

royalblue group plc

preliminary results for the year ended 31st December 2003

9th February 2004

royalblue reports recurring revenue of over 50% with improving sales. Special dividend proposed.

	2003	2002	change
Turnover	£56.5m	£57.0m	-1% (no change at constant exchange rates)
Operating profit	£7.8m	£8.2m	-5% (-2% at constant exchange rates)
Dividend per share for year	8.0p	5.3p	+51%
Special dividend	25.3p	Nil	
Cash balance	£28.5m	£22.7m	+26%

Highlights for the year ended 31st December 2003:

- Recurring revenue up 33% to £29.2 million.
- Recurring revenue now represents 52% of total revenue, up from 39% last year.
- **fidessa** contract worth \$24 million over three years signed with Merrill Lynch including support for market-making in NASDAQ listed securities.
- Substantial investment programme continuing in new products and services.
- Market conditions improving.
- Final dividend of 6.15p making 8.0p for the year, up 51% on 2002.
- Strong cash generation allowing payment of a special dividend of 25.3p, returning £8.0 million to shareholders.

Chief Executive, Chris Aspinwall, said:

“The improvements we saw in the capital markets towards the end of Q2 have continued for the rest of the year and this has resulted in improved sentiment within our customer base and increased levels of sales activity. The recovery we have seen has centred on the US and UK markets but we have also seen signs of improvement in Asia and mainland Europe.

Throughout 2003 we have continued to make progress in moving our business model away from more variable consultancy revenue towards the more consistent and predictable recurring revenue generated by our **fidessa** services. Revenue from these sources has increased by 33% compared to last year, and recurring revenue now represents 52% of our overall revenue. As expected, consultancy revenue came under continued pressure and is down 25% on last year. However, cost control has been tightened, with costs down 2% on last year after excluding £0.8 million allocated to development of the new **fidessa workstation** business. We believe that it is possible that we will see a further fall in consultancy revenue in 2004 but expect that the extent of this fall will be less than we saw in 2003.

Sales of our **fidessa** products continued strongly and included the signing of a \$24 million deal with Merrill Lynch, extending their global use of **fidessa** and including support for their US domestic trading flows for three years. This is another endorsement of the strength of our product set in the US domestic market and another

milestone as we establish **fidessa** as the industry standard for US domestic trading. Our service-managed **fidessa** business (**fidessaNet**) has also progressed well with a total of 22 new customers signing to take the service compared to a total of eight new signings in the previous year. These signings include our first conversion of a large enterprise **fidessa** system to our service-managed offering as well as our first sale of the service-managed offering in France. Our US service-managed **fidessa** business has now achieved monthly break-even as planned and we expect this business will be profitable in 2004.

Our new **fidessa workstation** product has made good progress since its launch at the end of Q1, with nearly 400 positions already in use and substantially more scheduled to go live over the next few months. An upgrade to this product during Q4 added the transactional side (ability to enter and execute orders securely). We are continuing with aggressive growth plans for this product, which will involve increased investment to provide data from many more markets as well as connectivity to our **fidessaExpress** network. We believe that the combination of our market workstation and access to global market data working alongside our existing transactional services business will prove a powerful combination in allowing both buy-side and sell-side firms to have improved access to liquidity and order flow.

The business has continued to be highly cash generative with cash balances increasing to £28.5 million at the year end. The Board expects that the business will continue to generate cash for the foreseeable future and believes that the balance sheet is more than strong enough to allow the company to fund any likely small acquisition as well as to give potential customers confidence in the company's financial strength. For this reason the Board has decided to propose an enhanced annual dividend by paying a final dividend of 6.15p. In addition the Board is also recommending a special dividend of 25.3p which would return £8.0 million of the cash balance to shareholders.

Looking ahead we are continuing with our investment programme as we develop our franchise in connectivity services. This will mean a further period of significant investment as we develop our strategies around **fidessaExpress**, **fidessa workstation** and the remote broker network. In addition to the software development, we expect further costs of £1.1 million in 2004 as a direct result of the investment in the infrastructure, exchange agreements and the specialist staff required for these initiatives.

In the markets we expect that we will see an easing of the difficult trading conditions which have characterised the last three years, although we still expect conditions to remain tough into the first half of 2004. Also, because the implementation period for many of our products is several months, there will be a time lag before increased sales activity filters through into additional rental revenue for **royalblue** and this will continue to affect **royalblue**'s revenue into 2004. However, we believe that a return to growth of both revenue and profit will be possible for the year as a whole. We also believe that this growth will continue to be led by substantial growth in high quality recurring revenue from our **fidessa** services and we expect to see growing momentum developing as a result of our new propositions and in particular our **fidessaExpress** connectivity business.

