

Four things  
that really  
matter to us...

RM plc  
Annual report and accounts 2007



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# RM at a glance

## Our company

The RM Group is a leading provider of educational products and services to schools, colleges & universities, local government and central government education departments & agencies. Founded in 1973, RM works closely with educationalists to use new products, processes and technology to improve teaching and learning and is recognised as a leading innovator in educational ICT (information and communications technology).

## Our vision

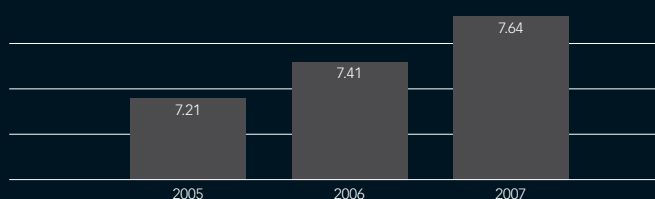
RM is about improving the life chances of people – worldwide – by delivering outstanding educational products and services that help teachers to teach and learners to learn.



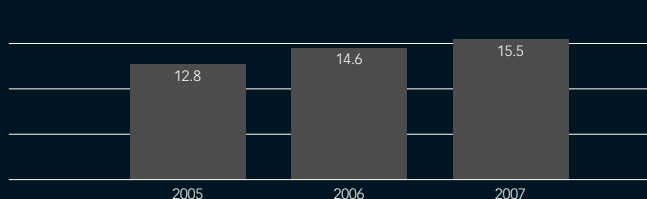
## Where education and technology meet

	Description of activities	Group businesses
Learning technologies	ICT infrastructure, software and services for education establishments – learning platforms, computer systems, connectivity, networking software, and support	RM Education Sentinel
Assessment and data services	Process management and outsourcing of educational testing and examinations; education data analysis services	RM Education Forvus SERAP
Education management systems	Software to support management and administration of schools and local authority education departments	School Management Solutions CAZ Software RM Asia Pacific
Education resources	Curriculum-focused products that make classroom learning fun, motivational and effective	RM Education RM Education Software Inc 3T Productions TTS DACTA MES SpaceKraft Softease

## Customer satisfaction score



## Profit before tax £m\*



\*Before 2007 exceptional pension credit, amortisation of acquisition related intangible assets and goodwill charges

# Providing superb educational products and services



Education is RM's business. Providing products and services that make a real difference for learners and teachers is at the heart of everything we do – and it has been for 30 years.



### **Personalising learning**

Working with long-term hardware partner Asustek, we've introduced the revolutionary RM Asus miniBook. The miniBook offers fully-featured Internet computing and – at £169 – makes one-per-pupil computing affordable for many schools.

It's just the latest example of how we constantly look to take the most innovative technology and then make it work well in the challenging classroom environment.



### **Helping schools run their businesses**

We've always provided the software and services at the heart of schools' classroom ICT systems. Now, as schools increasingly look to ICT to help transform the processes at the heart of education, we're providing software for that as well.

Learning platforms – which support communication, collaboration and educational workflow between learners, teachers, parents and educational administrators – will be part of the fabric of future schools. With projects like Glow, we're at the forefront of innovation.

Delivering  
success for  
our customers  
– now and  
in the future

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Our customers have always looked to us to make sophisticated technology work for them. Increasingly, they're asking us to take on some of the responsibility of delivering educational outcomes as well.



### **Delivering educational qualifications**

In 2007 we completed four years of work with the South Yorkshire eLearning Partnership. As well as providing managed ICT services, RM also took responsibility for delivering measurable educational improvements. The result? More than 18,000 citizens in Barnsley, Doncaster, Rotherham and Sheffield received ICT qualifications – a significant benefit to skills in the local economy.



### **Customer success**

We started measuring customer satisfaction in 2002 because we wanted to ensure that our products and services were as straightforward and usable as our customers need them to be. Our externally-reviewed customer satisfaction score has increased every year since then.

Customer satisfaction is only one measure of how useful our products and services really are. We also work closely with our customers to understand what we're doing to help them achieve educational success – and to implement their ideas for new products and services.

# Developing businesses that build our competitive advantages

# 3

Three core characteristics underpin our success – education focus, technical capability and relative scale. It's a winning combination – in our chosen market areas no one else offers such a strong set of competitive advantages.





#### **Four focus areas**

Our aim is to build profitable and stable businesses that fit well with – and reinforce – our combination of competitive advantages.

We focus on four areas – Learning Technologies, Assessment and Data Services, Education Management Systems and Education Resources. Together they make for a diverse – and complementary – set of education-focused businesses.



#### **BSF**

BSF (Building Schools for the Future) is a great example of where our competitive advantages work together. Local authorities are looking for a strategic partner who understands how technology contributes to transforming education, and who can deliver sophisticated, multi-year, multi-million-pound contracts.

We're establishing a position as market leader – well over one-third of ICT contracts awarded so far have come to us. And a typical BSF project will draw intellectual property, products and services from more than one of our business areas.

# Being a responsible business

# 4

Our customers, employees and the communities in which we operate expect the highest standards of behaviour from us. It's good business sense to deliver them – over the long-term, satisfied customers and employees are the best guarantee of delivering superior returns for our shareholders.



### Looking after the environment

Our activities impact the environment in two significant ways – our own use of power; and the electricity used by the products we supply to customers. In 2007 we set – and beat – targets in both of these areas.

Our ecoquiet® PC range is setting the pace for low-energy computers. We can go much further though. We've set ourselves the objective of developing a PC that consumes less than 50 watts by 2009 – which will be a four-fold reduction in power consumption over five years.



### A great place to work

The best people can choose their employers – and we aim to be a place where people want to come to work. We want to satisfy our people's desire to make a difference – to our customers and to the communities where we operate – as well as offering fulfilling professional challenges.

Employee satisfaction is one of our most important measures and in 2007 we again exceeded the target we set for ourselves. Our annual company survey showed that our people scored us ahead of comparable companies in 32 out of 34 categories.

## Highlights

Year to 30 September	2007	2006
Revenue	<b>£270.9m</b>	£262.3m
Profit before tax (before amortisation of acquisition related intangible assets and exceptional pension credit)	<b>£15.5m</b>	£14.6m
Profit before tax	<b>£18.4m</b>	£14.5m
Diluted EPS (before amortisation of acquisition related intangible assets and exceptional pension credit)	<b>12.3p</b>	11.5p
Diluted EPS	<b>14.5p</b>	11.5p
Dividend per share (proposed and paid)	<b>5.49p</b>	5.17p
Net funds less deferred consideration	<b>£27.4m</b>	£28.5m
Committed revenues	<b>£330.0m</b>	£240.0m
Customer satisfaction (on a scale of zero to ten)	<b>7.64</b>	7.41
Employee satisfaction	<b>74.6%</b>	73.2%

## Chairman's statement



**John Leighfield**  
Chairman

Dear Shareholder,  
I am pleased to be reporting another year of good results for RM: profit has increased; committed revenues have grown strongly; customer satisfaction has increased; and the Group's strategic development continues to move forward. RM is an increasingly diverse group of businesses, each supporting education and each making a real contribution to teaching and learning.

### Results

Profit before tax (before exceptional pension credit and amortisation of acquisition related intangibles) increased 6% to £15.5m (2006: £14.6m) – a strong performance in a year when we also continued to invest in the strategic development of the Group by bidding for projects and by accelerating investment in new product development.

