

royalblue group plc

preliminary results for the year ended 31st December 2004

14th February 2005

royalblue reports accelerating revenue growth alongside strong investment programme.

	2004	2003	Change
Turnover	£60m	£56m	+7%
Operating profit	£8.1m	£7.6m	+7%
Pre-tax profit	£9.9m	£9.2m	+8%
Dividend per share for year	8.5p	8.0p	+6%

Highlights for the year ended 31st December 2004:

- H2 2004 revenue up 9% on H2 2003 and 10% up on H1 2004.
- Recurring revenue up 27% to £37 million now accounting for 62% of total revenue.
- Consultancy revenue up 11% between first and second half as market conditions start to improve.
- Strong sales across all **Fidessa** services including new deals with tier 1 banks.
- Substantial investment programme continuing in new products and services.
- Improving outlook underpinning strong revenue projection in 2005.

Commenting on these results, Chris Aspinwall, Chief Executive, said:

“2004 has been a year of solid progress for royalblue with our new propositions developing well and market conditions improving. The improvement in the market was reported during the first half of 2004 and continued into the second half. Throughout the business we are seeing increased demand for our products and services and this has translated into higher revenue in the second half. Recurring revenue has grown 27% to £37m, now accounting for 62% of total revenue. These recurring revenues represent annual licence and service fees and are a unique and highly valuable feature of our business model, reflecting the intrinsic worth of our sustained product development programme. We noted in our interim results that there were strong signs that our declining consultancy had reached a turning point. We are therefore pleased to be able to report that consultancy revenue has started to improve with the second half up 11% on the first half. The business has continued to be cash generative with the year-end balance standing at £25 million after returning £8 million of cash to shareholders through a special dividend.

On the development of the business and its products, Chris Aspinwall added:

“The focus on developing our unique opportunities in trading, market data and global connectivity has continued. We are leveraging these through our three delivery mechanisms of **Fidessa workstation**, **hosted Fidessa** and **enterprise Fidessa**. Sales of our **hosted Fidessa** service have continued strongly this year with 22 new signings in Europe and the US. This has included a new DMA (Direct Market Access) service from within **hosted Fidessa** allowing our customers to leverage their exchange memberships to offer their customers the ability to execute directly in the market. We have hit our target for **Fidessa workstation** deliveries with an installed base in excess of 1,000 screens and we are seeing encouraging early demand for the execution and multi-broker order management functionality, which is being added shortly. We have expanded our **Fidessa connectivity network**, with market

data now available for all the main markets across Europe and North America and the number of brokers offering remote execution services on the **Fidessa connectivity network** increasing to 20.

As market conditions begin to improve and our new propositions gain momentum, we are increasing the level of investment we are undertaking above our normal levels. In particular:

- We are enhancing our **hosted Fidessa** offering by expanding our data centres in Europe and the US and with the addition of new data centres in Asia.
- We are increasing the depth of our data coverage across Europe and North America and expanding our communications infrastructure to provide a high capacity global network.
- We have opened a new, larger office in Tokyo to support the growing demand for our Asian product set and are expanding our offices in New York, Surrey and Paris.
- We are planning to open a new office in Canada to support the growing potential in this region.
- We are accelerating the development of the **Fidessa workstation** to provide more market data and trading functionality; and,
- We have commenced an investment programme to investigate the provision of support for derivative instruments alongside our current product for cash equities.

We expect that the combined effect of these initiatives will add approximately £2 million to the operating costs during 2005.”

On the outlook for the business, Chris Aspinwall concluded:

“We expect that trading conditions will continue to improve in 2005. The general improvement in consultancy combined with the continued growth in recurring revenue should result in revenue growth more than double that achieved in 2004. In parallel, the acceleration of our investment programme as we seek to maximise the opportunities from our developing range of propositions, is expected to result in a decrease in the operating margin. We estimate that the decrease is likely to be around 2 percentage points, but despite this we still expect operating profit for 2005 to be ahead of that in 2004. We believe the timing is right to make these investments and as revenue from the new services develops, this will provide opportunities for sustained growth in 2006 and beyond.

Overall, we have made sound progress in all areas of the business and are experiencing the strongest demand that we have seen for several years. We are meeting this demand by expanding the range of products and services that we offer and believe that this will continue to provide a firm foundation for further long-term growth.”

