

royalblue group plc - final results

preliminary announcement for the year ended 31st December 2002

royalblue reports organic growth in difficult market conditions with major new deals signed.

Highlights

- revenue increased to £57.0 million from £56.2 million*.
- **fidessaNet** service rental revenues up 130% to £4.4 million, **fidessa** software product rentals up 73% to £12.4 million.
- recurring revenue up 51% to £22.0 million representing 39% of total revenue (2001: 26%).
- pre-tax profits (pre-exceptional gains) up 6% to £8.9 million (2001: £8.4 million*).
- diluted earnings per share increased 11% to 19.7p, from 17.8p*.
- dividend per share increased to 5.3p from 4.8p*, up 10%.
- major new orders signed with Bear Stearns & Co. Inc. and Royal Bank of Canada for US domestic (OTC) trading systems.
- 8 **fidessaNet** orders signed.
- substantial ongoing investment in product development, 18% of staff dedicated to this activity.
- launch of the new **fidessa** workstation and connectivity strategy.
- strong cash generation with balances nearly doubling to £22.7 million.

Reviewing 2002, Chief Executive, Chris Aspinwall, said:

“2002 was an extremely challenging year for both the financial and technology sectors. Despite the market conditions, we have made progress with revenues, operating profit and EPS increasing over last year. The shift in the profile of our business noted in the first half continued into the second half of 2002. As a result, we have experienced a reduction in consultancy revenue of just under 7% whilst combined **fidessa** rental fees and **fidessaNet** service fees have increased by 85% in aggregate. As a result, recurring revenues continue to represent an increasing proportion of our business at 39%, up from 26% last year.

* In order to bring clarity to the performance of the continuing business of the Group the table above excludes the results of royalblue technologies which was divested on 16th July 2001. The full Consolidated Profit & Loss Account can be found on page 11 of this announcement.

The business has remained strongly cash generative during the year with cash balances nearly doubling to £22.7 million. Of this increase, £4.2 million was attributable to the sale of our holding in ICIS Technology Limited and loan note repayment from our divested help desk business, Touchpaper Limited. The Group remains debt free.

Despite the market conditions, we have continued to receive orders for new software both from large international players and also from small specialist houses. In particular, we have signed agreements, worth a combined total of nearly \$20 million over five years, with Bear Stearns & Co. Inc. and Royal Bank of Canada for US domestic trading systems. These deals represent a further landmark in the development of our business in the critical North American market and we continue to see this market as a strong source of potential growth.

Our **fidessaNet** service has continued to attract interest with eight new deals signed, five of these in the US. In addition, we have seen strong demand for our **fidessaNet** connectivity services with orders for these connectivity services coming both from **fidessaNet** customers and existing enterprise customers².

Throughout the year we have maintained our commitment to product development and have continued to dedicate a substantial proportion of our staff to this activity. As a result, we are now in the process of launching a number of new and exciting products, including the **fidessa** workstation, and these will enable us to target additional markets in the future.”

On the outlook for 2003, Chris Aspinwall added:

“Looking ahead, we expect that the current difficulties in the financial markets will continue into 2003. However, we do believe that we will see an improvement once the capital markets themselves begins to improve. In the short term, despite the conditions, we are still finding new sales opportunities in the UK, Europe and North America, particularly with our **fidessaNet** service and US product set. Although impossible to predict, we see no reason to expect any further fall in consultancy revenues to be significantly different to that experienced in 2002 and overall we believe that this fall should be more than offset by the growing recurring revenues from software rentals and the **fidessaNet** service.

Overall, therefore, we expect that some modest growth for the year is possible for both revenue and profits in 2003. However, we believe the split between H1 and H2 is more likely to revert to the Group’s previous pattern of marginally higher revenues in the second half of the year.

In summary, we feel that whilst the challenging market conditions will make forecasting extremely difficult in the short term, the underlying strength of our business, our continued investment in new products and our standing in the global markets gives us a good position for progress in the medium term. In addition, the financial strength of the Group gives us a strong position to benefit from investment opportunities that arise because of the sustained downturn whether these take the form of development of new products or acquisition activity.

Finally, I would like to extend our thanks to all of royalblue’s employees for all their efforts during 2002 and in showing the dedication and commitment required to make progress in the current extremely difficult markets”.

² Customers running **fidessa** software in their own data centres.