The Group's customer satisfaction score, our key non-financial measure, increased further to 7.64 (2006: 7.41).

RM's dividend has increased or been maintained at the same level every year since the Group floated in 1994 and, reflecting our continued good progress and the Board's confidence in the Group's future, the Board is recommending a further increase this year. A proposed final dividend of 4.30p will increase the full-year dividend by 6.2% to 5.49p (2006: 5.17p).

### BSF

The Government's BSF (Building Schools for the Future) programme, which aims to renew every secondary school in England, will set the shape of the secondary school ICT market for at least the next ten to fifteen years. In its early years, its contribution to the

Group's revenue and profit will be modest, and bidding for BSF contracts will consume substantial management time and Group resource. However, in the longer term, BSF will be a key driver of the Group's growth.

We are making excellent progress. In 2007, five out of nine local authorities who made a decision on BSF contracts chose RM as their ICT supplier – well ahead of our target and our historical market share. This level of success clearly establishes RM as the market leader and provides a high level of committed revenues to be delivered over the next decade.

### Board

Since the end of the year, having completed three terms as an Independent Non-Executive Director, Sherry Coutu has retired from the Board. Sherry's energy and entrepreneurial spirit, as well as her experience in many areas of business development, have been much valued by her colleagues and we will miss her. On behalf of everyone at RM, I would like to thank Sherry for her significant contribution to the Group's development.

I am pleased that she will continue to provide insight and advice as a member of our Education Advisory Council.

### People

It is great news for the Group that, in our annual staff survey, overall employee satisfaction has increased again this year. As always, our success is a direct result of the talent and commitment of the people who choose to work here. It is personally inspiring for me to work with a team that shares a deep commitment to getting things right for our customers and making a difference to education.

### Strategy

Our strategy remains to develop profitable businesses which build on and reinforce our competitive advantages of education focus, technical ability and relative scale. In looking at how we should address the future, we have identified four key areas (Learning Technologies, Assessment and Data Services, Education Resources and Education Management Systems) and structured the Group to provide focus for each of them. This approach is working well and we have made good progress in each area.

### Looking ahead

Last year the Board set four priorities for the Group: building on our position to become the leading provider of ICT to the BSF programme; establishing our newer business areas; further enhancing our position in the individual schools market; and helping our customers achieve success. In 2008, our priorities remain largely the same, though in each case we are building from a significantly stronger starting point.

Most importantly of all, it will be our ability to help our customers achieve their success in providing education that will drive prosperity for the Group. A typical example of this is the work we are doing with Education Leeds, where we are taking a high level of responsibility for delivering real educational transformation across a local authority – pupils in Leeds depend on us, in part, for their personal success. This is the sort of challenge we relish – and one to which we are well-equipped to rise.

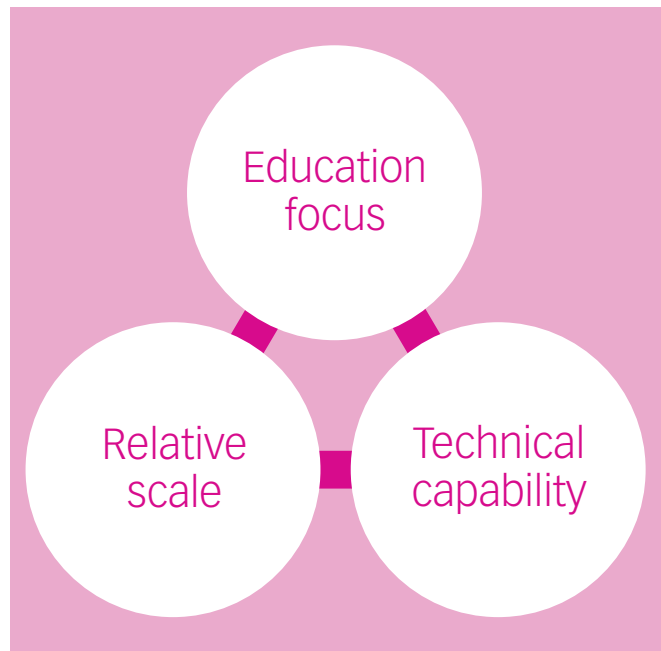
### John Leighfield

19 November 2007

## Our business



RM provides innovative products and services for educational establishments and the broader education service.



Focusing at the point where education and technology meet, RM develops products, processes and technology which improve educational delivery and educational management. Its activities cluster around four focus areas.

- Learning Technologies – reliable and cost-effective ICT infrastructure, software and services – including learning platforms, computer systems, connectivity, networking software and support services – for schools, colleges and universities.
- Assessment and Data Services – process management and outsourcing of educational testing and examinations; data analysis services for teachers, education managers and policy makers.
- Education Management Systems – software systems which support the day-to-day management and administration of schools and local authority education departments.
- Education Resources and Software – curriculum-focused products designed to make classroom learning fun, motivational and effective.

RM is structured as a group of operating companies, each with specific knowledge, skills and experience. In larger projects, these operating companies typically work together to provide a broad, rich and educationally useful solution.

### **Our strategy: building sustainable competitive advantage**

RM has identified a clear and distinctive set of competitive advantages: technical capability, education focus and relative scale. In combination, these competitive advantages make RM uniquely well-qualified to address existing and emerging opportunities available in the educational ICT market – both in the UK and internationally.

- Technical capability: RM employs over 400 people in research & development roles; the Group is also an active recruiter of technical graduates. In-depth training and development is provided for all technical staff. The Group seeks to engage in projects that will engage and motivate the very brightest technical minds.
- Education focus: A significant number of RM's staff have previously worked in the education service as teachers, advisers or ICT specialists. All of the Group's people are encouraged to engage with local schools and learn more about education.
- Relative scale: RM has the scale to deliver the large and complex projects that are increasingly a feature of the education market.

## Business review Operations



In 2007, we established ourselves as the leading ICT supplier to the Government's BSF (Building Schools for the Future) programme, winning five of the nine contracts announced in the year. We've also made good progress in all four of our focus areas, seen further strong growth in committed revenues, and achieved further increases in both customer and employee satisfaction.

### Context

RM is wholly focused on the education market; we believe that the opportunities available in this market provide scope for stable and profitable growth. With four separate focus areas and a growing international presence, RM is a diverse and exciting group of businesses.

In the UK, the Government's Comprehensive Spending Review, announced in October, reinforced education as a central public priority in the UK. Total education spending will increase – in real terms – by 2.8% year-on-year in the next three government years. Looking further ahead, the Office of National Statistics forecasts that the population of school-age children, which has been declining in recent years, will start to grow again from 2010.

### Results

Results for the year were in line with expectations and fully met the Board's targets.

Group revenue increased to £270.9m (2006: £262.3m).

Profit before tax was £18.4m (2006: £14.5m); this includes an exceptional credit of £3.5m related to a reduction in the Group's pension deficit. Profit before tax before this exceptional credit and before amortisation of acquisition related intangible assets was up 6% to £15.5m (2006: £14.6m). This profit is after expensing BSF bid costs of £3.6m (2006: £3.8m).

At 30 September 2007, net funds less deferred consideration were £27.4m (2006: £28.5m). Cash outflows in the year included a special pension payment of £2m, acquisitions of £4.5m and dividend payments of £4.8m.