Financial Summary

2004 Results

Revenue has increased by 7% to £60 million (2003: £56 million), with the recurring revenue up by 27%. The recurring revenue now accounts for 62% of total revenue, up from 52% in 2003. Recurring revenue for **enterprise** and **hosted Fidessa** increased by 37%, now representing 55% of total revenue. Consultancy revenue improved by 11% between the first and second half but recorded an overall decline of 20% compared to 2003. Consultancy revenue now represents 33% of total revenue. Maintenance revenue continues to fall as expected as customers convert to the rental and hosted models and now accounts for 5% of total revenue. Revenue from **Fidessa workstation** more than tripled in its first full year of operation, although still representing a small proportion of overall revenue. Revenue in the UK increased by 7% and in Europe and Asia double-digit growth was achieved. Revenue in the US has grown by 11% in dollar terms but was impacted by the weakening dollar that left our US performance flat in sterling terms. Second half revenue increased 9% over the comparable period in 2003 indicating improving momentum.

Operating profit before exceptional items increased 7% to £8.1 million (2003 restated: £7.6 million), achieving an operating margin of 13.6% (2003 restated: 13.5%). The results continue to be impacted by volatility in foreign

currency exchange rates with operating profit up 12% to £8.5m at constant currency. In July we received the third £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. Net interest income has grown to £1.2 million (2003: £1.1 million), being boosted by the larger cash balances prior to the special dividend, and includes £0.3 million (2003: £0.4 million) from interest receipts on the Touchpaper loan notes.

The overall effective tax rate for the year is 22.8% (2003 restated: 20.8%). However, this continues to benefit from items that will not necessarily recur or are unpredictable year to year. Removing these items to obtain comparable numbers the effective tax rate is 27.0% (2003 restated: 31.6%), being adjusted in the same manner as earnings per share. The tax rate has benefited from R&D tax credits in the UK, employees' gains on the exercise of share options being offset against the group's taxable income and from adjustments in respect of prior periods. The diluted earnings per share adjusted to exclude exceptional items and tax deduction for share options exercised by employees increased by 12% to 21.0p (2003 restated: 18.7p).

The cash balance decreased in the year to £25 million from £28 million after the return of £8 million to shareholders in the form of a special dividend. The Board enhanced the dividend policy in 2003 and proposed the payment of a special dividend, this being approved and paid during 2004. The Board is recommending a final dividend of 5.8p per share so that the total dividend per share for 2004 amounts to 8.5p, an increase of 6% over the total dividend per share for 2003. Subject to shareholder approval, the final dividend will be paid on 6th June 2005 to shareholders on the register at the close of business on 6th May 2005, with an ex-dividend date of 4th May 2005.

International Financial Reporting Standards (IFRS)

All listed companies in the European Union have to report their consolidated results under IFRS for accounting periods commencing on or after 1st January 2005. This means that the new standards will first affect royalblue's reporting for the year ending 31st December 2005, commencing with the interim results for the six months ending 30th June 2005. Comparative 2004 numbers prepared under IFRS will be presented with the 2005 interim and final results.

The largest potential impact on royalblue from the change to IFRS is in the treatment of product development expenditure. IAS 38 Intangible Assets determines that expenditure on research will continue to be expensed to the profit and loss account as incurred. However, the standard is more prescriptive than UK GAAP concerning the recognition of intangible assets on the balance sheet from expenditure on product development. This is a sensitive area for the software sector and as yet, no normal practice under IFRS has been established for the sector. The Board will monitor how normal practice evolves in the sector before determining an accounting policy in this area. Progress in this regard will be reported on with the 2005 interim results, or earlier. The 2004 development expenditure that may qualify for recognition as an intangible asset was £4.9 million.

The only other material impact on royalblue from the change to IFRS is the charging of share incentives to the profit and loss account. IFRS2 Share-based Payment requires that the fair value for share incentives to employees be estimated and charged to the profit and loss account over the vesting period of the incentive. The charge in 2004 under IFRS was £0.3 million. However, this only applies to share incentives granted and awarded since November 2002 and therefore the charge is likely to increase as further grants are made.

Operations

Introduction

Our focus on developing our unique opportunities in trading, market data and global connectivity and leveraging these through our three delivery mechanisms of **Fidessa workstation**, **hosted Fidessa** and **enterprise Fidessa** has continued. The strong sales of our **hosted Fidessa** service in 2004, with 22 new signings in Europe and the

US, have helped us increase the total number of **Fidessa** screens that are used as a primary source of equity trading or information to well in excess of 6,000. These new hosted systems have ranged from small scale systems supporting a few traders to the largest global systems such as the one with Société Générale, which is expected to be worth £5 million over three years. We are also pleased to have signed another tier 1 bank for **hosted Fidessa** in the US during the second half and this deal is the largest single order for US domestic **hosted Fidessa** since we started to provide the service in 2000.