Finally, I would like to extend our thanks to all of **royalblue**'s employees for all their efforts during 2003. It is their dedication and innovation that has enabled us to enter 2004 with an exciting range of new products that we believe will provide a sound basis for long-term growth."

Financial Summary

Revenue has decreased by 1% to £56.5 million (2002 £57.0 million) with **fidessa** licence rental revenue growing by 32%, service-managed **fidessa** revenue growing by 77% and consultancy revenue declining by 25%. The quality of revenue continues to strengthen with the recurring revenue from licence rentals, service-managed delivery, workstation and maintenance now accounting for 52% of the total, up from 39% in 2002 and 26% in 2001. Overseas revenue now accounts for 58% of the total, with the US being the largest element accounting for 42% of revenue.

Operating profit before exceptional items decreased 5% to £7.8 million (2002 £8.2 million), achieving an operating margin of 13.8% (2002 14.4%). In the year we launched the **fidessa workstation** incurring £0.8m of expenditure on the business development of this new revenue stream. Excluding this cost of investment in the new **fidessa workstation** business, our costs have decreased by 2%. In 2003 there was considerable volatility in foreign currency exchange rates. Their impact on **royalblue** has been limited due to the natural hedge of costs incurred in the same currency that revenue is generated in. At constant exchange rates for the year our revenue would have been £0.3 million greater and our operating profit £0.2 million greater. In July we received the second £0.5 million of loan note repayment from Touchpaper, the help desk business divested in 2001. The loan note had been written off at the time of the divestment and so the receipt is a gain in the year and is treated as an exceptional item. Interest income has grown to £1.1 million, from £0.6 million, being boosted by the larger cash balances and £0.4 million (2002 £0.2 million) from interest receipts on the Touchpaper loan notes.

The overall effective tax rate for the year is 20.4% (2002 20.2%). However, this includes items that will not recur or are unpredictable year to year, and the effective tax rate adjusted in the same manner as earnings per share is 31.0% (2002 29.9%). The tax rate has benefited from tax incentives in New York following the World Trade Center disaster, R&D tax credits in the UK and statutory deductions for share options exercised by employees. The R&D tax credits and the statutory deductions for share options will continue to benefit future years. However, the value of the statutory deductions for share options will be unpredictable year to year and has been excluded from the adjusted earnings per share. The diluted earnings per share adjusted to exclude exceptional items and tax deduction for share options exercised by employees decreased by 3% to 19.2p (2002 19.7p).

The cash balance increased in the year to £28.5 million from £22.7 million. Of this increase, £5.3 million was generated from normal activities and £0.5 million arose from the exceptional loan note repayment. The cash generated from normal activities was achieved after spending £3.0 million (2002 £1.8 million) on capital expenditure, £1.7 million (2002 £1.5 million) on dividends and £2.7 million (2002 £2.8 million) on corporation tax.

Due to the level of the cash balances in the business, the Board has reviewed the dividend policy and is proposing an enhancement to the annual dividend rate. The Board is recommending a final dividend of 6.15p per share so that the total dividend per share for 2003 amounts to 8.0p, an increase of 51% over the total dividend per share for 2002. The Board expects to maintain the dividend cover at around this level in the future. In addition to the final dividend the Board is recommending a special dividend of 25.3p per share, returning £8.0 million of the cash balance to shareholders. Subject to shareholder approval, the final dividend and the special dividend will be paid on 7th June 2004 to shareholders on the register on 7th May 2004.