RM's externally-reviewed customer satisfaction score, which has increased year-on-year since we started measuring it in FY2002, increased further to 7.64 (on a scale of zero to ten; 2006: 7.41). The Group's overall employee satisfaction score for the year was 74.6% (2006: 73.2%), the third year of improvement.

Committed revenues (order book, deferred revenues and projects at preferred bidder stage) at 30 September 2007 were £330m (30 September 2006: £240m; September 2002: £100m), demonstrating the progress we have made in improving visibility of future business.

### Learning Technologies

RM Community Connect® is a central part of the ICT infrastructure we supply both to individual schools and to large education projects, and is the most widely used network management system in UK schools. During 2007, we introduced a range of upgrades designed to support Microsoft® Windows® Vista™ and 'thin-client' computing. However, the majority of our development activity in this area was focused on the introduction of Community Connect 4, a major new release, which we anticipate will drive additional sales volume in FY2008.

Against a recent downward trend, PC sales increased during 2007, benefiting from the Government's Computers for Pupils (CfP) scheme which provides direct funding to provide home access to PC hardware for disadvantaged pupils. RM is working with over 20 local authorities, including London Grid for Learning, where we provide 3G mobile filtered Internet connectivity and other manufacturers' PCs, as well as a range of RM hardware products. Increasingly, PC supply is about addressing complex operational and logistical issues in educational environments; something RM is very well qualified to do.

Our ecoquiet® range of low-power PCs has performed very well this year, significantly exceeding the sales target we set for it. We also continue to develop our PC hardware range and have recently introduced the revolutionary RM Asus miniBook. The miniBook offers full network computing facilities at prices starting at £169, which is a breakthrough in achieving 1:1 pupil:computer ratios. RM has exclusive UK education rights to the product, which has been extremely well received by commentators and educationalists.

We have commented over a number of years on the increasing importance of learning platforms to schools. Learning platforms are sophisticated information systems that support teaching and learning processes, and facilitate communication and collaboration between teachers, learners and parents/carers. Through the Glow project in Scotland, RM is a leading provider of this kind of system. Glow continues to go well, completing acceptance tests during the year and being fully launched at the Scottish Learning Festival in September. Our target for FY2008 is successful large-scale deployment.

We've also made good progress in building an installed base of learning platforms in English local authorities – both through our BSF activities and through direct sales. Over the next two years establishing a position as one of the major suppliers of learning platforms is extremely important to RM. During 2007, we have significantly increased investment in product development to ensure that Kaleidos®, RM's learning platform, is the market-leading product.

## BSF

BSF, a ten to fifteen year programme to renew all secondary schools in England, will transform the secondary school ICT market and is a massive long-term growth opportunity for RM. Of the £45bn central government and local authority funding allocated to the programme, c.£5bn will be spent directly on ICT; in addition, schools will add to this from their own budgets. BSF will result in the market moving to long-term managed ICT service contracts.

BSF offers significant opportunity in addition to the initial projects. ICT suppliers who are selected for BSF contracts are well-placed to win additional business in the form of contract extensions, future BSF waves in the same local authorities, and additional ICT business from the BSF schools. Taken together, these additional business opportunities represent a larger potential market than the initial contracts themselves, with success entirely dependent on ensuring long-term happy customers.

RM is emerging as the clear BSF ICT market leader: during 2007, we won five out of the nine projects where decisions were made; and, in total, we have won seven out of eighteen projects awarded. BSF projects now account for over £70m of the Group's committed future revenues.

We intend to build on our early lead in the BSF programme. FY2008 is a very big year for project decisions and we have increased our bid cost budget for the year to c.£4.3m.

## Education Resources: general curriculum resources

We entered the general education resources market in 2004 with the acquisition of TTS Group. General curriculum resources is an attractive business for RM, offering both synergies (a common customer base, similar requirement for education domain knowledge and school-focused systems and processes) and access to a different part of a school's budget.

Since the acquisition of TTS Group, we've achieved significant growth in this area – both organically and through further acquisition; in 2007, revenues were in excess of £20m. Organic growth has included: introduction of new catalogues; development of own brand products, including Electric Education products such as BeeBot; increased online trading; and the development of Special Direct, a special educational needs (SEN) business.

In 2008 we anticipate further growth, driven by recent acquisitions and by the recently-won Tesco Sport for Schools and Clubs contract.

- DACTA, which we acquired for a net cost of £3.8m in May 2007, is a specialist distributor of branded products to education establishments. DACTA holds exclusive European educational distribution rights for a number of high-profile brands, including LEGO; LEGO's interactive products are widely used by schools for teaching ICT and Craft, Design & Technology. DACTA also provides the Group with access to a Europe-wide network of education dealers, which can act as a channel for other Group products.
- SpaceKraft, which we acquired for a net cost of £4.4m in October 2007, after year-end, has two main areas of activity: it is a catalogue-based supplier of differentiated SEN and early years products, which will bring further scale to our existing SEN activity; and also designs and installs sophisticated 'sensory environments' and soft play rooms, which are used to provide multi-sensory stimulation for SEN pupils, and which are often specified as part of BSF programmes.
- Tesco Sport for Schools and Clubs is a voucher-based scheme, through which Tesco shoppers collect vouchers that can be exchanged by schools and sports clubs for sports equipment. The contract, which complements our existing Tesco Computers for Schools contract, was won against strong competition from the existing supplier, demonstrating that the Group is now firmly established as one of the UK's leading education resources suppliers.

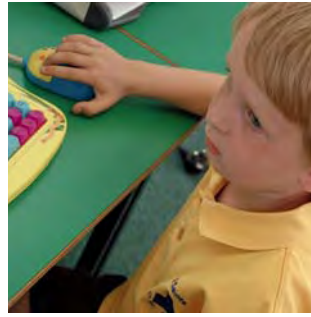
## Education Resources: education software

As we have previously reported, education software has been a difficult market in the UK for some years; consequently, it has not been a high investment priority for RM. There are now reasons to anticipate improvement: the suspension of BBC jam removed a threat from the market; the growing use of learning platform software increases the need for online learning materials; and the move towards 1:1 pupil:computer ratios is likely to result in online materials replacing textbooks. We are concentrating our development activities in the emerging, high potential areas of content generation and Web 2.0 creativity and collaboration.



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Increasingly, our education software products are designed and developed for the international – and particularly the North American – market. In FY2007, our US subsidiary, RM Educational Software Inc had a very successful year, with revenue doubling. We anticipate further revenue growth in the US in FY2008.

### **Assessment and Data Services**

Over the last three years we have been working with examination boards and providers of qualifications to use ICT to transform – and in some cases outsource – the processes behind testing, examination and assessment.

On-screen marking is increasingly becoming mainstream and, during 2007, we were appointed by Cambridge Assessment (Europe's largest assessment agency) as their long-term, strategic supplier of outsourced on-screen marking services. This contract is likely to be worth in excess of £21m over five years and is an excellent platform for developing further this part of the Group's business. We already have pilots in place with a number of other examination boards and qualification providers.

We are also working with AQA, one of the UK's three leading examination boards, to develop on-screen testing, which allows learners to take tests using computers.

The UK increasingly uses detailed pupil performance and assessment data to drive educational improvement. Through the acquisition of Forvus in July 2003, RM became a major provider of data collection, collation, analysis and presentation services for schools, local authorities and central government. In particular, we are responsible for providing data for the annual school performance tables in England. The acquisition of SERAP during 2007 reinforces our position in this market, bringing two key providers of these services together in the RM Group.