In response to growing demand for high performance DMA solutions we have launched a new DMA service from within our **hosted Fidessa** offering. This service allows our customers to use their memberships to enable their customers to trade directly in the markets. We hope to combine this service with the multi-broker order management functionality within the **Fidessa workstation** and in this way provide both the front-end display and the back-end engines for this service. We have hit our targets for **Fidessa workstation** deliveries with an installed base in excess of 1,000 screens across 38 customers with coverage across 21 markets. The early demand for the execution and order management functionality within the **Fidessa workstation** has been encouraging throughout Europe and we expect that the total number of workstations in the market will more than double during 2005.

The **Fidessa connectivity network** has continued to expand with over 125 buy-sides connected and 700 individual connections passing order flow. Market data is now available for all the main markets across Europe and North America with further extensions planned for 2005. The number of brokers providing remote execution services on the **Fidessa connectivity network** has increased to 20, up from six at the half year. This rapid growth has been fuelled by the large amount of order flow available on the **Fidessa connectivity network** from the existing population of sell-side and buy-side connections, which has attracted firms offering remote execution services to connect.

The **Fidessa** Basket Execution and Management (BEAM) application continues to be well received and has been successfully deployed at a number of clients in the US and Europe. Further clients are due to go live shortly with strong focus on continental Europe and Japan. Significant functional enhancements related to wave trading across European, US and Asian markets have been put in place and the next major release, due in Q2, will offer basket merging and netting through the creation of multi-client trading lists. This continues our development strategy of creating a tightly integrated program management and single order trading platform to maximise internal crossing opportunities.

royalblue has a strong commitment to quality in all the products and services that it offers. The firm is already independently certified to ISO 9001 and during 2005 we plan to extend this by undertaking a SAS70 audit in the US. This further certification will be particularly important to US clients, as it will enable them to satisfy much of their Sarbanes Oxley requirements when using a **hosted Fidessa** solution without them needing to undertake further audits.

Europe

In Europe we have seen good continuity in the core business with consultancy improving across our accounts as well as 15 sales of **hosted Fidessa**. We have also been successful in implementing upgrades for our existing **hosted Fidessa** customers, particularly in the areas of market data and connectivity. We have extended the range of European market data that we offer to cover all the major markets in Europe along with key index futures and UK equity/index options information. We have also introduced a new data service to provide core static data for all European equities making it much easier for a non-member to start trading them. During 2004 we introduced a revolutionary new pricing model for market data where our market data services are priced at a simple carriage fee of 25% of the cost of the underlying data. This means that all our market data products are priced based on the value the customer derives from them rather than the large single fee charged by some other vendors. In the workstation market this change has had a particular impact as the cost of a simple **Fidessa workstation**, carrying only UK data, can work out as low as £60 per month, gradually increasing as more services and market data are

taken. We are also able to sell our market data services to our existing **hosted Fidessa** customers as the latest version of our European Trading Platform provides full access to all the market data, news, charting and company research that is available to **Fidessa workstation** customers. This provides an additional service we can offer our existing customers, which enables them to receive a more integrated service whilst costing significantly less than separate trading and market data positions.

We have continued to develop our connectivity services and now have 13 brokers prepared to offer execution services across Europe. We have also launched our first remote broking service between Europe and the US. This enables a customer based in Europe to view level 1 US market data and to route order flow for execution directly to a US broker. We have extended our support for London Retail Service Providers (RSPs) and with 14 RSPs now connected, have the largest RSP network available. Leveraging our market connectivity we have introduced a new hosted DMA service and have already received our first order for this service from a tier 1 bank. The DMA market is extremely competitive for our customers and the combination of broad FIX (Financial Information eXchange) connectivity and fast and reliable execution is crucial. Utilising our **Fidessa V5** technology combined with the **Fidessa connectivity network** we believe we are now able to provide one of the most effective DMA services available in Europe.