Operations

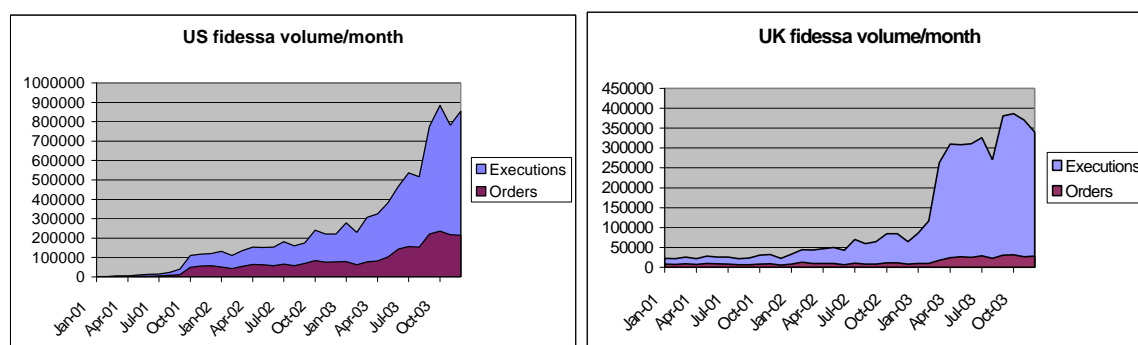
Introduction

Despite difficult market conditions in 2003, we have continued to make good progress in our core business, accelerating our development programme and launching a number of exciting new products. These products expand our offerings across the whole range of our activities and include **fidessa workstation**, **fidessa BEAM** (our basket execution and management product), **DANA** (Data Access for North America), **CAMA** (Canadian Market Access) and **fidessaExpress**, our global connectivity network.

Sales of our US domestic trading solutions have continued strongly, culminating in the signing of a \$24 million deal with Merrill Lynch, of which \$9.5 million reflects the investment in the new US domestic system. This high profile deal affirms **fidessa** as the clear market leader for US domestic trading and **royalblue** will be working closely with Merrill Lynch to ensure that the lead **fidessa** has established is maintained. In addition to the deal with Merrill Lynch we have also signed 10 new deals for service-managed **fidessa** systems. This is double the number of deals signed in the US in 2002. As a result our share of the US market is increasing and we estimate that in 2003 a little over 5% of US domestic OTC (NASDAQ) share volumes passed through **fidessa** systems.

We expect this percentage to rise as we progress towards establishing **fidessa** as the de facto standard for US domestic equity trading.

In Europe we have signed a further 12 new deals for service-managed **fidessa** systems compared to 3 last year. This includes one with CDC IXIS Securities for an implementation based in Paris, which represents our first service-managed **fidessa** deal in mainland Europe. It also includes the first deal we have signed in the UK to move an enterprise customer across to our service-managed model. This customer, who used to run a large **fidessa** implementation in-house, has now outsourced the running of the entire system to royalblue whilst maintaining the flexibility that is essential to a large trading operation. In addition to the growth in the number of customers signing for our service-managed **fidessa** solution, we are also seeing a marked increase in the volume of orders and executions flowing through the service. This has been particularly true of executions, which rose sharply with the go live of systems supporting the wholesale business. As a result the peak number of executions processed by the **fidessa** service in one month rose to nearly 1.3 million, up from 325,000 last year.



In both the US and Europe we are seeing an increasing convergence of our enterprise business (where large systems are typically managed in-house by our customers) and our service-managed offering. This is being driven by a number of considerations including the costs our customers incur in managing the increasingly complex infrastructure required to support a modern trading operation combined with the increasing level of sophistication royalblue is able to offer through service-managed **fidessa**. As a result the structure of our business is gradually adapting as we put facilities in place to best service these new requirements.

Europe

In Europe we have seen continued focus from clients on the automation of the complete lifecycle from Indications of Interest (Iols), through Order Processing to Trade Adverts (TAs). As a result the number of destinations, including both direct and indirect networks, has continued to grow, resulting in more pressure to automate more of the business process flows. This has benefited our new **fidessaExpress** offering which went live during the first half of 2003.

fidessaExpress is now firmly established in both London and New York and the latest release is being deployed to facilitate connectivity to a number of remote brokers over FIX (the industry standard Financial Information eXchange protocol). During the second half, royalblue has focused on encouraging firms to use **fidessaExpress** as a connectivity solution to provide access to remote markets where they do not have their own memberships. This is a critical activity within our strategy in order to gain critical mass as an inter-broker medium as well as a buy-side to sell-side connectivity solution. We have now signed contracts to provide access to 10 markets through three brokers in this way, which we believe will be a key milestone in establishing this critical mass.

The new **fidessaExpress** Iol and TA service has also gone live managing the delivery of Iols and TAs to buy-side clients over the third party networks from Bloomberg, Autex and Thomson Financial. This service allows Iols and TAs to be managed directly from the orders and trades flowing through **fidessa**.

The **fidessa workstation** has been rolled out to 24 customers providing London market data, news, company fundamentals, alerting and charting. The clients who have selected the **fidessa workstation** come from a wide market segment covering both the buy-side and sell-side and include integrated houses, retail brokers, institutional brokers, market-makers, corporate finance, IDBs, fund managers and asset managers. The latest release of the workstation, which was delivered in Q4, also provides access to RSPs (Retail Service Providers) and the London SETS market, enabling users to trade on the market as well as viewing the market data.