### **Education Management Systems**

As we have previously reported, the development and market deployment of Integris<sup>62</sup>, our innovative, Web-delivered school management platform, is the major activity in our Education Management Systems business. The primary school version of this software is now complete, with the secondary school and Welsh and Australian versions still in development. During the year we have secured further local authority contract wins and the software is included in a number of our BSF proposals and projects.

We are currently bidding for a contract in the State of Victoria in Australia, where we already provide school management software. The contract is to provide an educational intranet of similar scale to Glow and with similar technical development requirements. Our proposed solution builds on the Group's unique expertise in this area. RM does not usually provide information about projects still in bid phase; however, in this case, we think our ability to compete for this kind of business is a clear demonstration of the Group's capabilities and growing international presence.

### **Customers**

Customer satisfaction, the Group's most important non-financial measure, has increased year-on-year since we started measuring it in 2002.

After two years of being selected as finalists in the HDI (Help Desk Institute) annual awards, this year we won the 2007 Support Team Excellence Award; we have also been selected as finalists in the 2007 National Customer Service awards. We believe that achieving consistently high levels of customer satisfaction is one of the most effective ways of delivering long-term success for our shareholders; these awards demonstrate the very high standard of customer service we are delivering.

### **Prospects**

As we always say at the time of our preliminary results statement, it is too early in the year to give any meaningful outlook for FY2008 as a whole. RM is a seasonal business, with the majority of revenue and profit occurring in the second half. However, the substantial year-on-year increase in committed revenues clearly shows that the visibility of RM's future business is much improved.

BSF remains the single most important driver of the Group's future success. By any measure, we've had an excellent year for project wins in FY2007 and have set our future project win rate (by value) target higher as a result. BSF is a long-term investment case – longer than many others in the software and computer services sector. The projects won in FY2007 will not significantly impact revenues and profits before FY2009/10, whilst bidding costs for these projects have already been expensed. However, with the projects we have already won and those we expect to win over the next few years, we anticipate the profit contribution from BSF will exceed bid costs in FY2010.

Each of our focus areas is progressing well: Learning Technologies has an extremely strong set of innovative products covering all of the important areas of schools ICT infrastructure; Education Resources has now reached significant scale; Assessment and Data Services has moved from piloting and exploration to delivering mainstream outsourced examination services; and Education Management Systems is reaching the end of a period of investment in product development.

RM is a group of businesses wholly focused on education. With consistent education spending growth – both in the UK and across the world – we're aiming for growth.

# Business review

## Responsible business

RM was founded in 1973 by Mike Fischer and Mike O'Regan on the principle that long-term business success is best achieved by delivering benefits for all stakeholders: employees and the broader community, as well as customers.

It is RM's policy to communicate openly about its business practices and to be accountable for its actions. The Group aims to maintain the highest ethical standards in our business behaviour and behave responsibly towards the communities in which we operate and which we serve.

### People

RM aims to involve and engage all employees in the development of the Group, to ensure that all of our people benefit from the Group's success, and to provide everyone who works here with opportunities for growth.

An open communications policy means that RM's people have access to the information they need to understand the Group's activities and the part they are expected to play. An annual 'Company Brief', which is available to all staff, sets out performance in the previous year and objectives for the future. Monthly 'Management Brief' sessions are used to provide managers with key business information, which is then cascaded throughout the organisation. RMI, a Group-wide intranet, provides business updates and information as they happen and also includes a 'CEO Blog', in which Tim Pearson writes about key issues for the business.

### Vision:

RM is about improving the life chances of people – worldwide – by delivering outstanding education products and services that help teachers to teach and learners to learn.

### Values:

- Customer Success
- High Standards
- Innovation & Improvement
- Openness
- Respect for Others
- Enjoying Ourselves

Employees share in the Group's success through an element of performance-related pay and through the allocation of shares under the RM Staff Share Scheme. Performance-related pay is influenced by non-financial performance indicators, such as customer satisfaction, in addition to financial measures. Share option schemes and a long-term incentive plan (the RM Co-Investment Plan) are an important factor in recruiting, retaining and motivating senior staff.

RM's annual staff survey measures the attitudes and satisfaction of people across the Group; overall employee satisfaction has increased each year since the survey started in 2003. The most recent survey, performed in July 2007, showed an overall employee satisfaction rating of 74.6% (2006: 73.2%). RM scored ahead – dramatically ahead in many cases – of a benchmark score (based on comparable companies) in 32 out of 34 categories.

The staff survey is shared with all of our people and used to identify important areas of improvement. For example, last year's survey identified a clear need to improve training and development in some areas; this has been addressed during 2007 and this year's survey showed significant improvement, with staff now scoring us ahead of the benchmark.

### Playing a part in the broader educational community

RM endeavours to play a part in the broader educational community, as well as serving our direct customers. We maintain strong relationships with educationalists, education policy makers, relevant non-departmental public bodies and trade associations. This engagement takes the form of direct personal contact, formal surveys and detailed research.

We are fortunate to have two of the UK's most respected educationalists – Sir Mike Tomlinson and Professor Tim Brighouse – as members of the RM Board. As well as providing valuable input to the Board's strategic thinking, Mike and Tim also sit on the Group's Education Advisory Council (EAC), along with RM Founders, Mike Fischer and Mike O'Regan, and former Non-Executive Director, Sherry Couto. The EAC brings together leading educational thinkers and senior RM staff, providing a mechanism for bringing current educational thinking into RM.

RM is an active member of – and participant in – relevant trade associations. Several of RM's senior managers serve on the Executive Council of BESA (the British Educational Suppliers Association) and an RM representative is currently Chairman of the Association. RM is also represented on the Board of Intellect (the trade association for the UK technology industry) and chairs Intellect's Education Working Group. The Group was a founding member of the 21st Century Learning Alliance, a group comprising policy makers and suppliers which aims to encourage the effective use of technology in learning.

Wherever possible, we also engage with relevant government departments and agencies. During 2007, Tim Pearson represented RM on the Department for Children, Schools and Families 'Home Access Taskforce' – a high-level Group, chaired by a Government Minister, convened to consider how best to address 'digital divide' issues amongst disadvantaged school pupils. Group staff also participated in a range of events hosted by Becta (the government agency tasked with improving the use of ICT in education).



**RM's Tim Pearson and Tesco's Terry Leahy plant a tree**

For every ecoquiet PC supplied by the Tesco Computers for Schools initiative, £5 was donated to the Woodland Trust.

RM will only be able to deliver educationally effective products and services if the Group's people genuinely understand the needs, challenges and aspirations in the educational community we supply. All of our people are encouraged to increase and improve their knowledge of our customers' needs. Many staff have specific objectives to spend time in schools with teachers and pupils; and all staff are encouraged to serve as School Governors. Through the RM Education Lecture programme, we also invite leading experts to address a wide cross-section of our people on important educational issues.

**Green RM**

The Government's 'Sustainable Schools' initiative has reinforced an already strong concern with environmental issues amongst our customers. Green issues are also something that our people have consistently told us they are concerned about. In 2005, we established the Green RM team, a group of committed employees with a passion for improving RM's environmental performance. Through their actions, we have made significant progress in addressing the Group's environmental impact.