Financial Summary

Revenue has increased by 1% to £57.0 million (2001: £56.2 million) with 53% now coming from overseas (2001: 47%). In 2002 we have seen revenues increase by 130% from **fidessaNet** services and by 73% from **fidessa** software rentals whilst revenues from consultancy have declined by 7%. The quality of Group revenues continues to strengthen with the recurring revenues from software rental, **fidessaNet** services and maintenance accounting for 39% of the total, up from 26% in 2001 and 18% in 2000. In addition to these recurring revenues, a substantial proportion of the 58% of revenue from consultancy is repeat business from our existing customers.

Operating profit increased 2% to £8.2 million (2001: £8.1 million) with the operating margin maintained at 14.4%. In July 2002 we announced the sale of our minority holding in ICIS Technology Limited, which generated a one-off gain of £3.7 million, and the first £0.5 million of loan note repayment from Touchpaper Limited, the help desk business divested in 2001. Both of these gains are treated as exceptional items in the period. In addition, the interest income was boosted by £0.2 million from interest received on the Touchpaper loan notes.

The diluted earnings per share (excluding exceptional items) increased by 11% to 19.7p (2001: 17.8p). The growth in earnings per share has benefited from the lower effective tax rate of 29.9% compared to 32.2% for 2001. The tax rate has decreased in the year because of tax incentives in New York following the disaster of September 11th and R&D tax credits in the UK.

The cash balance increased in the year to £22.7 million from £11.7 million, an increase of 94%. The exceptional gains mentioned above contributed £4.2 million of the increase with the remaining £6.8 million coming from ordinary trading operations. The improvement was achieved after spending £1.8 million (2001: £3.3 million) on capital expenditure, £1.5 million (2001: £1.3 million) on dividends and £2.8 million (2001: £2.0 million) on corporation tax.

The directors are recommending a final dividend of 3.55p per share so that the total dividend per share for 2002 amounts to 5.3p, an increase of 10%. Subject to shareholder approval, the final dividend will be paid on 12th May 2003 to shareholders on the register on 11th April 2003.

Operations

Overview

As widely experienced by all companies trading in the financial markets, conditions have remained challenging throughout 2002 as our customers have experienced some of the toughest trading conditions they have seen. However, despite these conditions we have continued to make new sales and increase our software rental and **fidessaNet** revenues, and this strong growth has compensated for the inevitable pressure on consultancy revenues.

In the markets themselves, we have seen some evidence that the number of orders processed by individual customers has dropped, although the total order volume processed within **fidessaNet** increased sharply (nearly three times last year's level) due to new systems coming on line. The trend we have seen in the past of more executions associated with each individual order has continued and our clients are generally seeing more executions despite lower order levels. This trend does act as a driver for all **fidessa** products as the need to handle increased volumes of executions at the same time as reducing costs inevitably pushes firms towards automation. Across all regions we are still seeing increased demand for our connectivity software providing links to exchanges, ECNs and

the buy-side institutions and we believe that this demand will continue as firms look to reduce the cost of handling order flow.

We are also seeing steady demand for our **fidessaNet** service where the full service model can provide short term cost benefits and we have signed eight new orders in the period, with a total expected value of £5.7 million over two years. In addition, we have received orders for **fidessaNet** connectivity services where both **fidessaNet** and enterprise customers connect to exchanges and buy-side firms and other parties through royalblue's network and data centres. Including connections sold as part of full **fidessaNet** implementations, the total number of connections ordered through **fidessaNet** in 2002 was in excess of 100. As a result of recent orders, the UK **fidessaNet** operation achieved break-even six months earlier than anticipated, whilst the US **fidessaNet** operation is still on plan to achieve break-even by the end of 2003.

Within the enterprise business, we have seen continued activity as we roll out more software. This has been particularly focused on supporting the many exchange upgrades, market changes, more connectivity services and routing of order flow across national boundaries. We have also signed three significant rental deals. One, with the Royal Bank of Canada, is for a US domestic trading system and includes connectivity to the Canadian market. This deal is expected to be worth around \$11 million over five years. The second is a renewal for ABN Amro covering their global operation and including a new implementation of **fidessaNet** for their US domestic trading operation. This second deal is expected to be worth £8.2 million over two to three years. The third is a deal to supply Bear Stearns & Co. Inc. with the **fidessa** trading platform for their US domestic business. The system will provide support for Bear Stearns' OTC domestic trading operation and is the first sale of royalblue's new **fidessa** V5 products in the US market. The deal, which is on an enterprise rental basis, is expected to be worth around \$8 million over five years. Our ability to sign these deals, worth a combined total of over £20 million, despite the current market conditions, provides further proof of the value **fidessa** products can bring to the largest enterprise businesses.