Significant further development of the **fidessa workstation** is planned during 2004 including the addition of new modules targeted directly at the buy-side audience, the addition of buy-side order entry functionality coupled with links across the **fidessaExpress** network and Direct Market Access (DMA) for non-members over the **fidessaExpress** remote broker network.

During the second half of 2003 we started a strategic initiative to become a pan-European data vendor, which in addition to allowing expansion of the **fidessa workstation** is also a prerequisite for the implementation of a remote broker network. This is a significant development but by leveraging our core real-time technology we expect to start delivering level 1 (best bid and offer prices) and stock data, for all major European markets, from our central price service in Q1 of 2004. We expect to extend the service to deliver level 2 data (details of all orders and quotes on the market for a particular stock) across European markets by Q3 of 2004.

As we release these new services they will integrate in the same way as our existing products to form one seamless offering. As a result we will be able to provide a single suite of applications delivering full management of the order and trading workflow, integrated access to market data for member firms and non-member firms alike and access to any brokers or buy-side firms connected to **fidessaExpress**. Non-member firms will be able to view market data from our central price server and execute on the market by routing orders to brokers over **fidessaExpress**. This integrated offering will be a unique and valuable proposition and will provide functionality we believe others in the market will struggle to match.

During 2003 we have continued to see evolution of the exchange systems with major upgrades for the London Stock Exchange (SETS v6.1) and Deutsche Börse (Xetra Central Counter Party) being implemented across the customer base. Major upgrades were carried out to core systems for seven of our customers with earlier versions of **fidessa** being updated to the latest releases. This included another licence conversion transferring a one-off licence sold prior to 2000 to the new rental model. These upgrades benefit our customers through access to new functionality and ensure that their **fidessa** systems do not become legacy. It also benefits **royalblue** in ensuring that its customer base is able to take advantage of the new services it offers as well as reducing the maintenance cost of the systems.

We have also seen a continued extension of the use of **fidessa** within some of our largest customers and this reflects the benefit these customers are able to derive from an integrated solution. Examples of these are:

- One customer has upgraded to **EMMA** (European Multi-Market Access) V5 as a result of needing high performance to support a new DMA (Direct Market Access) business.
- One major bank has migrated from a strategic, internally developed, order management system to **fidessa**. This new **fidessa** implementation will provide electronic connectivity directly to over 100 of the bank's clients.
- Another major bank has consolidated all of its Paris systems and business onto **fidessa**.
- Several major banks have replaced other vendors used for European market access in favour of a single **fidessa** solution.
- Many customers have extended their buy-side connectivity through **fidessaExpress**.

During the year, the majority of **fidessa** customers whose rental or service contracts have expired have renewed them. However, two smaller service-managed **fidessa** customers have ceased use of the service, as they no longer have significant equity trading operations.

North America

In North America, we have continued to make good progress with revenue increasing by 29%. We signed our largest US domestic order to date with Merrill Lynch who have now standardised on **fidessa** as their global securities trading platform. Our **fidessaMontage** product, which allows traders to access a wide variety of liquidity pools whilst fully integrating with internal order management, coupled with our market leading support for the US listed market (NYSE) were instrumental in winning this deal.

In addition, we have signed a further 10 orders for our US domestic service-managed **fidessa** offering and have a strong pipeline of prospects going forward. One of these orders was for Brokerage America, a wholesaler and one of the largest NASDAQ market-makers, making a market in over 3,000 securities. This system is the largest service-managed **fidessa** system implemented to date and is sized to handle execution volumes peaking at over 75,000 orders per day. The new **fidessa** V5 architecture was essential to ensure that this system could meet and exceed the volume expectation of this client. We have also succeeded in closing our first licence conversion, upgrading one of our earliest customers in the US to the new **fidessa** V5 platform and switching them across from their original one-off licence to the new rental licence model.

The first version of our Basket Execution and Management (**BEAM**) application was released in Q4. This has been very well received across the markets not only for execution of baskets but also for management of single stock trading. **BEAM** leverages the **fidessa** order management platform and is the first program trading application in the market to provide this level of tight integration with order management. This is a particular advantage when trading baskets across multiple markets as **fidessa**'s order management allows seamless control of orders across the markets and this is exploited by **BEAM** to allow baskets to be managed seamlessly in the same way. We have already received our first US order for **BEAM** and expect the pipeline to continue to grow.