A number of measures introduced during 2007, including server virtualisation in our data centres and the introduction of smart lighting systems in our production facility, have allowed us to reduce electricity consumption in our Abingdon headquarters by 14% (beating our target of 8%). We have also switched to using 'green energy'. Our 'Green Week' saw a series of energy awareness initiatives; in particular many of our people used an 'energy-bike' to understand the amount of effort required to power a PC through its start-up cycle and to experience – in a very direct way – the benefits of energy-efficient hardware.

We continue to operate a diesel- or 'hybrid'-only car fleet and, during the year, removed 4x4 cars from our list of permitted company vehicles. The estimated average CO<sub>2</sub> rating of the cars in our fleet was 145g/km (2006: 148g/km); we have also started to measure the average fuel consumption of our fleet, which exceeded 46mpg in the second half of the year. Staff are encouraged to car share or cycle wherever possible and we again ran a cycle-to-work day during the year. For the first time we have also introduced travelcard loans to encourage our people to use public transport.

We actively monitor and report on the amount of electronic equipment left switched on outside office hours. All staff are encouraged to minimise their use of paper and printing technology and all paper used is recycled; this is supported by the development of 'e-forms' as part of RMI (the Group's intranet), which allows 'paperless' workflow processes to be used across the business. We have also introduced 'desktop recycling' in the office environment.

Perhaps the most significant progress in reducing RM's environmental impact comes from the PCs we ship to our customers. As well as being fully compliant with all legislation, we regard the reduction of carbon emissions as a priority and have pioneered the development of low-power PCs with our ecoquiet product range. In 2007, we sold 20,000 ecoquiet PCs, well ahead of our target of 12,500; we've set a higher target for 2008 and we've also set ourselves the objective of working towards a 50 watt PC (including monitor) by 2009.

**Community**

RM aims to engage with and support the communities in which we operate. All employees are encouraged to devote a small amount of work time each year to support one of RM's chosen charities and, in 2007, 120 of our people spent time working in the local community.

RM's charitable activities are co-ordinated by the RM Foundation Committee, a group of volunteer employees, which seeks to identify organisations that are local to the areas where our offices are based and where RM's support will make a real difference. All our people are invited to vote annually on a shortlist of local organisations to identify the charities the Group will support that year.

RM also supports people's personal efforts to support RM's chosen charities by 'topping-up' any funds they raise. This year a number of our people participated in the London Marathon and a team of over 70, including many of the senior management team, ran in the British 10K London Run. Across these two events we raised over £40,000 for charity.

The Group set an objective in 2007 to increase the number of staff who serve as School Governors, and worked with the independent body, School Governors One Stop Shop, to match RM staff with local schools requiring support. Over 90 RM people now serve as Governors and they are provided with support and given the time required to make a useful contribution.

RM Education Solutions India runs a Scholarship Scheme, designed to encourage university education amongst poor and deserving students in Kerala. In 2007, three students were selected for scholarships and will be funded through computer science degree courses.

**Corporate objectives scorecard**

RM sets corporate objectives each year and reports on achievement against them – both to the Board and to our people. The summary scorecard provided here provides a top-level view of progress against our objectives in FY2007; more detailed objectives performance information is published internally.

**People: making RM a great place to work, and living our values**

Employee satisfaction	=
Living our values	=

**Process: finding new, improved and better ways of doing the things we do**

Recognising innovation	=
Cross divisional processes	=
RM ESI	=

**Customer: helping our customers achieve educational success**

Customer satisfaction	+
Customer success	=
Brand reputation	=

**Financial: building a business that delivers sustainable profit growth**

Order intake	+
Profit	=

**Environment: reducing the impact we have on the environment**

ecoquiet sales	+
Energy	+

**Strategic development: driving growth in all of our chosen markets**

BSF	+
Share gain	=
Assessment and Data Services	+
Education Resources	+
Education Management Systems	=

RM is exposed to risk as an inherent part of creating value for shareholders. The Group has processes in place to identify the principal risks, and to manage and mitigate the effect of them.

In the interests of transparency, the statement of risks given here contains a high level of detail in order to give a thorough analysis of the principal risks the Group is exposed to and to describe the approach it takes to mitigate them.

### Education policy

The majority of RM's business is ultimately funded from UK government sources. A change in political administration – or a change in the policy priorities of the current administration – might result in a reduction in education spending or reduced commitment to ICT within education spending (for example, due to school staff salary pressures). The Government is seeking to improve efficiency in public purchasing and the delivery of public services – this might result in changes to the kinds of products education customers purchase or the procurement methods they adopt (for example, aggregated or centralised purchasing may become more common).

The Group seeks to understand the education policy environment through regular monitoring of the policy positions of the major political parties and through building relationships with education policy makers.

### Market

RM operates in a highly competitive market. Increased market competition – both from major multinational ICT suppliers or smaller education specialists – might reduce the margin potential of the market or erode RM's market share. The PC hardware market is subject to global competition and RM has to react to continual average selling price reduction and margin pressure, as well as to US dollar rate fluctuations – this might result in part of the Group's operations becoming unprofitable. Educational practices may change – this might result in RM's products no longer meeting customer requirements.

The Group seeks to mitigate these general market risks by maintaining a broad product and service range and by investing to enhance the educational value of its offer.

### Technology

The ICT market is subject to rapid, and often unpredictable, change – inappropriate technology choices might result in the Group's products becoming unattractive to its chosen customer base. The Group provides sophisticated products and services, which require a high level of technical expertise to develop and support – this might result in a major product or project failure.

The Group closely monitors technology developments, invests continually in keeping its products up-to-date, and maintains strong relationships with key technology providers.

### BSF

The BSF initiative might result in a fundamental shift in the way secondary schools procure products and services. The Group has invested significantly in preparing bids for BSF and continues to do so. If funding for this programme was to stop, some of this investment may be wasted. The Group monitors closely the activities of education policy makers and regularly reviews its BSF strategy in the light of policy changes.

A substantial proportion of BSF bids are likely to require RM to work as part of a wider consortium. This means that the Group may invest in preparing and bidding for the ICT element of a BSF contract, yet not be successful despite clearly having the best ICT solution. The Group has put in place stringent criteria for identifying consortium partners and, where possible, seeks to contribute to the effectiveness of the overall bid as well as to the ICT elements.

Some of the contract terms for BSF projects set relatively high standards of performance and high limits of liability. The Group's success in winning these contracts means that cumulatively the liability is significant. This position is mitigated by the Group's substantial experience delivering large and complex ICT projects in education environments, and by ensuring that reasonable acceptance tests are in place so that we have a high degree of confidence in delivery.

### Execution risk

RM's business is more complex than that of most companies of a similar size – this adds to execution risk (though also offers some strategic advantage). Failing to achieve acceptable levels of customer satisfaction, which includes ensuring that its trading ethics are of the highest standards, might significantly damage the Group's reputation, reducing the likelihood of existing customers continuing to buy from the Group. The Group has in place a customer satisfaction programme, which provides an externally reviewed customer satisfaction score, and management processes designed to address any causes of customer dissatisfaction.



### Education projects

RM bids for high value, multi-year education projects, typically involving the development and integration of complex ICT systems. These projects always carry risk and ultimately one may not go according to plan – this might result in RM being committed to a project that does not achieve acceptable financial returns or that exposes the Group to contract termination or financial penalties.

The Group has a well-developed approach to bidding for large projects and no project is entered into without approval by the Board's Transactions Committee. Strong internal management control processes are in place to govern the delivery of education projects, including regular reviews by the Executive Committee and detailed progress reporting to the Board.