Europe

In Europe we have signed three further deals for our **fidessaNet** trading platform. This brings the total number of customers connecting to the **fidessaNet** service in the UK to 16. As our first rental and **fidessaNet** contracts have come up for renewal, we are pleased that all contracts have been renewed. This has resulted in the signing of a major renewal with ABN Amro and the signing of two **fidessaNet** renewals. Whilst we believe it is likely that a small number of our customers may decide to pull out of equity trading altogether, it has been pleasing that to date all **fidessaNet** customers and enterprise rental customers have renewed on terms substantially similar to their original agreements. We have also signed our first licence conversion deal with Dresdner Kleinwort Wasserstein (DrKW). This deal transfers DrKW's software from its original one-off licensed basis to the new rental model and gives DrKW access to the latest versions of the **fidessa** software. We are continuing to discuss with other customers, who signed one-off licence deals prior to 2000, the benefits of switching across to the new rental model.

Support for exchange upgrades continued to be a significant activity during 2002, particularly during the first half, with upgrades required for Xetra, Virt-x, Euronext (for Paris, Amsterdam and Brussels), Stockholm, Helsinki, Copenhagen, Oslo, Milan and the London Stock Exchange. In total over 60 customer gateway upgrades were performed. After a slight pause in the second half of 2002, activity has resumed with a number of exchanges planning upgrades to their systems. These include the introduction of the central counterparty for Xetra, a new release for the London Stock Exchange, the launch of NASDAQ Deutschland and upgrades for Copenhagen, Helsinki, Milan, Oslo, SWX, Stockholm and Virt-x exchanges. An increasing number of customers are now taking connectivity through **fidessaNet** rather than running the gateways themselves on their own site. This generates cost savings for our customers by removing the significant operational management, testing and conformance

requirements that they would otherwise incur with each connection that they have. As a result we have expanded our capability and now offer 14 exchange gateways and 10 buy-side interfaces within the European **fidessaNet** service.

As mentioned at the time of the interims, we do not believe that we will see customers placing orders for complete global systems whilst the current market conditions persist. However, we have worked with three customers based in Europe to implement multiple centre solutions to support position keeping, order routing or trading functions across two or more national boundaries. We anticipate that we will continue to see global systems implemented in stages in this way.

North America

In the US, our business has continued to develop, despite the market conditions, with revenues up by 17% and a good pipeline still in place. As highlighted earlier, during the year we have signed two major orders for US domestic trading systems for enterprise customers, one with Royal Bank of Canada and the other with Bear Stearns & Co. Inc. In addition, we have signed a further five orders for **fidessaNet** to provide US domestic support. These orders firmly establish **fidessa** as the second most widely used order management system in the US domestic market, an important milestone from which to build further growth.

Activity during 2002 was focused around structural change in the NASDAQ market, new products and also the common theme of electronic connectivity that we are seeing across all markets. SuperMontage, the new combined order and quote driven market implemented by NASDAQ went live during a phased rollout from July to December. This represented a major structural change to trading on the NASDAQ market and required substantial new software to support the new business activities. Support for this new way of trading was implemented within royalblue's **fidessa** NMS product and went live smoothly and on schedule. As a direct result of the success of this implementation, we have seen a marked increase in interest for our US product set and expect that this will continue into 2003.

In parallel with the introduction of SuperMontage, we also identified a related opportunity to package SuperMontage functionality together with a price point consolidated order book which enables traders to find the best price and depth across multiple markets and liquidity points. This has become increasingly important as order flow has fragmented across the order books provided by the major ECNs such as Island, Instinet and Archipelago. This has been launched as a new product, **fidessaMontage**, which not only provides the trader with an integrated view but also enables him to hit the market and take the best price regardless of which market he is on. This product has now gone live at a number of our customers' sites and we have also developed a repackaged version of the product as a standalone workstation. The standalone version diversifies our product offering and also gives us a lower cost delivery model.

We have completed a number of deliveries of the US version of our CTAC middle office product. This product is used for confirming trades and allocating executions against client orders and is an invaluable tool in speeding up the settlement process by catching and eliminating mis-matched trades and preventing incorrect customer allocations. This product also offers the opportunity for substantial cost savings by improving the processing efficiency of the middle office and has been instrumental in supporting high trading volumes across a number of our customers.

Connectivity both to liquidity points, such as exchanges and ECNs, and to buy-side customers is becoming increasingly important throughout all our markets. During 2002 we developed further links to connect the major buy-side firms to broker-dealers and now have connectivity to six of the major buy-side networks as well as direct connection to three major firms. This means we can now receive order flow from in excess of 300 buy-side firms.

Asia

Throughout Asia, the markets have remained difficult.