Our new products have worked well in giving us a unique offering and the ability to roll up several disparate functional areas into a single integrated solution. We have seen an example of this at Harris Nesbitt Gerard where a single **fidessa** implementation has been selected to replace four individual systems currently used by the client. The systems replaced are their current OTC (NASDAQ) order management system, their listed (NYSE) order management system, their quote management system and their buy-side connectivity solution. We are seeing more of this across the business where existing **fidessa** customers are now taking additional **fidessa** services (such as IMAR – Indications of Interest Management) to replace other systems that were not previously integrated into their business flows. The use of a single **fidessa** solution in place of disparate systems not only provides customers with a much more integrated solution but also one which is much more cost effective and easier to support going forward.

Our **CAMA** product was released during the year and is now in production with one of the largest brokers on the Canadian markets supporting interfaces to the two Toronto based markets (TSX and TVX). Our development of Canadian market support leaves us well placed to benefit from closer integration of the US and Canadian markets. A number of US and Canadian firms have announced intentions to merge and the Toronto Stock Exchange has announced that it will implement a US\$ book. We expect this to lead to more cross border trading which **fidessa** will be ideally placed to provide.

Our **DANA** product was also delivered during the year providing the first release of our market data services in New York. **DANA** now delivers level 1 pricing for the NASDAQ, NYSE and Pinksheet markets. **DANA** will be enhanced during the year to provide broader data coverage including level 2 data on NASDAQ. **DANA** is also the first **fidessa** product to go live running entirely on the Linux platform. **DANA** was chosen as the first

application to be developed using parts of the new **fidessa** Linux infrastructure because of the large amount of processor power required to process the volumes of data coming from the US markets.

As a result of the general financial instability of communications and data centre providers we started a migration programme in 2002 to build and operate our own data centre and resilient communications network in the US. This programme is now complete. The new data centre, based in New York City, is fully operational and customers have been migrated across to this new centre. In addition, the majority of existing **fidessa** customers (and all new customers) are now operating on our own managed communication service. Our former primary data centre based in New Jersey is now our backup data centre and our former backup data centre on Long Island has been closed. An additional data centre is planned in the US for 2004 to provide further expansion capacity and disaster recovery facilities.

In the US market we continue to see an evolution of the trading model as firms adapt to SuperMontage and recognise that there is no longer a best price from a single exchange. This has occurred as a number of the ECNs (Electronic Communication Networks) have decided not to participate in SuperMontage. In addition, there is a growing drive to combine listed and OTC trading onto the same desk and this benefits **royalblue** as one of the first providers of a fully integrated trading product for both markets. NASDAQ and the ECNs have also started to aggress the NYSE space exploiting the vulnerability of NYSE caused by recent events.

royalblue was voted the best vendor in the sell-side Order Management System category in an independent survey carried out by Risk Waters magazine, a specialist publication focusing on the US securities industry. According to Risk Waters, the vote "justifying the company's claims that its **fidessa** system is now the market-leading trading system chosen by a majority of the world's top-tier investment firms". This survey was focused specifically on US domestic trading products, and **royalblue**'s win underlines the progress being made in establishing **fidessa** as the de facto standard for US domestic trading.

Asia

Trading conditions throughout Asia were extremely difficult in the first half of 2003. As a result of these conditions, **royalblue** reduced its headcount in its Hong Kong office to ensure that costs remained aligned with expected revenue from the installed customer base. In the second half we have seen an improvement across the region and particularly in Japan.

In Hong Kong our primary focus has continued to be to help customers reduce the costs associated with handling order flow and providing support for the Australian markets, which have been amongst the best performing markets in the region in 2003. This has manifested in a number of initiatives looking at the use of FIX to make connectivity easier between the buy-side and the sell-side and in providing direct connectivity to the Australian exchange.

In Japan renewed market activity has stirred interest in re-evaluating the benefits of retiring older domestic systems, many of which are around 5 or more years old. These systems, although functionally rich, are struggling with the additional volumes and suffering from increasingly high maintenance costs. We have continued with localisation of the product providing Japanese language versions, Japanese trade reporting models and a Japanese market-making product. We have also heightened our market profile through a number of seminars and trade shows, which have extended our contacts in the Japanese domestic market. As a result we have signed a substantial order with Shinko Securities, one of the top five domestic brokerages, for a **fidessa** system to support their local trading requirements. Shinko is affiliated with Mizuho Securities (an existing **royalblue** customer and the largest domestic brokerage) and the deal with Shinko reflects Mizuho's view that **fidessa** is the best and most scalable trading platform in the Japanese market.

As trading systems in Asia are typically used on exchanges for multiple asset classes including cash equity, equity derivatives and convertible instruments with equity underlying, **royalblue** has continued to invest in the development of support of equity derivatives. Further product releases are planned in 2004 which will extend

support for derivatives still further.