### People

RM's business depends on highly skilled employees; the Group might not be able to recruit the employees required to achieve its development plans. The Group seeks to be an excellent employer and has been identified as one of the UK's Top ICT Employers.

### Education Resources – physical resources

RM is increasingly involved in the supply of physical education resources that will be used by children of all ages and abilities. In particular, the rapid growth in our Education Resources division, including recent acquisitions has dramatically increased the number of physical products we are shipping. The Group is reviewing and upgrading its processes for scrutinising suppliers and products.

### Data

RM is engaged in storing and processing sensitive educational data (for example, exam papers & scripts, and school & pupil records), where accuracy, privacy and security is very important. The Group's Information Systems function has invested in developing secure data centres, and has been successfully certified to ISO/IEC 27001:2005 for the provision of systems, information and hosting services to RM Education plc.

### Acquisitions

RM has made and may make further acquisitions. These acquisitions reduce RM's exposure to any single product or market area; however, it is possible that one of them might not make the expected financial contribution to the Group. The Group carries out a rigorous analysis of all potential acquisitions. Subsequent to acquisition, the business performance of new subsidiary companies is reviewed quarterly by the Executive Committee, and the Group's internal audit function carries out regular reviews to ensure that appropriate controls and management structures are in place.

### Financial

RM has introduced procedures to ensure that it is not exposed to bad debt and that its cash reserves are with safe and secure banks. The Group has an exceptionally good record in relation to bad debts because of the good credit standing of most of its customers. Where the Group deals with customers who are not public bodies and those customers constitute significant business, the Group usually asks third parties to take the credit risk.

In accordance with the recommendations of the Board, no more than two thirds of the Group's cash may be held with any one bank.

The internal audit function considers areas of the Group's business that are vulnerable to fraud by customers, suppliers and employees and makes appropriate recommendations to avoid possible fraud.

The Group enters into US dollar denominated hedging contracts with approved banking organisations that mitigate transactional dollar exposure. Asset investments in foreign subsidiaries are regularly reviewed, with surplus cash being repatriated to the UK and held in sterling.

### Business recovery

The Group would be significantly impacted if, as a result of a natural disaster, act of God, act of terrorism or other similar event, its buildings, systems and infrastructure could not function for a long period. An RM Information Security Committee has been established to oversee the security aspects of the Group's information systems. This covers data integrity and protection, defence against external threats and disaster recovery. The Group has made significant investments in protecting itself against a disaster.

The Group has piloted its plans for dealing with a disaster.

The Group has comprehensive property insurance covering all of its properties.

The Group has considered the risks associated with the potential of a flu pandemic; however, as of today, this is largely an unavoidable and uninsurable (at any reasonable cost) risk.

### Pension

RM operates a defined benefits pension scheme that is closed to new entrants. The deficit calculation is very sensitive to the assumptions used in calculating the present value of future liabilities and returns. Additionally, the recent introduction of the Pension Protection Fund, where contributions vary from year to year, may result in unplanned costs. The Group actively manages the pension deficit, which has reduced significantly during FY2007 (see Business review – Finance for further details).

This is the second year in which the Group has reported its results under International Financial Reporting Standards (IFRS).

#### Basis of preparation

The income statement is presented in a columnar format in order to highlight the Group's preferred measure of profit before tax, which we believe provides a clear view of underlying business performance. This measure of profit is:

- before amortisation of acquisition related intangible assets (which is in accordance with general market practice);
- before recognising an exceptional credit relating to the Group's pension scheme;
- after share-based payment charges;
- after expensing BSF (Building Schools for the Future) bid costs.

Profit before expensing BSF bid costs is also provided for comparative purposes.

The Group did not capitalise any research & development expenditure in FY2007 or prior years, as no material expenditure met the criteria for capitalisation.

#### Revenue and profits

Revenue for the year increased by £8.6m to £270.9m (2006: £262.3m).

Acquisitions made in FY2007 and the incremental revenue from including acquisitions made in FY2006 for the full year contributed £4.8m of this increase. Organic growth across the business accounted for the balance of £3.8m.

International revenues doubled to £8.8m, reflecting significant growth in the US, Australia and Europe.

RM continues to operate in a single primary segment: the supply of products and services to education. To help investors in their analysis of the business, and to provide a comparison with similar information provided in prior years, the table provided below shows the Group's revenue and gross profit by broad business activity:

	FY2007			FY2006		
	Revenue £m	Gross profit £m	%	Revenue £m	Gross profit £m	%
Infrastructure software & services	90.4	30.3	33.5	88.1	26.7	30.3
Education software & services	50.7	20.1	39.7	57.7	23.7	41.1
PCs, distribution & education resources	129.8	23.1	17.8	116.5	20.7	17.8
<b>Total</b>	<b>270.9</b>	<b>73.5</b>	<b>27.2</b>	<b>262.3</b>	<b>71.1</b>	<b>27.1</b>

Significant changes in the Group's revenues between FY2006 and FY2007 included: an increase in PC and distribution revenue, reflecting RM's success as a supplier to the Government's Computers for Pupils scheme; general curriculum resources revenue increased through a combination of organic growth and the acquisition of DACTA; BSF generated revenues of £2.9m in the year, compared to £1.1m last year; the completion of the South Yorkshire e-Learning Project in early 2007 and the revenue recognition profile of the Glow project resulted in less revenue being recognised on these projects than in FY2006.

Infrastructure software and services accounted for 41% of gross profit. Profit in this area includes an increasing contribution from the Group's long-term project portfolio, with a very small initial contribution from BSF contracts.



BSF is an exceptional investment programme for RM. It will transform the nature of RM's secondary school activity, increasing the overall market size and move the nature of the business from individual school sales to long-term, multi-school contracts.



Education software and services gross profit decreased by £3.6m. This reflects continued weakness in the education software market and a difficult year for 3T Productions following the cancellation of contracts with the BBC after the suspension of BBC jam. Glow contributed its first profit in FY2007.

Gross profit percentage for PCs, distribution and education resources was unchanged at 17.8%.

Profit before tax before amortisation of acquisition related intangible assets and exceptional pension credit increased 6% to £15.5m (2006: £14.6m). Including these items, profit before tax was £18.4m (2006: £14.5m).

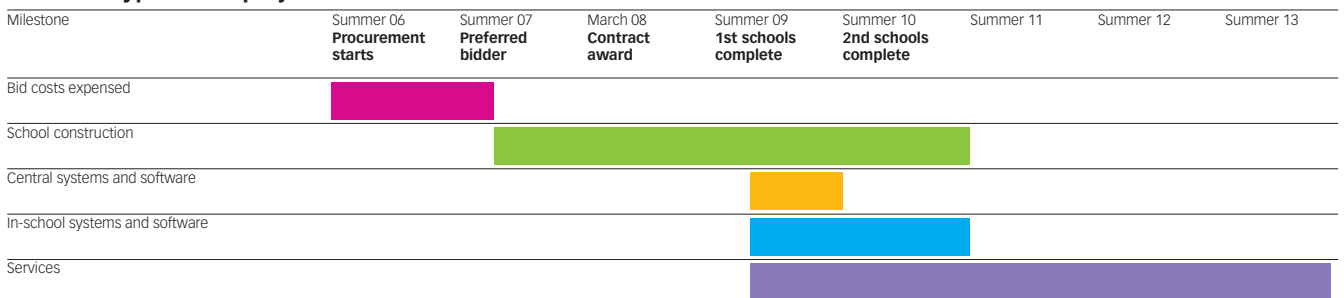
#### Operating costs

£m	FY2007	FY2006
Selling & distribution	34.0	33.2
Research & development	14.9	14.9
Administrative*	11.1	10.2
Operating costs	60.0	58.3

\*Before amortisation of acquisition related intangible assets and exceptional pension credit

Operating costs, before amortisation of acquisition related intangible assets and the FY2007 exceptional pension credit, were £60.0m (2006: £58.3m). £1.3m of the increase relates to acquisitions made in FY2007 and the full year effect of acquisitions made in FY2006.