In Japan, the stock market has remained sluggish and some foreign banks discontinued Japanese trading operations. However, the Japanese government's introduction of a new program to stabilise the banking system will require, from 1st April 2003, major Japanese banks to meet a new capital adequacy standard while at the same time divesting themselves of accumulated cross-holdings of shares in affiliated firms. This has led to extraordinarily high institutional order volumes, traded under heavy selling pressure. The speed and capacity of **fidessa** has been critical in enabling our clients in Japan to execute their business plans while managing the market impact of their own trading. The extension of **fidessa**'s performance in V5 is already being incorporated by some of our customers in their future plans. We have enhanced our Japanese Market Interface System (JMIS) to support direct connections to all the key Japanese markets: Tokyo, Osaka, Jasdaq and TostNet. These direct interfaces allow us to offer a faster and more cost-effective solution to our customer base than connecting to the exchanges via third party gateways, which is the only current solution. For these direct interfaces to be widely adopted they must also support Convertible Bonds and Futures and Options products which can be traded on the Japanese markets and this development work is well advanced.

In the rest of Asia, a number of clients are now live on the Korean market via AMMA (Asian Multi Market Access) and during the year an interface to the Korean Futures and Options market also went live. Support for the Singapore exchange was added to AMMA this year and is now live which means that we can provide connectivity for trading on all the major exchanges within the region. As in Europe, there has been significant activity throughout Asia providing support for cross border order flows. We have now rolled out **fidessa** software across a number of our customers' Asian offices and as a result have trading workstations installed in the majority of the region's financial centres including Hong Kong, Japan, Singapore, Taiwan, Korea, India, Malaysia, Thailand, Philippines, Australia and New Zealand.

Product Development

Throughout the year we have maintained our commitment to product development and have continued to dedicate a substantial proportion of our staff to this activity.

In addition to the numerous new developments and extensions to the product set, we have also commenced the rollout of the new V5 product set. The **fidessa** V5 product set is based on the next generation database technology which provides a number of important enhancements including, high speed indexing and a 64 bit architecture delivering substantial performance improvements on all systems and much better scalability for very large systems. Maximum order and execution throughput is increased by more than 10 times on the new platform. The data footprint has also been substantially reduced which, combined with performance improvements, means that smaller hardware can be used to run the same applications. This provides benefits to enterprise customers reducing the cost of operating **fidessa** and also reduces royalblue's cost of operating the **fidessaNet** service. The new V5 product consists of a new version of the core trading platform and new versions of each of the trading applications. The V5 product set is being delivered as a gradual rollout and compatibility is being maintained between V5 products and the current product set. The first phase of this, OMAR V5, our core order management product, rolled out on schedule during summer 2002. This upgrade not only took advantage of the new performance features of V5 but also provided comprehensive re-engineering of the order management model to provide support for truly global order flows and for order grouping at both a sales and trading level. These features enable users to manage their work much more efficiently by working whole groups of orders in single actions.

The V5 programme continues this year with a 5.1 release of OMAR which will coincide with the first release of the TMAR (Trade Management & Routing) and PMAC (Position Management and Consolidation) products on the new architecture. This release is targeted to address the requirements of the US markets and will mean that we are able to deliver solutions to the US market with a core platform based on the new technology.

We are also leveraging the performance and scalability provided by OMAR V5 to implement full support for basket trading. This is an exciting new business area which has grown as a result of increased volatility in the markets and a drive for firms to manage their cost base by consolidating their cash and program trading businesses on a single platform. Traditionally, because of the performance level required to undertake basket trading (peak performance of around 1,000 orders per second is required), it has been done by specialist applications which do not participate in a firm's order flow. Using the new V5 architecture we are able to meet the demanding performance requirements from inside the global order management system providing a much more integrated solution. The first release of this new product will address the core requirements of both sales users (basket creation and entry) and traders (wave creation and management) to manipulate baskets.

In the US we are developing software to provide access to comprehensive market data from all the different points of liquidity across the US. This product called DANA (Data Access North America), will integrate price data feeds from a variety of sources including NASDAQ, NYSE, AMEX, and the ADF (Alternate Display Facility). We are also continuing the development of our Canadian market access product (CAMA). This is based on the same technology used within our European market access product and will provide direct access to all the key Canadian markets. CAMA is scheduled for delivery in Q2 2003.

fidessaExpress is a new product which is being developed based on **fidessa** real-time technology and the FIX protocol to provide simple connectivity between a range of different services which may be hosted at an enterprise level or within **fidessaNet**. The first release of **fidessaExpress** is planned for early Q2 2003 and will simplify buy-side connectivity into **fidessaNet** enabling the routing of order flow, indications of interest (IOIs) and trade advertisements between any connected buy-side and broking firms using **fidessaNet**. Additional services are already planned to leverage the **fidessaExpress** architecture.

