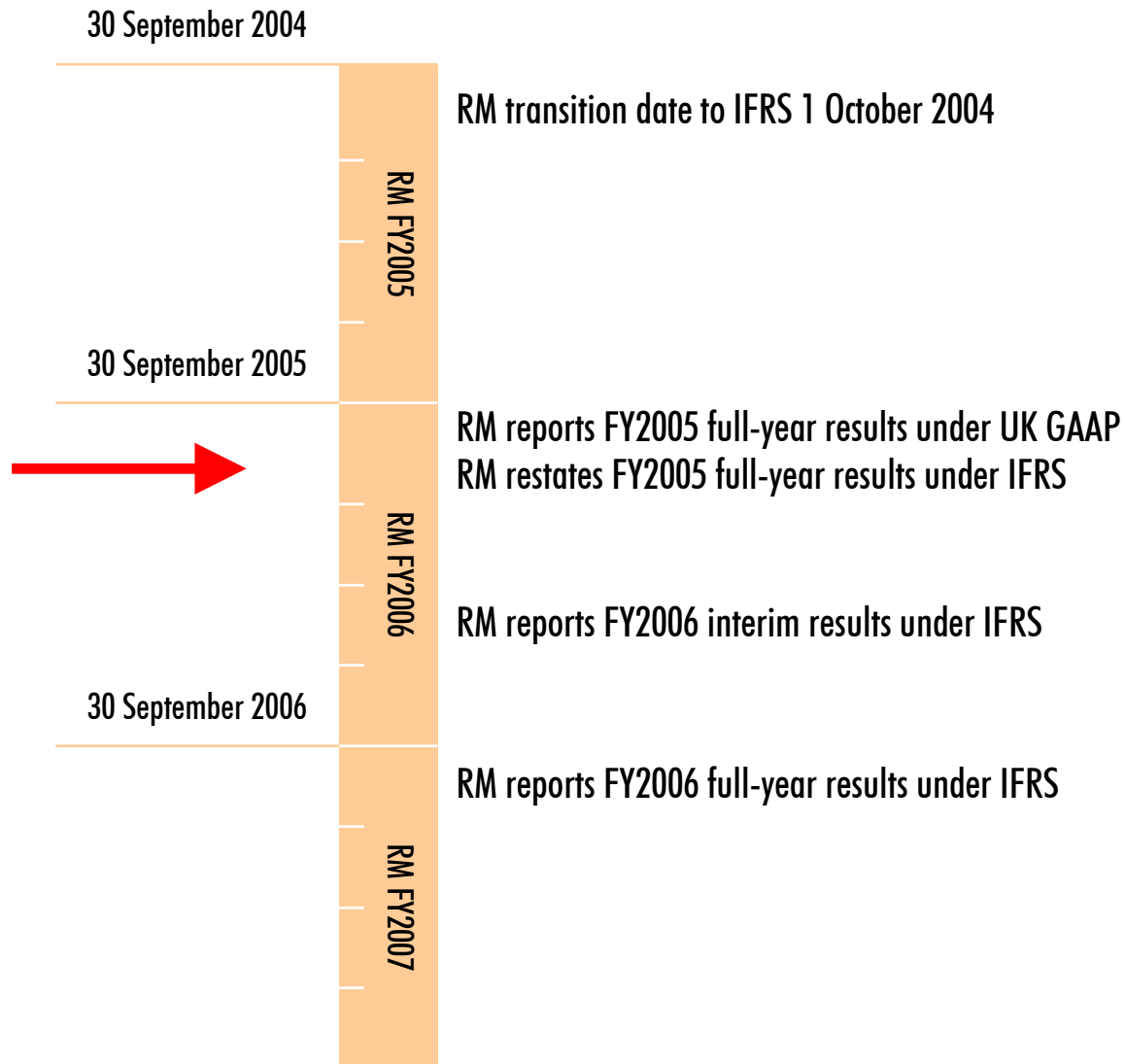
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# Headlines – FY2005