During 2003 we have seen a retraction of foreign members (European and US investment banks) from the Japanese market but this has been balanced by some growth amongst the domestic firms. This, coupled with the go-live of our order management product, **OMAR V5**, and the continuing expansion in pan-Asian trading out of Japan has meant that overall we have seen a slight increase in the total number of **fidessa** users in the region. Overall, our continued investment in the region coupled with the growth of transaction volumes in the Japanese market continues to leave us well positioned for an eventual recovery in the Asian markets.

Lava Patent Lawsuit

In June 2003 we noted the announcement released by Lava Trading Inc. that it had filed a patent infringement claim in the US against **royalblue**. The patent relates to the concept of displaying prices from more than one source (ECN) on a single screen in the US. In December 2003 Lava filed an amendment to its lawsuit alleging unfair trade practices on the part of **royalblue**, in particular in relation to the pricing of products and associated services. **royalblue** has been advised by its legal advisers that amendments of this nature are not uncommon in patent infringement cases.

Based upon the legal advice it has received, **royalblue** continues to believe that Lava's claims are totally without merit. While **royalblue** cannot predict the outcome of the Lava lawsuit, it intends to vigorously defend against both the original and the amended lawsuit.

Outlook

Looking ahead, we expect that we will see an easing of the difficult trading conditions which have characterised the last three years although we still expect conditions to remain tough in the first half of the year. Also, because the implementation period for many of our products is several months, there will be a time lag before increased sales activity filters through into additional rental revenue for **royalblue** and this will continue to affect **royalblue's** revenue into 2004. However, we are continuing to develop an unprecedented number of new products across the whole range of our business and still believe that our strategy of offering an integrated platform combining trading services (transactional), market data and connectivity will prove a unique and valuable proposition in the global trading markets. The success of this range of services will continue to ensure that we experience strong growth in recurring revenue with the increased stability that this provides. As noted at the half year, we believe that the consultancy business in our sector has changed permanently and that our business model will further encourage this change. As a result we believe we may see a further decline in consultancy revenue in the first half of 2004 although we expect this to be less severe than that experienced in 2003. Overall, we anticipate that a return to growth of both revenue and profit will be possible for the year as a whole.

We will continue our product development programme, and will maintain the investment in our core product set so that we can continue to bring more and better products to market. In addition, we will continue with more business expansions, such as the **fidessa workstation**, **fidessaExpress** and the market data initiatives, which move us into new market areas. These developments may take the form of an acquisition or, alternatively, as with our workstation, where we can achieve better results or offer better value through direct development, we will use this approach.

Overall, we still believe that we are exceptionally well positioned within a dynamic and long-term market and that the unique proposition and business model **royalblue** has developed will continue to provide a strong basis for long-term growth.

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Consolidated Profit and Loss Account

for the year ended 31st December 2003

	Note	2003 £'000	2002 £'000
Turnover	3	56,489	57,006
Operating profit	4	7,822	8,226
Exceptional items			
Sale of associated undertaking	6	-	3,683
From sale of operation discontinued in 2001	6	500	500
		-----	-----
Profit on ordinary activities before interest		8,322	12,409
Net interest receivable		1,103	610
Income from other fixed asset investment		-	39
		-----	-----
Profit on ordinary activities before tax		9,425	13,058
Tax on profit on ordinary activities		(1,920)	(2,638)
		-----	-----
Profit for the financial year		7,505	10,420
Dividends paid and proposed	7	(10,519)	(1,591)
		-----	-----
Retained (losses)/profits for the year		(3,014)	8,829
		-----	-----
Earnings per ordinary 10 pence share			
	8		
Basic – adjusted to exclude exceptional items and tax deduction for share options exercised by employees		20.1p	21.2p
Diluted – adjusted to exclude exceptional items and tax deduction for share options exercised by employees		19.2p	19.7p
Basic – total operations		24.5p	35.4p
Diluted – total operations		23.4p	32.9p

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31st December 2003

	2003 £'000	2002 £'000
Profit for the financial year	7,505	10,420
Differences on exchange on re-translation of net assets of overseas undertakings	(584)	(376)
Prior year adjustment (adoption of FRS19: deferred tax)	-	1,033
	-----	-----
Total recognised gains and losses	6,921	11,077
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Consolidated Balance Sheet

at 31st December 2003

			2003	2002
	Note	£'000	£'000	£'000
Fixed assets				
Tangible fixed assets		4,945	4,705	
Investments		2,130	2,196	
			7,075	6,901
Current assets				
Debtors	9	15,930	14,761	
Cash and short-term investments		28,498	22,676	
		-----	-----	
		44,428	37,437	
Creditors: amounts falling due within one year	10	(27,456)	(16,799)	
Net current assets			16,972	20,638
			-----	-----
Total assets less current liabilities			24,047	27,539
Creditors: amounts falling due after more than one year			(392)	(442)
Net assets			----- 23,655	----- 27,097
Capital and reserves				
Called up share capital			3,268	3,142
Share premium account			11,610	11,580
Profit and loss account			8,777	12,375
Total equity shareholders' funds	11		----- 23,655	----- 27,097