European market connectivity through EMMA has continued to develop rapidly over the year. Overall EMMA now connects directly to 16 markets: London, Paris, Brussels, Amsterdam, Frankfurt, Vienna, Ireland, Copenhagen, Oslo, Stockholm, Helsinki, Milan, NASDAQ Europe (Deutschland), Zurich and Virt-x. Johannesburg is also supported via EMMA. The NASDAQ Europe interface was also introduced this year and required significant product change, being the first European market to provide a hybrid market supporting a combination of quote and order book trading models.

fidessaNet

Our **fidessaNet** operation has continued to make progress with service revenue increased in excess of 100% over last year. We have continued to experience demand for the **fidessaNet** service and have signed eight additional orders for the full service offering. Connectivity services within **fidessaNet** have generated strong interest and including connections sold as part of full **fidessaNet** implementations, the total number of connections ordered through **fidessaNet** in 2002 was in excess of 100.

Implementation was completed for 6 new full service **fidessaNet** clients and, with the systems currently being implemented, the total number of **fidessaNet** trading workstations now stands at 570. The average volume processed per month by **fidessaNet** during the 2002 was 73,000 orders with 230,000 executions. This represents an increase of almost three times the level of orders recorded through the service in 2001 and four times the level of executions.

Connectivity was added to the Helsinki Stock Exchange, the Chicago Stock Exchange, the Boston Stock Exchange and the Bloomberg ECN. A number of electronic buy-side interfaces have been made available including connectivity to the major buy-side networks with links to the Indications of Interest (IOI) services also available.

As its clients tend to be smaller firms, **fidessaNet** is most at risk from a client deciding to leave the equity markets. However, the pipeline for **fidessaNet** continues to be strong in both the UK and the US and we anticipate further progress in 2003.

fidessa workstation

The workstation is a major new development which will provide users with a very cost-effective service for real-time prices, historic prices, VWAP, News, company fundamentals, FTSE and world indices as well as trading functionality, access to RSPs (Retail Service Providers) and connectivity to order flow. The **fidessa** workstation will address an important segment of the market where the principal requirement is for market data with access to transactional capability required less often. The potential customers for this product will be additional users within existing **fidessa** and **fidessaNet** sites who do not require access to the full **fidessa** system, users within the retail broking community and also customers on the buy-side. The **fidessa** workstation will be integrated within the **fidessaExpress** family and will include support for sending and receiving FIX based order flow via **fidessaNet**.

The product has been designed and built very rapidly by reusing existing **fidessa** technology on the client and server and our existing market data feeds. Because the workstation is based on existing **fidessa** technology, this means that we are able to expand our transaction-based services to workstation users in an integrated fashion. This will enable workstation users to quickly gain access to a huge range of new services not previously offered on workstation type products.

Share Bonus Scheme

Historically, the Company has rewarded the contribution that the senior staff and directors have made by paying cash bonuses. As a result, in the main, these individuals have not been granted share options since the flotation of the Company in June 1997. The Remuneration Committee believes that, in addition to paying cash bonuses, these individuals should be incentivised and, importantly, retained by more closely aligning their interests with those of shareholders. In order to achieve this, shareholder approval will be sought at the forthcoming Annual General Meeting for the royalblue group plc Share Bonus Plan which provides that participants be offered the opportunity to acquire, using their own funds, shares in the Company up to a certain value. Provided the participants hold the shares for three years they will be matched with an equivalent number of free shares in the Company in the form of a Share Bonus. Rather than issuing new shares, these shares will have been purchased by the Company from the market prior to issue. The principal features of the Plan will be circulated to shareholders with the Notice of the 2003 Annual General Meeting.

Use of Cash

As our cash levels grow, we continually review the most effective ways to utilise the available cash balances. Whilst present market conditions persist, we are clear that maintaining a strong cash balance is an extremely valuable asset and gives us the flexibility to take advantage of opportunities that may arise as a result of the sustained downturn.