- Underlying business performance and cash flows unchanged
- Revenue unchanged at £262.7m
- Profit before tax and goodwill charges increases from £12.8m to £14.0m (9% increase)
  - Pension cost falls by £1.3m
  - Application of IFRS 2 (Share-based Payment) increases profit
  - No R&D capitalised
- Profit before tax increases from £5.5m to £11.5m (109% increase)
  - Goodwill amortisation ceases
- Diluted EPS before goodwill charges increases from 10.5p to 11.6p (10% increase)
- Net assets £38.2m compared to £38.5m

# IFRS timetable



# Basis of presentation

- **Based upon current understanding of IFRS**
  - EC still to endorse certain standards
  - New standards may be issued by 30 September 2006
  - Lack of established industry-specific practice
- **Key information restated now**
  - Further transitional information provided at time of FY2006 interim results announcement
- **Restatements are unaudited**

# Adoption choices

- **Share-based payments**

IFRS 2 applied to equity instruments granted post 7 November 2002

- **Employee benefits**

Adoption of 16 December 2004 amendment to IAS 19 allowing actuarial gains and losses to be presented in statement of recognised income and expenditure rather than using a corridor approach

- **Business combinations**

Combinations already recognised at 1 October 2004 have not had IFRS 3 retrospectively applied

- **Financial instruments**

IAS 32 and 39 not applied to periods prior to 1 October 2005

# Consolidated income statement

£'000	2005
<b>UK GAAP profit before tax</b>	<b>5,459</b>
add back goodwill amortisation	6,294
add back goodwill impairment	1,092
<b>UK GAAP profit before tax and goodwill charges</b>	<b>12,845</b>
Share based payment	14
Pensions	1,260
Holiday pay accrual	(122)
<b>IFRS profit before tax and goodwill charges</b>	<b>13,997</b>
Goodwill impairment	(2,469)
<b>IFRS profit before tax</b>	<b>11,528</b>

EPS	IFRS	UK GAAP
Basic	8.9p	2.3p
Diluted	8.9p	2.2p
Diluted – before goodwill charges	11.6p	10.5p

# Consolidated net assets

£'000	2005	2004
<b>UK GAAP net assets</b>	<b>38,515</b>	<b>40,601</b>
Dividends	3,399	3,195
Pensions (net of related tax)	(11,123)	(10,395)
Goodwill	4,917	-
Tax	1,236	821
Share based payment	2,331	1,328
Holiday pay liability	(1,027)	(906)
<b>IFRS net assets</b>	<b>38,248</b>	<b>34,644</b>

# Goodwill

## FY05 impact

Amortisation charge of £6.3m reduces to nil, resulting in increase in intangible assets (goodwill)

peakschoolhaus impairment charge increases from £1.1m to £1.2m, reflecting impairment of the balance at transition

Sentinel goodwill written down to £4.2m by an impairment charge of £1.2m (UK GAAP amortisation charge £1.2m)

## Future impact

Historic goodwill not amortised and subject to annual impairment review

Future acquisitions will involve the identification and evaluation of separate intangible assets in addition to goodwill

## Current policy

Goodwill is shown at cost less amortisation

Amortisation provided to write off cost over 5 years

Provision is made for impairment where appropriate

## IFRS policy

Goodwill is carried at transition value

Annual impairment review of carrying value, no goodwill amortisation

# Share based payments

## FY05 impact

0% of profit before tax

Income statement charge £1.13m – £14k less than UK GAAP charge

£0.27m charge for share options (new)

£0.77m charge for co-investment plan (£0.2m reduction from UK GAAP)

£0.09m charge for other schemes (£0.1m reduction from UK GAAP)

Since 2003 RM has used a co-investment scheme rather than share options for senior management

## Future impact

Dependent upon share price at grant, performance conditions, quantity of shares/options granted, historic share price volatility, leavers and exercise experience

## Current policy

Share options not expensed, as exercise price is set at market value at grant

Co-investment scheme shares expensed

## IFRS policy

Income statement charge at fair value for equity instruments granted to employees, including share options; co-investment plan; staff share scheme; and deferred bonus

# Pensions

## **FY05 impact**

Increase in liabilities of £11.1m being £15.9m pension liability net of £4.8m deferred tax asset, previously disclosed under UKGAAP

Reduced income statement charge at £2.1m (a reduction of £1.3m from SSAP 24 charge)

Income statement charge of £2.1m comprises £1.7m operating charge and £0.4m other finance charge