The **Fidessa workstation** has continued to develop well and exceeded its delivery target with over 1,000 workstations in live use. Recognising its market acceptance, the **Fidessa workstation** was voted the winner of the 2004 award for Best New Product Development in the annual Inside Market Data industry awards. Going forward we are developing the **Fidessa workstation** as a comprehensive access point to the growing **Fidessa connectivity network**. This will enable workstation users to send and receive order flow to and from any FIX enabled client or broker and will also provide full order routing and management functionality together with intra-day risk management. We will also continue to extend the services we offer through the **Fidessa workstation** with the addition of more comprehensive European content to match the depth of coverage we currently provide in the UK. These additional services provide us with additional revenue opportunities, as each service can be charged separately. This enables us to increase the average revenue per workstation as well as increasing the number of **Fidessa workstations** in the market.

North America

Within our North American operation we have continued to make progress with revenue up 11% in dollar terms and seven new sales of US domestic **hosted Fidessa**. These include one sale to a tier 1 bank for a system to support their US OTC (NASDAQ) and listed (NYSE) flows. This is the largest US domestic **hosted Fidessa** deal to date. As a result of recent sales our US **hosted Fidessa** service continues to grow and we estimate that approximately 8% of NASDAQ volume was processed through **Fidessa** compared to 5% last year. In a single day **hosted Fidessa** systems executed shares worth \$2 billion. To support the continued growth of our services in the US market we have expanded our data centres with a new facility in New Jersey, which has the capacity to handle in excess of 300 customers.

In the US market we continue to see an evolution of the trading model. Trading firms have already adapted to SuperMontage which has resulted in there no longer being a best price available on a single exchange and new SEC (Securities Exchange Commission) regulations are under review that propose broad changes to the market structure for US equities trading at all market venues. These proposals are likely to result in changes to areas such as the trade-through rules, which will have a significant effect on the way orders can be handled across multiple markets. The drive to combine OTC and listed trading onto the same desk has continued, and to address this requirement we have extended our **Fidessa** montage product. This product, which allows traders to access a wide variety of liquidity pools whilst fully integrating with internal order management, now supports trading in listed as well as OTC securities. We are also seeing signs that this consolidation is extending to the combining of cash and

program trading desks. We believe this will generate additional opportunities for our program trading product, BEAM, which is directly integrated into our order management and will be integrated into our execution products. Technical changes are also affecting the market with NASDAQ planning to phase out its SDP (used to receive data from the market). This will force customers to make changes and creates an opportunity for us to sell US market data direct from our ticker plant. This opportunity is not just present where a customer is using **hosted Fidessa** but is also the first opportunity to sell data services to enterprise customers as well.

As a result of the success of our software being used by the Royal Bank of Canada we have seen increased interest in our integrated Canadian Trading Platform. This provides all the business flow support and connectivity to the Canadian market in the same way as we do throughout the world. As a result of this increased interest we plan to open a Canadian office during 2005 to support this initiative.

As our customers come under pressure they are increasingly looking to differentiate themselves and this has resulted in increasing interest in supporting global trading. In addition to the seven US domestic deals we have also seen new deals signed for **hosted Fidessa** where customers are also taking the service in Europe and will pass orders between the two centres. This trend is one that we are ideally positioned to support, being the only vendor with comprehensive global coverage. In addition, we continue to see strong demand for the **Fidessa connectivity network** in the US market, which reduces the cost of handling automated order flow.

We continue to be committed to providing the best trading platform for the US domestic market and as we expand our data coverage and connectivity we plan to introduce our **Fidessa workstation** technology in the US to progressively broaden our range of offerings in this market.

Asia

Sentiment in Asia has continued to improve although outside of Japan the mood remains cautious with the majority of interest being focused on execution on the smaller exchanges. We have met this demand through the introduction of the **Fidessa workstation** in Asia, which is being used by remote brokers in this region. These brokers, who are otherwise not FIX enabled, are able to use the **Fidessa workstation** to gain access to the **Fidessa connectivity network** enabling them to receive order flow electronically and act as remote brokers in these markets. Currently we have brokers providing execution services for the markets in Thailand, Indonesia, Philippines and Malaysia and expect further brokers to sign up for the service, thereby, strengthening the **Fidessa connectivity network** in the Asia region.

The strongest trading markets outside of Japan have been in Australia and India and this has generated demand for connectivity from **Fidessa**. Our link to Australia's ASX, went live during 2004 and development work is underway to implement an interface to the National Stock Exchange of India. In addition, we are also implementing an interface to the Hong Kong Futures and Options Exchange. It is expected that these will go live during 2005.