We anticipate that such opportunities may take the form of acquisitions or the opportunity to enter a new market by developing new software. In the latter case, this is also likely to involve recruiting teams with experience in the target market and these teams may themselves be more readily available because of the downturn. In many situations both the acquisition route and the opportunity to develop ourselves might be available. In these cases a decision in favour of developing the new business ourselves could be less expensive for the Group, but may result in a greater

short term impact on profits compared to spreading any goodwill on acquisition over a longer period. This is the case with our recent entry into the data workstation market. We consider this to be a strategic market that will assist in the development of our **fidessaNet** business. It will also assist in the development of the connectivity network and will make **fidessa** services still more widely available to the financial community. We investigated the possibility of acquisitions in this area but considered that the prices being asked were too high. For this reason we commenced development of our own **fidessa** workstation software during 2002 and have put in place a team of four dedicated staff with comprehensive experience of this market to handle the sales and business development of this particular opportunity. As we can absorb the majority of the required software development into our existing product schedules and the operation of the service within our **fidessaNet** data centres, we anticipate that the direct cost of funding this opportunity will be approximately £1.3 million in 2003. This funding will be expensed through the profit and loss account as incurred.

Although we have no immediate plans to make use of it, we also intend to seek shareholder approval at the forthcoming Annual General Meeting to purchase up to 15% of the company's equity for cancellation. The Board believes it is prudent to have this facility in place.

Outlook

Looking ahead we anticipate a mixed outlook with difficult market conditions in the short term and good growth prospects in the long term. Paradoxically, the difficult market conditions are themselves creating new market opportunities.

In the short term we expect that the current difficulties in the financial markets will continue into 2003. Despite the current conditions, we are still finding new sales opportunities in the UK, Europe and North America, particularly with our **fidessaNet** service and US product set. Although impossible to predict, we see no reason to expect any further falls in consultancy revenues to be significantly different to that experienced in 2002 and overall we believe that this fall should be more than offset by the growing recurring revenues from software rentals and the **fidessaNet** service. However, we do believe that we will see an improvement once the conditions in the capital markets begin to improve. Although the timing of such an improvement is impossible to predict, we believe the improvement will benefit the strong niche suppliers such as **royalblue** the most.

Overall, therefore, we expect that some modest growth for the year is possible for both revenue and profits in 2003. However, we believe the split between H1 and H2 is more likely to revert to the Group's previous pattern of marginally higher revenues in the second half of the year.

Throughout the year we have maintained our commitment to product development and have continued to dedicate a substantial proportion of our staff to this activity and are developing more new and exciting products than ever before. These include products such as the **fidessa** workstation, **fidessaExpress**, basket trading and North American Data Access. The opportunity to develop some of these products stems in part from the current difficult conditions. These opportunities are presented to us, either because existing vendors are withdrawing from the market or because customers are looking to reduce their costs and either want to replace specialist products or wish to outsource more of their applications.

In summary, we feel that whilst the challenging market conditions make forecasting extremely difficult in the short term, the underlying strength of our business, our continued investment in new products and our standing in the global markets gives us a good position for progress in the medium term. In addition, the financial strength of the Group gives us a strong position to benefit from investment opportunities that arise because of the sustained downturn whether these take the form of development of new products or acquisition activity.

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Consolidated Profit and Loss Account
for the year ended 31st December 2002

		2002	2001 restated (note1)
	Note	£'000	£'000
Turnover	3		
Continuing operations		57,006	56,174
Discontinued operation		-	10,079
		-----	-----
		57,006	66,253
Operating profit/(loss)	4		
Continuing operations		8,226	8,096
Discontinued operation		-	(1,550)
		-----	-----
		8,226	6,546
Exceptional items			
Sale of associated undertaking	6	3,683	-
Sale of discontinued operation	6	500	(2,658)
		-----	-----
Profit on ordinary activities before interest		12,409	3,888
Net interest receivable		610	309
Income from other fixed asset investments		39	-
		-----	-----
Profit on ordinary activities before taxation		13,058	4,197
Taxation on profit on ordinary activities		(2,638)	(2,145)
		-----	-----
Profit for the financial year		10,420	2,052
Dividends paid and proposed	7	(1,591)	(1,396)
		-----	-----
Retained profits for the period		8,829	656
		-----	-----
Earnings per ordinary 10 pence share	8		
Basic – continuing operations, pre-exceptional gain		21.2p	19.8p
Diluted – continuing operations, pre-exceptional gain		19.7p	17.8p
Basic – total operations		35.4p	7.1p
Diluted – total operations		32.9p	6.4p

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31st December 2002

	2002	2001 restated (note1)
	£'000	£'000
Profit for the financial year	10,420	2,052
Differences on exchange on re-translation of net assets of overseas undertakings	(376)	44
Prior year adjustment	1,033	-
	-----	-----
Total recognised gains and losses	11,077	2,096
	-----	-----