#### Timeline: typical BSF project



Selling & distribution costs include costs of bidding for BSF projects of £3.6m (2006: £3.8m). Bidding costs incurred prior to appointment as preferred bidder continued to be expensed in the year.

Research & development costs were unchanged from last year at £14.9m. The Group also performs research and development activities directly related to specific projects, which are included in cost of sales for those projects.

Investment income earned in the year was £2.0m (2006: £1.9m) and includes £0.7m (2006: £0.9m) arising from the sale of finance lease debt related to the provision of leases to customers.

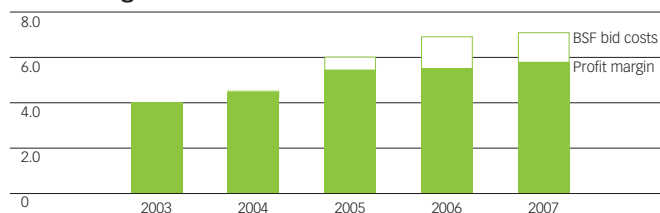
#### Profit margin

Profit margin (profit before tax, before amortisation of acquisition related intangible assets and the FY2007 exceptional pension credit, as a percentage of total revenue) increased to 5.7% (2006: 5.6%). Profit margin has increased year-on-year since 2002.

BSF is an exceptional investment programme for RM. It will transform the nature of RM's secondary school activity, increasing the overall market size and move the nature of the business from individual school sales to long-term, multi-school contracts. Bidding for BSF contracts is a long and complex activity; individual contracts can take anything between three or four years to contribute to profit, whilst bid costs are expensed at the start of the project. The chart below illustrates a timeline for a typical BSF project, where bid costs expensed in FY2007 do not produce a return until FY2009.

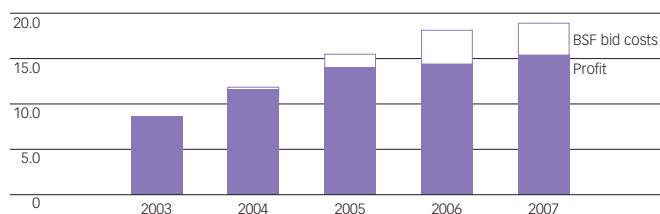
The charts below show the impact of bidding for BSF contracts which, in 2007, cost £3.6m or 1.3% of revenue (2006: £3.8m or 1.4% of revenue).

#### Profit margin before tax: %



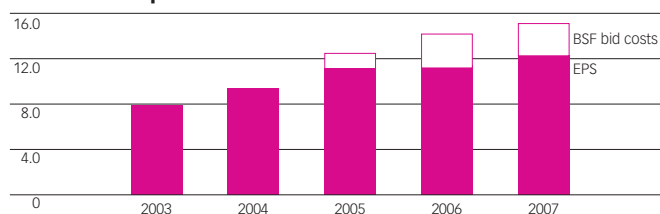
Before exceptional pension credit, amortisation of acquisition related intangible assets and goodwill charges

#### Profit before tax: £m



Before exceptional pension credit, amortisation of acquisition related intangible assets and goodwill charges

#### Diluted EPS: pence



Before exceptional pension credit, amortisation of acquisition related intangible assets and goodwill charges

Profit before tax, before amortisation of acquisition related intangible assets, the FY2007 exceptional pension credit and before BSF bid costs was £19.1m (2006: £18.4m), giving a profit margin before BSF bid costs of 7.1% (2006: 7.0%). On the same basis, diluted EPS was 15.1p (2006: 14.5p).

#### Cash and cash flows

The Group ended the year with cash and cash equivalents of £29.3m, a level similar to last year (2006: £30.1m).

£m	30 Sep 2007	30 Sep 2006
Cash & cash equivalents	29.3	30.1
Issued loan notes	(0.2)	(0.9)
Net funds	29.1	29.2
Issuable loan notes	(1.7)	–
Deferred cash consideration	–	(0.7)
Net funds less deferred consideration	27.4	28.5

The issuable loan notes amounting to £1.7m relate to the acquisition of DACTA Limited.

Net operating cash flows before movements in working capital remained strong and comparable with last year at £22.0m (2006: £21.7m). Cash outflows during the year included:

- Dividends paid £4.8m (2006: £4.5m)
- A special pension payment of £2.0m (2006: £nil) – see Pensions on page 23
- Net purchases of property, plant and equipment and non-acquisition related software of £6.8m (2006: £9.0m)
- Acquisitions of subsidiaries which, net of cash, amounted to £2.8m (2006: £2.3m). A further £1.3m (2006: £1.8m) was paid in the year in respect of previous acquisitions.

The Group's business activities are seasonal, due to the peak demand from schools in the summer months. Average cash balances in the year were £14.9m (2006 £18.4m), whilst the Group had a maximum overdraft of £1.8m (2006: cash £7.3m) in early September. The Group uses committed bank facilities to manage its short-term cash requirements during the seasonal peak.

Subsequent to the year end the Group acquired SpaceKraft Limited for a net cost of £4.4m and paid the second £1.5m element of the special pension payment.

#### Balance sheet

Goodwill increased by £2.3m to £24.6m and acquisition related intangible assets increased by £2.3m to £3.3m following the acquisition of DACTA and SERAP.

Capital expenditure of £7.5m on property, plant and equipment, was down £1.4m on last year, and included the purchase of the new TTS building (£2.7m) and £0.5m on data centres. The previous TTS building was sold for £1.3m. Depreciation charged in the year amounted to £8.8m (2006: £9.1m).

There was a £4.7m decline in deferred tax assets to £2.7m primarily resulting from the reduction in the pension deficit.

Within working capital, key features are the impact of including the balance sheets of the acquisitions made in the year and the effect of a busy summer. Inventories increased by £2.9m to £13.7m, trade and other receivables by £7.4m to £58.8m and current liabilities by £6.9m to £87.2m. Long-term contract balances amounting to £6.1m (2006: £5.5m) are included within trade and other receivables. Deferred revenues totalling £27.7m (2006: £27.6m) are included in both current and non-current liabilities.



## Tax

The Group's tax charge, measured as a percentage of profit before amortisation of acquisition related intangible assets and the FY2007 exceptional pension credit, was 26.8% (2006: 27.8%). This rate is below the standard UK corporation tax rate, principally reflecting the benefit the Group gains from enhanced tax deductions on qualifying research and development activities.

In total RM paid and collected tax on behalf of HMRC amounting to £48.0m (2006: £43.9m). This includes corporation tax of £3.5m (2006 £3.1m), employment taxes £23.9m (2006: £22.0m) and VAT £20.4m (2006: £18.4m).