The Japanese market has continued to improve in 2004 with strong growth in trading volumes. This has created interest in re-evaluating the benefits of retiring domestic legacy systems, as these older systems have been struggling under the increased volumes. We are also seeing a number of foreign banks either looking to return to the Japanese market, increase their level of commitment or form relationships with local brokers to provide execution services. To address these opportunities we have upgraded our **Fidessa** products in the Japanese market to use our V5 platform, which has been designed to cope with the high trading volumes, experienced in the US market. In addition, for firms returning to the market but without the resources to manage a full enterprise system we are introducing the **hosted Fidessa** model in Japan and in January 2005 have opened our first data centre in Tokyo. We believe that the requirement for FIX connectivity between the buy-side and sell-side will follow the pattern we have seen in the rest of the world and this will also be required for firms wishing to use remote brokers in the region. The **Fidessa connectivity network**, operating through our new global communications network, will be well positioned to take advantage of this expansion and with connections now developed to local FIX networks in Asia we will be able to deliver both domestic and global connectivity.

We are also anticipating an increase in the level of consultancy in the region as we provide new and extended services to our customers. These opportunities will be serviced from our new offices, which opened at the end of 2004 and provide the ability to extend our operation in Japan to support the growing requirements.

Branding

We have introduced new branding for the **Fidessa** product suite to coincide with the introduction of the **Fidessa workstation** and connectivity products. This is to ensure that our advertising and marketing campaigns are focused around developing a single brand, which is far more important in the higher volume markets we are entering with the **Fidessa workstation** and **Fidessa connectivity network**. One impact of this change is that the name “royalblue” will no longer feature as prominently in our marketing literature although there is no plan to change the name of the company at this stage.

Lava Patent Lawsuit

In June 2003 we noted the announcement released by Lava Trading Inc. (Lava) 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.

In June 2004 we announced that the United States District Court for the Southern District of New York had made its ruling on the first stage of the patent infringement case. This first stage, known as a Markman claims construction hearing, defines the technical terms in the patent, which will be used in subsequent hearings and is instrumental in establishing whether patent infringement has occurred. The ruling confirmed our definition of all the major terms and strengthens our position that the case brought by Lava is without merit.

In December 2004 we announced that a Stipulated Judgment had been entered into the record in the United States District Court for the Southern District of New York. This formally recorded that, based on the findings of the earlier Markman hearing, royalblue does not infringe Lava’s patent. In both this announcement and the one in June 2004 royalblue noted that it expected Lava to lodge an appeal. Lava has now lodged this appeal. A decision by the Appeals Court is likely to take at least 12 months.

Employees

On behalf of all royalblue’s shareholders the Board would like to extend its sincere thanks to all employees. The high quality of royalblue’s reputation and the ability of royalblue to launch a range of innovative new products and services throughout the market is testament to their skill and dedication in developing royalblue into a global services business.

The Board believes that well constructed and executed share incentive schemes are still effective motivation and lock-in tools for employees and management. The existing all employee share option scheme was established at the flotation in 1997 and is approaching the end of its life. We intend to consult with shareholders and representative bodies on both the replacement of this scheme and ideas for a long-term scheme based on demanding performance criteria for senior management. The Board expects to circulate further details and seek shareholder approval for the new share schemes later in the year when the consultation is complete and the views of the major shareholders and representative bodies have been obtained.

Outlook

Looking ahead we expect that trading conditions will continue to improve in 2005. The general improvement in consultancy and the continued growth in the recurring revenue should result in revenue growth more than double that achieved in 2004. As highlighted at the half year, the nature of the rapidly changing markets means that we

may adapt our development programme as opportunities arise and may decide to increase development resource in specific areas in order to bring certain product to market quickly. This is particularly the case for our **Fidessa workstation** and **Fidessa connectivity network** where we believe extension of these products will result in a significant expansion of our addressable market. We believe the timing is now right and that royalblue has the financial strength to make these investments without slowing down the development of the core product set. The result of this acceleration of our investment programme is that we expect to see a decrease in the operating margin within the business of around 2 percentage points. Despite this decrease, we still expect operating profit in 2005 to be ahead of that in 2004. We believe that as the revenue from our new services develops this will provide opportunities for sustained growth in 2006 and beyond.