Consolidated Balance Sheet
at 31st December 2002

			2002		2001
	Note	£'000	£'000	£'000	restated (note1) £'000
Fixed assets					
Tangible fixed assets		4,705		6,019	
Investment		-		49	
Investment in own shares		2,196		2,351	
			6,901		8,419
Current assets					
Debtors	9	14,761		16,596	
Cash and short term investments		22,676		11,674	
		-----		-----	
		37,437		28,270	
Creditors: amounts falling due within one year	10	(16,799)		(17,648)	
Net current assets			20,638		10,622
			-----		-----
Total assets less current liabilities			27,539		19,041
Creditors: amounts falling due after more than one year			(442)		(493)
			-----		-----
Net assets			27,097		18,548
			-----		-----
Capital and reserves					
Called up share capital			3,142		3,046
Share premium account			11,580		9,953
Profit and loss account			12,375		5,549
			-----		-----
Total equity shareholders' funds	11		27,097		18,548
			-----		-----

Consolidated Cash Flow Statement
for the year ended 31st December 2002

	Note	£'000	2002 £'000	2001 £'000
Net cash inflow from operating activities	12		11,957	9,721
Returns on investments and servicing of finance				
Interest received		632		311
Interest paid		(22)		(2)
Income from other fixed asset investments		39		-
Net cash inflow from returns on investments and servicing of finance			649	309
Taxation				
United Kingdom tax paid		(1,378)		(876)
Overseas tax paid		(1,403)		(1,106)
Tax paid			(2,781)	(1,982)
Capital expenditure and financial investments				
Purchase of tangible fixed assets		(1,779)		(3,287)
Sale of tangible fixed assets		50		26
Sale of own shares held by Employee Benefit Trust		155		181
Sale of fixed asset investment		3,683		-
Repayment of loan notes		500		-
Purchase of fixed asset investment		-		(142)
Purchase of loan notes		-		(898)
Net cash inflow/(outflow) for capital expenditure and financial investments			2,609	(4,120)
Acquisition and disposal				
Costs of disposal		-		(1,276)
Net cash (outflow) for acquisition and disposal			-	(1,276)
Equity dividends paid			(1,452)	(1,354)
			-----	-----
Net cash inflow before use of liquid resources and financing			10,982	1,298
Management of liquid resources				
Cash taken off/(placed on) deposit			2,150	(1,000)
Financing				
Share options exercised		96		33
Net cash inflow from financing			96	33
			-----	-----
Increase in cash			13,228	331
			-----	-----

Notes

- 1 The results for the years ended 31st December 2002 and 31st December 2001 are extracted from the audited accounts of royal**blue** 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.

In December 2000 the Accounting Standards Board published Financial Reporting Standard 19 Deferred Tax. Compliance with the new standard is mandatory for accounting periods ending on or after 23rd January 2002 and the standard has been adopted in the preparation of these financial statements. Comparative figures have been restated. The restated figures solely relate to the adoption of this standard.

- 2 The audited accounts for the year ended 31st December 2001 have been delivered to the Registrar of Companies. The Annual Report and Financial Statements for the year ended 31st December 2002 will be mailed to shareholders on 3rd March 2003 and will be delivered to the Registrar of Companies following the Annual General Meeting which will be held at 10.00 am on Thursday 3rd April 2003 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, all of which relates to the group's principal activity of developing and selling computer software and providing associated services, is analysed by geographical destination as follows:

	2002	2001	2001	2001
	£'000	£'000	£'000	£'000
		Continuing operations	Discontinued operation	Total operations
United Kingdom	26,534	29,674	7,896	37,570
USA and Canada	18,465	15,810	1,758	17,568
Continental Europe	3,755	2,179	425	2,604
Rest of World	8,252	8,511	-	8,511
	-----	-----	-----	-----
	57,006	56,174	10,079	66,253
	-----	-----	-----	-----

4 Operating profit

	2002	2001	2001	2001
	£'000	£'000	£'000	£'000
		Continuing	Discontinued	Total
		operations	operation	operations
Turnover	57,006	56,174	10,079	66,253
Cost of sales	55	-	330	330
Staff costs – salaries	29,556	28,211	6,217	34,428
Staff costs – social security	2,780	2,734	723	3,457
Depreciation	2,876	2,442	589	3,031
Goodwill amortisation	-	-	17	17
Auditor's remuneration for the company	28	23	-	23
Auditor's remuneration for other companies in the group	82	82	-	82
Fees paid to auditor for non-audit related work	66	67	-	67
Other operating leases	37	31	173	204
(Profit)/loss on sale of tangible fixed assets	(7)	(4)	7	3
Exchange (gains)/losses	394	36	(163)	(127)
Share options granted at less than market price	-	46	-	46
Other operating expenses	13,776	14,784	3,736	18,520
Other income	(863)	(374)	-	(374)
	-----	-----	-----	-----
Operating expenses	48,780	48,078	11,629	59,707
	-----	-----	-----	-----
Operating profit/(loss)	8,226	8,096	(1,550)	6,546
	-----	-----	-----	-----