Consolidated Cash Flow Statement

for the year ended 31st December 2003

			2003		2002
	Note	£'000	£'000	£'000	restated £'000
Net cash inflow from operating activities	12		11,554		11,957
Returns on investments and servicing of finance					
Interest received		1,090		632	
Interest paid		(1)		(22)	
Income from other fixed asset investments		-		39	
Net cash inflow from returns on investments and servicing of finance			1,089		649
Tax					
United Kingdom tax paid		(678)		(1,378)	
Overseas tax paid		(1,946)		(1,403)	
Tax paid			(2,624)		(2,781)
Capital expenditure and financial investments					
Purchase of tangible fixed assets		(3,027)		(1,779)	
Purchase of own shares by Share Bonus Trust		(345)		-	
Sale of tangible fixed assets		32		50	
Sale of own shares held by Employee Benefit Trust		411		155	
Sale of fixed asset investment	6	-		3,683	
Repayment of loan notes	6	500		500	
Net cash (outflow)/inflow for capital expenditure and financial investments			(2,429)		2,609
Equity dividends paid			(1,651)		(1,452)
Net cash inflow before use of liquid resources and financing			5,939		10,982
Management of liquid resources					
Cash taken off/(placed on) deposit			656		(128)
Financing					
Share options exercised			156		96
Increase in cash			6,751		10,950

Notes

- 1 The results for the years ended 31st December 2003 and 31st December 2002 are extracted from the audited accounts of royalblue group plc on which the auditors have issued an unqualified opinion which did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.
- 2 The audited accounts for the year ended 31st December 2002 have been delivered to the Registrar of Companies. The Annual Report and Financial Statements for the year ended 31st December 2003 will be mailed to shareholders on 1st March 2004 and will be delivered to the Registrar of Companies following the Annual General Meeting which will be held at 10.00 am on Tuesday 27th April 2004 at 2 Suffolk Lane, London. Copies will be available to the public at the Company's registered office, Dukes Court, Duke Street, Woking, Surrey GU21 5BH.
- 3 Turnover is analysed by geographical destination as follows:

	2003	2002
	£'000	£'000
United Kingdom	23,482	26,534
USA and Canada	23,733	18,465
Continental Europe	2,833	3,755
Rest of World	6,441	8,252
	-----	-----
	56,489	57,006
	-----	-----

4 Operating profit

	2003	2002
	£'000	£'000
Turnover	56,489	57,006
Cost of sales	-	55
Staff costs – salaries	28,324	29,556
Staff costs – social security	2,662	2,780
Depreciation	2,535	2,876
Auditor's remuneration for the company	33	28
Auditor's remuneration for other companies in the group	106	82
Fees paid to auditor for non-audit related work	136	66
Other operating leases	74	37
Loss/(profit) on sale of tangible fixed assets	2	(7)
Exchange losses	164	394
Other operating expenses	15,434	13,776
Other income	(803)	(863)
	-----	-----
Operating expenses	48,667	48,780
	-----	-----
Operating profit	7,822	8,226
	-----	-----

5 Staff numbers

The average number of people employed by the group, including executive directors, during the year was as follows:

	2003	2002
	Number	Number
United Kingdom	303	324
USA	141	145
Continental Europe	1	1
Rest of World	33	46
	-----	-----
	478	516
	-----	-----

The number of people employed by the group, including executive directors, at the end of the year was as follows:

	At 31 st December 2003 Number	At 31 st December 2002 Number
United Kingdom	290	312
USA	144	141
Continental Europe	1	1
Rest of World	30	44
	-----	-----
	465	498
	-----	-----

6. Exceptional items

In July 2001 the royalblue technologies help desk and rostrvm business was divested, the business subsequently changing its name to Touchpaper. As part of the transaction Touchpaper issued to royalblue 'B' Loan Notes with a principal amount of £3,802,245 in order to re-finance inter-company facilities and 'A' Loan Notes with a principal amount of £897,755 to provide additional working capital. The 'B' Loan Notes are unsecured and repayable first and the 'A' Loan Notes are secured by way of a fixed and floating charge over the assets of Touchpaper. The value of the unsecured loan notes, as well as the shares and warrants, received from the divestment will not be recognised in the balance sheet until there is evidence that they will be redeemed or repaid within a reasonable period. During the year the second scheduled repayment of the unsecured loan occurred and provided an exceptional gain of £500,000. The first scheduled repayment of the unsecured loan had occurred in 2002 providing an exceptional gain of £500,000 in that year.