Looking further ahead we believe that the strength of the **Fidessa** propositions will continue to grow with each service we offer leveraging our other services. We will continue to expand these services either organically or by acquisition where this route provides better value. We believe that the markets we serve will continue to provide us with ample opportunities for expansion and that this will provide the basis for long-term growth into the future.

enquiries:

John Hamer, Chairman

Chris Aspinwall, Chief Executive

Andy Malpass, Finance Director

www.fidessa.com

Tel: 01483 206300 Fax: 01483 206301

Edward Bridges, Financial Dynamics

Ben Way, Financial Dynamics

Tel: 020 7831 3113

Fax: 020 7831 6341

Consolidated Profit and Loss Account
for the year ended 31st December 2004

		2004	2003
			restated
	Note	£'000	£'000
Turnover	3	59,768	56,489
Operating profit	4	8,120	7,643
Exceptional items			
From sale of operation discontinued in 2001	6	500	500
		-----	-----
Profit on ordinary activities before interest		8,620	8,143
Net interest receivable		1,239	1,103
		-----	-----
Profit on ordinary activities before tax		9,859	9,246
Tax on profit on ordinary activities		(2,252)	(1,920)
		-----	-----
Profit for the financial year		7,607	7,326
Dividends paid and proposed	7	(2,765)	(10,519)
		-----	-----
Retained profits/(losses) for the year		4,842	(3,193)
		-----	-----
Earnings per ordinary 10 pence share	8		
Basic – adjusted to exclude exceptional items and tax deduction for share options exercised by employees		21.5p	19.5p
Diluted – adjusted to exclude exceptional items and tax deduction for share options exercised by employees		21.0p	18.7p
Basic – total operations		23.9p	23.9p
Diluted – total operations		23.4p	22.9p

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31st December 2004

		2004	2003
			restated
		£'000	£'000
Profit for the financial year		7,607	7,326
Differences on exchange on re-translation of net assets of overseas undertakings		(206)	(584)
		-----	-----
Total recognised gains and losses		7,401	6,742
		-----	-----

Consolidated Balance Sheet

at 31st December 2004

		2004		2003
				restated
Note	£'000	£'000	£'000	£'000
Fixed assets				
Tangible fixed assets		6,517		4,945
Current assets				
Debtors	16,194		15,930	
Cash and short-term investments	24,590		28,498	
	-----		-----	
		40,784		44,428
Creditors: amounts falling due within one year		(20,220)		(27,456)
		-----		-----
Net current assets		20,564		16,972
		-----		-----
Total assets less current liabilities		27,081		21,917
Creditors: amounts falling due after more than one year		(328)		(392)
		-----		-----
Net assets		26,753		21,525
		-----		-----
Capital and reserves				
Called up share capital		3,268		3,268
Share premium account		11,610		11,610
Profit and loss account		11,875		6,647
		-----		-----
Total equity shareholders' funds	9	26,753		21,525
		-----		-----

Consolidated Cash Flow Statement

for the year ended 31st December 2004

		2004		2003
	Note	£'000	£'000	restated £'000
Net cash inflow from operating activities	10		10,727	11,375
Returns on investments and servicing of finance				
Interest received		1,235	1,090	
Interest paid		(2)	(1)	
Net cash inflow from returns on investments and servicing of finance			1,233	1,089
Tax				
United Kingdom tax paid		(1,792)	(678)	
Overseas tax refund/(paid)		44	(1,946)	
Tax paid			(1,748)	(2,624)
Capital expenditure and financial investments				
Purchase of tangible fixed assets		(4,234)	(3,027)	
Purchase of own shares by Share Bonus Trust		(309)	(345)	
Sale of tangible fixed assets		11	32	
Sale of own shares held by Employee Benefit Trust		901	590	
Repayment of loan notes		500	500	
Net cash outflow for capital expenditure and financial investments			(3,131)	(2,250)
Equity dividends paid			(10,855)	(1,651)
Net cash (outflow)/inflow before use of liquid resources and financing			(3,774)	5,939
Management of liquid resources				
Cash taken off deposit			553	656
Financing				
Share options exercised			-	156
(Decrease)/increase in cash			(3,221)	6,751

Notes

- 1 The results for the years ended 31st December 2004 and 31st December 2003 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 2003 have been delivered to the Registrar of Companies. The Annual Report and Financial Statements for the year ended 31st December 2004 will be mailed to shareholders on 11th March 2005 and will be delivered to the Registrar of Companies following the Annual General Meeting which will be held at 10.00 am on Tuesday 26th April 2005 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 Analysis of turnover

Turnover is analysed by geographical destination as follows:

	2004	2003
	£'000	£'000
United Kingdom	25,116	23,482
USA and Canada	23,679	23,733
Continental Europe	3,603	2,833
Rest of World	7,370	6,441
	-----	-----
	59,768	56,489
	-----	-----

4 Operating profit

	2004	2003
		restated
	£'000	£'000
Turnover	59,768	56,489
Staff costs – salaries	29,093	28,324
Staff costs – social security	2,757	2,662
Depreciation	2,469	2,535
Auditor's remuneration for the Company	40	33
Auditor's remuneration for other companies in the Group	125	106
Fees paid to auditor for non-audit related work	45	136
Operating lease rentals – property	2,240	2,322
Operating lease rentals – plant and machinery	58	74
Loss on sale of tangible fixed assets	8	2
Exchange losses	340	164
Other operating expenses	15,161	13,112
Other income	(688)	(624)
	-----	-----
Operating expenses	51,648	48,846
	-----	-----
Operating profit	8,120	7,643
	-----	-----

5 Staff numbers

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

	2004	2003
	Number	Number
United Kingdom	288	303
USA	162	141
Continental Europe	2	1
Rest of World	33	33
	-----	-----
	485	478
	-----	-----

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

	At 31st December	At 31 st December
	2004	2003
	Number	Number
United Kingdom	299	290
USA	181	144
Continental Europe	3	1
Rest of World	36	30
	-----	-----
	519	465
	-----	-----

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 third scheduled repayment of the unsecured loan notes occurred and provided an exceptional gain of £500,000. The first and second scheduled repayments of the unsecured loan notes had occurred in 2002 and 2003 respectively providing an exceptional gain of £500,000 in each of those years.

7 Dividends paid and proposed

	2004	2003
	£'000	£'000
Increase in final or special dividend for prior year	-	9
Interim dividend of 2.70p (2003 1.85p)	914	569
Final dividend of 5.80p (2003 6.15p)	1,851	1,944
Special dividend of nil (2003 25.3p)	-	7,997
	-----	-----
	2,765	10,519
	-----	-----

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 495p (2003 373p) for the year.

	2004	2003
		restated
	£'000	£'000
Profit attributable to shareholders	7,607	7,326
Tax deduction for share options exercised by employees	(279)	(845)
Exceptional items after tax		
- repayment of loan note written off in a previous period	(500)	(500)
	-----	-----
Adjusted profit attributable to shareholders	6,828	5,981
	-----	-----
	2004	2003
	Number '000	Number '000
Average number of shares in issue	32,679	31,817
Average number of shares held by the employee trusts	(909)	(1,185)
	-----	-----
Shares used to calculate basic earnings per share	31,770	30,632
Dilution due to share options	686	1,375
	-----	-----
Shares used to calculate diluted earnings per share	32,456	32,007
	-----	-----

9 Reconciliation of movements in shareholders' funds

	2004	2003
		restated
	£'000	£'000
Profit for the financial year	7,607	7,326
Dividends paid and proposed	(2,765)	(10,519)
	-----	-----
Retained profit/(loss) for the year	4,842	(3,193)
Other recognised profits/(losses) relating to the year	(206)	(584)
Movement in share capital from exercise of share options	-	126
Movement in share premium from exercise of share options	-	30
Movement in ESOP reserve from purchase of shares and exercise of share options	342	66
Movement in profit and loss reserve from exercise of share options	250	179
	-----	-----
Net increase/(decrease) in shareholders' funds	5,228	(3,376)
Opening shareholders' funds (originally £27,097,000 for the group and £16,289,000 for the company before deducting prior year adjustment of £2,196,000)	21,525	24,901
	-----	-----
Closing shareholders' funds	26,753	21,525
	-----	-----

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

	2004	2003
		restated
	£'000	£'000
Operating profit	8,120	7,643
Depreciation charges	2,469	2,535
Loss on sale of tangible fixed assets	8	2
Increase in debtors	(623)	(116)
Increase in creditors	753	1,311
	-----	-----
Net cash inflow from operating activities	10,727	11,375
	-----	-----

International Financial Reporting Standards

All listed companies in the European Union have to report their consolidated results under International Financial Reporting Standards (IFRS) for accounting periods commencing on or after 1st January 2005. This means that the new standards will first affect royalblue's reporting for the year ending 31st December 2005, commencing with the interim results for the six months ending 30th June 2005. Comparative 2004 numbers prepared under IFRS will be presented with the 2005 results. Below is presented a provisional reconciliation between the UK GAAP and IFRS results for 2004.