5 Staff numbers

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

	2002 Number	2001 Number Continuing operations	2001 Number Total operations
United Kingdom	324	307	417
USA	145	131	148
Continental Europe	1	3	9
Rest of World	46	40	40
	-----	-----	-----
	516	481	614
	-----	-----	-----

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

	At 31 st December 2002 Number	At 31 st December 2001 Number
United Kingdom	312	337
USA	141	148
Continental Europe	1	4
Rest of World	44	46
	-----	-----
	498	535
	-----	-----

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 first scheduled repayment of the unsecured loan occurred and provided an exceptional gain of £500,000.

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.

£'000

Sale of shareholding in ICIS Technology Limited	
Proceeds	4,100
Book value of investment in shares	(49)
Costs of sale	(368)

Profit on sale	3,683

7 The total dividend of 5.3p per share (2001: 4.8p) comprises an interim dividend of 1.75p per share which was paid on 30th September 2002 and a final dividend of 3.55p per share which will be paid on 12th May 2003, when approved, to shareholders on the register on 11th April 2003.

8 Earnings per share

The calculation of basic earnings per share is based on attributable profit of £6,237,000 for continuing operations, pre-exceptional gain and attributable profit of £10,420,000 for total operations (2001 £5,700,000 for Continuing Business and £2,052,000 for Total Business) and divided by 29,400,726 shares (2001 28,851,677 shares). The number of shares is based on the weighted average number of shares in issue during the year less the shares owned by the royalblue group plc Employee Benefit Trust. The number of shares in issue at 31st December 2002 was 31,420,720 (2001 30,455,240).

The diluted earnings per share is based on 31,638,589 (2001 31,942,538) ordinary shares. The diluted earnings per share have been calculated using an average share price of 387p (2001 839p) for the year.

9 Debtors

	2002	2001
		restated(note1)
	£'000	£'000
Trade debtors	10,335	11,803
Amount due from subsidiaries	-	-
Other debtors: amounts falling due within one year	1,034	1,007
Other debtors: amounts falling due after more than one year	898	898
Corporation tax recoverable	251	469
Deferred tax	789	1,033
Prepayments	1,131	1,060
Accrued income	323	326
	-----	-----
	14,761	16,596
	-----	-----

10 Creditors – amounts falling due within one year

	2002	2001
	£'000	£'000
Trade creditors	1,726	1,229
Amount due to subsidiaries	-	-
Dividend payable	1,072	933
UK corporation tax	1,783	2,090
Overseas corporation tax	430	739
Deferred tax	6	-
Other taxes and social security	1,096	1,808
Accruals and other creditors	5,482	6,525
Deferred income	5,204	4,324
	-----	-----
	16,799	17,648
	-----	-----

11 Reconciliation of movements in shareholders' funds

	2002	2001
	£'000	restated(note1) £'000
Profit for the financial year	10,420	2,052
Dividends paid	(1,591)	(1,396)
	-----	-----
Retained profit for the period	8,829	656
Reserves of disposed operation	-	(309)
Other recognised gains/(losses) relating to the year	(376)	44
Share capital on share options exercised	96	33
Share premium on share options exercised	1,627	1,611
Transfer in respect of issue of shares to employee trusts	(1,627)	(1,611)
Charge for share options granted at less than market price	-	46
	-----	-----
Net increase in shareholders' funds	8,549	470
Opening shareholders' funds (originally £17,515,000 before adding prior year adjustment of £1,033,000)	18,548	18,078
	-----	-----
Closing shareholders' funds	27,097	18,548
	-----	-----

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

	2002 £'000	2001 £'000	2001 £'000	2001 £'000
		Continuing operations	Discontinued operations	Total operations
Operating profit/(loss) before taxation and interest	8,226	8,096	(1,550)	6,546
Depreciation charges	2,876	2,442	589	3,031
Goodwill amortisation charge	-	-	17	17
Charge for share options granted at less than market price	-	46	-	46
Loss/(profit) on sale of tangible fixed assets	(7)	(4)	7	3
(Increase)/decrease in debtors	1,212	(1,881)	1,332	(549)
Increase/(decrease) in creditors	(350)	2,524	(1,897)	627
	-----	-----	-----	-----
Net cash inflow/(outflow) from operating activities	11,957	11,223	(1,502)	9,721
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