## **Future impact**

Balance sheet bears net of pension scheme assets and liabilities, with expected movements reflected in income statement and variations reflected in equity

## **Current policy**

Regular pension cost charged to the profit and loss at a substantially level % of current and future pensionable payrolls

Variations over regular pension cost allocated to the profit and loss over average remaining lives of the current members

Balance sheet shows the difference between the profit and loss charge and amounts paid to the pension fund

## **IFRS policy**

Assets and liabilities of the defined benefit pension scheme on balance sheet

Movements reflected in income statement and statement of recognised income and expenditure

# R&D

## **FY05 impact**

Nil – no project expenditure meeting recognition criteria:

- Technical feasibility
- Intention to use/sell
- Technical/financial resource to complete
- Future economic benefit
- Ability to use/sell
- Ability to measure expenditure reliably

Expensed if research phase cannot be distinguished from the development phase

Routine enhancements, modifications and on-going maintenance of existing products likely to be expensed

## **Future impact**

Project expenditure will continue to be reviewed against capitalisation criteria. Expenditure meeting the criteria will be capitalised and amortised over its expected useful life. Assets will then be subject to an annual impairment review

## **Current policy**

Expenditure is written off to the profit and loss account in the year in which incurred

## **IFRS policy**

Expenditure, including software development, meeting certain recognition criteria must be capitalised, amortised over its useful economic life and subject to impairment reviews

Industry practice on treatment has not yet emerged – RM view: technical feasibility is achieved when product enters validation

# Hedge accounting and inventory valuation

## **FY05 impact**

Nil – IAS 39 Financial instruments not adopted until 1 October 2005

## **Future impact**

Foreign exchange forward contracts will be reviewed for effectiveness in meeting hedge accounting requirements

Inventory purchases will no longer be accounted for at contracted exchange rates

Potential for short-term income statement volatility

## **Current policy**

Gains and losses arising on foreign exchange forward contracts are deferred until the hedged transaction is recognised

Inventory is recorded at rates in matched forward contracts

## **IFRS policy**

Hedging instruments are recorded at fair value. Movements on effective hedges deferred in reserves until inventory is received and taken to income statement thereafter. Movements on ineffective hedges taken to income statement immediately

Gains/losses deferred in reserves are recycled to the income statement when inventory is sold

Inventory receipts recorded at average exchange rates

# Other impact areas

- **Holiday pay accrual**

at 1 October 2004 and 1 October 2005 employees had on average 5 days of holiday accrued. IFRS requires a liability to be recorded for this entitlement. A liability of £0.9m was recognised at 1 October 2004 which increased by £0.1m to £1.0m at 1 October 2005, reflecting the increased payroll over this time

- **Dividends**

the final dividend is not accrued until approved, therefore not included within year end numbers. Distributions to shareholders are not recorded in the income statement. The FY05 impact is a reduction in creditors of £3.4m

RM plc distributable reserves £31.8m (UK GAAP £30.3m)

- **Taxation**

in addition to the deferred tax on the pension scheme liability, IFRS requires that deferred tax is provided on temporary differences which are expected to be recovered. £1.2m deferred tax asset recognised on share-based payment and holiday pay accrual balances

# Long-term contracts

- Accounting substantially unchanged under IFRS
- Pre-contract costs not taken to the balance sheet unless it is probable that the contract will be obtained

Accounted for in accordance with IAS 18 “Revenue” and IAS 11 “Construction contracts”:

- Revenue recognition based on the stage of completion of the contract
- Any expected contract loss recognised as an expense immediately
- Profit only recognised when “outcome of a contract can be estimated reliably”
- Thereafter profit recognised proportional to stage of completion based on expected outcome

# Disclosure

- **Form and elements of consolidated financial statements**

- Income statement

- Balance sheet

- Statement of recognised income and expenditure

- Cash flow statement

- Notes to the accounts

- **Segmental reporting**

- Primary reported segments unchanged:

- Infrastructure software and services

- Education software and services

- Hardware

# Conclusion

- No change to underlying business performance and cash flows
- Profit before tax and goodwill charges increases from £12.8m to £14.0m (9% increase)
- Benefits of forward-looking business management and accounting