Draft Reconciliation of the Consolidated Profit and Loss Account from UK GAAP to IFRS for the year ended 31st December 2004

	Notes	UK GAAP (extracted from audited numbers) £'000	Adjustment for employee benefits Unaudited £'000	Provisional numbers under IFRS Unaudited £'000
Turnover		59,768	-	59,768
Costs	a	(51,648)	(343)	(51,991)
Operating profit		8,120	(343)	7,777
Net interest receivable		1,239	-	1,239
Gain from sale of operation discontinued in 2001		500	-	500
Profit on ordinary activities before tax		9,859	(343)	9,516
Tax on profit on ordinary activities	a	(2,252)	40	(2,212)
Profit for the financial year		7,607	(303)	7,304
Earnings per ordinary 10 pence share				
Basic		23.9p		23.0p
Diluted		23.4p		22.5p

Draft Reconciliation of the Consolidated Balance Sheet from UK GAAP to IFRS
at 31st December 2004

	Notes	UK GAAP (extracted from audited numbers) £'000	Adjustments for employee benefits Unaudited £'000	Adjustments for reclassifications Unaudited £'000	Adjustments for other items Unaudited £'000	Provisional numbers under IFRS Unaudited £'000
Non-current assets						
Property plant and equipment	b	6,517	-	(170)	-	6,347
Intangible assets	b	-	-	170	-	170
Debtors over one year	b	-	-	898	-	898
Deferred tax	a, b	-	370	1,623	-	1,993
		-----	-----	-----	-----	-----
		6,517	370	2,521	-	9,408
Current assets						
Deferred tax asset	b	1,623	-	(1,623)	-	-
Debtors over one year	b	898	-	(898)	-	-
Other debtors		13,673	-	-	-	13,673
Cash		24,590	-	-	-	24,590
		-----	-----	-----	-----	-----
		40,784	-	(2,521)	-	38,263
Total assets		47,301	370	-	-	47,671
		-----	-----	-----	-----	-----
Capital and reserves						
Share capital		3,268	-	-	-	3,268
Share premium		11,610	-	-	-	11,610
Profit and loss account	a, c	11,875	348	-	1,851	14,074
		-----	-----	-----	-----	-----
		26,753	348	-	1,851	28,952
Non-current liabilities		328	-	-	-	328
Current liabilities						
Dividend payable	c	1,851	-	-	(1,851)	-
Other creditors	a	18,369	22	-	-	18,391
		-----	-----	-----	-----	-----
		20,220	22	-	(1,851)	18,391
Total equity and liabilities		47,301	370	-	-	47,671
		-----	-----	-----	-----	-----

Notes to the reconciliation between UK GAAP and provisional numbers under IFRS

Research and Development (R&D); IAS 38 Intangible Assets

The standard determines the treatment of expenditure on R&D. For expenditure on research there is no change, with all such expenditure expensed to the profit and loss account as incurred. However, the standard is more prescriptive than UK GAAP concerning the recognition of intangible assets on the balance sheet from expenditure on product development. This is a sensitive area for the software sector and, as yet, no normal practice under IFRS has been established for the sector. The Board will monitor how normal practice evolves in the sector before determining an accounting policy in this area. Progress in this regard will be reported on with the 2005 interim results, or earlier. The 2004 development expenditure that may qualify for recognition as an intangible asset was £4.9 million.

a Employee benefits; IFRS2 Share-based Payment and IAS 19 Employee Benefits

The primary change is that IFRS2 requires that the fair value for share incentives to employees be estimated and charged to the profit and loss account over the vesting period of the incentive. This only applies to share incentives granted and awarded since November 2002 and therefore the charge is likely to increase as further grants are made. The standard also requires that the potential tax benefit to employing companies from share incentives being exercised in the future be recorded as a deferred tax asset based on the intrinsic value of the incentives at the balance sheet date.

b Balance sheet reclassifications

The overall structure of the balance sheet is different under IFRS than under UK GAAP, involving a number of reclassifications. Software purchased for use within the business is separated from property, plant and equipment and classified as intangible assets. Deferred tax assets and other assets due for collection in over one year are classified under non-current assets under IFRS.

c Dividends payable

Under IFRS dividends are charged to the profit and loss account when approved and not in the period to which they relate. This results in the final dividend for 2004, which is subject to shareholder approval at the 2005 Annual General Meeting, being charged to the profit and loss account in 2005.