On 4th July 2002 the Group disposed of its trade investment in ICIS Technology Limited. ICIS was formed in 1989 as an operating division of royalblue. Following a strategic review of its operations in 1992, royalblue divested the business by means of a buy-out, backed by the ICIS management team, and retained a minority shareholding. Since that date royalblue had no operational involvement in the business and treated its holding as a trade investment at cost. The disposal generated an exceptional profit of £3,683,000 in 2002.

7 Dividends paid and proposed

	2003 £'000	2002 £'000
Increase in final dividend for prior year	9	3
Interim dividend of 1.85p (2002 1.75p)	569	516
Final dividend of 6.15p (2002 3.55p)	1,944	1,072
Special dividend of 25.3p (2002 nil)	7,997	-
	-----	-----
	10,519	1,591
	-----	-----

8 Earnings per share

Earnings per share have been calculated in accordance with Financial Reporting Standard 14 'Earnings Per Share', by dividing profit attributable to shareholders by the weighted average number of shares in issue during the year. Adjusted basic and diluted earnings per share are presented to provide more comparable and representative information on the performance of the business excluding the exceptional gains. The diluted earnings per share have been calculated using an average share price of 373p (2002 387p) for the year.

	2003	2002
	£'000	£'000
Profit attributable to shareholders	7,505	10,420
Tax deduction for share options exercised by employees	(845)	-
Exceptional items after tax		
- repayment of loan note written off in a previous period	(500)	(500)
- profit on sale of associated undertaking	-	(3,683)
	-----	-----
Adjusted profit attributable to shareholders	6,160	6,237
	-----	-----
	2003	2002
	Number '000	Number '000
Average number of shares in issue	31,817	30,650
Average number of shares held by the employee trusts	(1,185)	(1,249)
	-----	-----
Shares used to calculate basic earnings per share	30,632	29,401
Dilution due to share options	1,375	2,238
	-----	-----
Shares used to calculate diluted earnings per share	32,007	31,639
	-----	-----

9 Debtors

	2003	2002
	£'000	£'000
Trade debtors	10,366	10,335
Amount due from subsidiaries	-	-
Other debtors: amounts falling due within one year	425	1,034
Other debtors: amounts falling due after more than one year	898	898
Corporation tax recoverable	1,424	251
Deferred tax (a)	1,198	789
Prepayments	1,438	1,131
Accrued income	181	323
	-----	-----
	15,930	14,761
	-----	-----

10 Creditors – amounts falling due within one year

	2003	2002
	£'000	£'000
Trade creditors	1,425	1,726
Amount due to subsidiaries	-	-
Dividend payable	9,941	1,072
UK corporation tax	2,540	1,783
Overseas corporation tax	588	430
Deferred tax	-	6
Other taxes and social security	1,301	1,096
Accruals and other creditors	5,457	5,482
Deferred income	6,204	5,204
	-----	-----
	27,456	16,799
	-----	-----

11 Reconciliation of movements in shareholders' funds

	2003	2002
	£'000	£'000
Profit for the financial year	7,505	10,420
Dividends paid and proposed	(10,519)	(1,591)
	-----	-----
Retained (loss)/profit for the year	(3,014)	8,829
Other recognised losses relating to the year	(584)	(376)
Share capital on share options exercised	126	96
Share premium on share options exercised	30	1,627
Transfer in respect of issue of shares to employee trusts	-	(1,627)
	-----	-----
Net (decrease)/increase in shareholders' funds	(3,442)	8,549
Opening shareholders' funds	27,097	18,548
	-----	-----
Closing shareholders' funds	23,655	27,097
	-----	-----

12 Reconciliation of operating profit to net cash inflow from operating activities

	2003	2002
	£'000	£'000
Operating profit	7,822	8,226
Depreciation charges	2,535	2,876
Loss/(profit) on sale of tangible fixed assets	2	(7)
(Increase)/decrease in debtors	(116)	1,212
Increase/(decrease) in creditors	1,311	(350)
	-----	-----
Net cash inflow from operating activities	11,554	11,957
	-----	-----