## Treasury

The Board approves significant treasury transactions and reviews treasury policy on a regular basis. The treasury activities are controlled and monitored by the Group Finance Director and are carried out in accordance with the approved policies. Surplus cash, which is predominantly held in Sterling, is invested for appropriate periods with institutions that have a high credit rating and have been approved by the Board. The objectives of the Treasury function are largely:

- to provide protection from the effects of foreign currency volatility. The Group's major exposures arise from buying products and components in US Dollars or Euros. These exposures are effectively hedged through the use of forward foreign exchange contracts. The Group has operations in Australia, India and North America, although in relation to the size of the Group, these operations are small and therefore do not represent a significant foreign exchange risk.
- to provide the Group with cost effective and appropriate liquidity. The Group's cash funds vary throughout the year due to the seasonality of the business and its aim is to maximise returns from surplus cash through very low risk investments with defined institutions. Treasury also works with banks to ensure that cost effective committed borrowing facilities are available to meet any forecast funding requirements that arise from our seasonal trading pattern.

## Pensions

Significant progress has been made in addressing the deficit in the Group's defined benefit pension scheme. At the year end, the IAS19 pension deficit had been dramatically reduced to £3.3m from £18.7m at 30 September 2006, a reduction of £15.4m.

Management action in the year accounted for £7.2m of the reduction:

- 5% cap on pensionable salary increases reduced the deficit by £3.5m – this is disclosed as an exceptional credit in the income statement.
- A special payment of £2.0m paid in the first half of the financial year.
- The additional deficit reduction payment continued at £1.7m in FY2007.

Market related movements accounted for the balance of the reduction of £8.1m – these arise from asset values, discount rate and inflation assumptions.

The Group has left the longevity assumption unchanged, applying the PA92 Medium Cohort tables. Life expectancy assumptions have increased three times since 2002.

The final £1.5m special payment made in October 2007, and the continuation of the £1.7m per annum deficit reduction payment, would eliminate the current deficit during 2008. However, defined benefit valuations remain volatile and the table, right, provides an analysis of the sensitivity of the Group's pension deficit to changes in certain key assumptions.



## Sensitivity analysis

Change in assumption	Increase/(decrease) in deficit
0.1% increase in discount rate	(£1.9m)
0.1% increase in inflation	£1.3m
1 year increase in life expectancy	£1.3m

## Acquisitions

On 21 May 2007, the Group acquired DACTA Limited for a net cost of up to £3.8m. DACTA provides branded learning products (including LEGO Education products) to educational establishments through a Europe-wide network of dealers.

On 2 August 2007, the Group's subsidiary, Forvus, acquired the assets of SERAP for a net cost of £0.7m. SERAP provides specialised education data matching and reporting services for government departments & agencies and local authorities.

Subsequent to year end, on 1 October 2007, the Group acquired SpaceKraft Limited for a net cost of up to £4.4m. SpaceKraft is one of the UK's leading suppliers of special educational needs and early years products and services.

## Shareholder return

The Group's share price at close of business on 28 September 2007 was 191.5p (29 September 2006: 180p), an increase of 6.4%. Market capitalisation on the same date was £177m (2006: £165m).

An interim dividend of 1.19p per share was paid to shareholders in June; a proposed final dividend of 4.30p increases the total dividend per share by 6.2% to 5.49p (2006: 5.17p). Dividend yield for the year was 3.06% (2006: 3.20%), based on the share price at the start of the year.

Diluted earnings per share (before amortisation of acquisition related intangible assets and the FY2007 exceptional pension credit) were 12.3p (2006: 11.5p).

## Board of Directors



**John Leighfield**  
Chairman (n)

John Leighfield (age 69) was appointed Chairman in 1994, having joined RM as a Non-Executive Director in 1993. Until April 1993, he was Executive Chairman of AT&T ISTEEL. He is a Non-Executive Director of Getmapping plc. He is Chairman of the Council and Pro-chancellor of Warwick University. He is past President of the BCS, the CSSA and of IMIS. He is a Past Master of the Worshipful Company of Information Technologists.



**Tim Pearson**  
Chief Executive Officer

Tim Pearson (age 47) was appointed Chief Executive Officer in February 2002 having joined the Board in 1997. He previously held the role of Managing Director – RM Learning and had responsibility for the Group's internet and content strategy. He joined RM in 1981 and has held a number of senior technical and service management positions. He attended the Harvard University Business School Advanced Management Program. He is past Chairman of the Internet Service Provider Association.



**Rob Sirs**  
Chief Operating Officer

Rob Sirs (age 46) was appointed to the Board as a Director in March 2004, having been Group Director – Products & Services since 2002. He joined RM in 1990 and has performed a number of senior services, software development and general management roles, including Head of Procurement, PC Division Director and RM Schools Managing Director. He attended the Harvard University Business School Advanced Management Program. Prior to RM, Rob worked for Andersen Consulting and Mars. Rob is a Governor of John Cabot Academy.



**Mike Greig**  
Group Finance Director

Mike Greig (age 51), FCMA, MA, MSc joined RM and was appointed a Director in 1989. He is Group Finance Director and also has responsibility for information systems and legal affairs. Prior to joining RM, he was Finance Director at Case Group plc. He is a Non-Executive Director and Chair of the Audit Committee of CODA plc, the AIM-listed international provider of financial management software and services. Mike is the Director responsible for social, environmental and ethical matters and a member of the RM Foundation Committee, which channels the Group's charitable activities. He attended the Harvard University Business School Program for Management Development.



**John Windeler**  
Senior Independent  
Non-Executive Director  
(a) (r) (n)

- (a) Audit Committee Member
- (r) Remuneration Committee Member
- (n) Nominations Committee Member

John Windeler (age 64) was appointed to the Board as a Non-Executive Director in October 2002. He was appointed Senior Independent Director in October 2007. He was Chairman of Alliance & Leicester plc and a Non-Executive Director of BMS Associates Limited. Previously he was with Irving Trust for 20 years, becoming an Executive Vice President in 1983. He also held several senior positions within National Australia Bank, between 1989 and 1994. During July 2006 he joined the Board of Millen Group as Chairman. He is a member of the Board of Governors of DeMontfort University and has a BA in English and an MBA in Finance, both from Ohio State University.



**Sir Mike Tomlinson**  
Independent Non-Executive  
Director (r)

Sir Mike Tomlinson (age 65) was appointed to the Board as a Non-Executive Director in February 2004. Mike is one of the UK's leading educationalists and formerly chaired the Department for Education and Skills Working Group on educational reform for 14 to 19 year olds. He was Her Majesty's Chief Inspector for Schools from December 2000 until April 2002, during which time he was responsible for the work of Ofsted. He was, from 2002 to 2007, Chair of The Learning Trust, a not-for-profit body responsible for running the education services for Hackney, and is a member of the Governing Body of the University of Hertfordshire.



**Sir Bryan Carsberg**  
Independent Non-Executive  
Director (a) (r) (n)

Sir Bryan Carsberg (age 68) was appointed to the Board as a Non-Executive Director in September 2002. He was a Non-Executive Director of Nynex Cablecomms/Cable & Wireless Communications plc from 1996 to 2000. He is a Non-Executive Director of Novae Group plc, a Non-Executive Director of Inmarsat plc, an independent member of the Equality of Access Board of BT Group plc, a former Director General of OFTEL and a former Director General of Fair Trading. He is Chairman of Council and Senior Pro-chancellor of Loughborough University. He served as Secretary General of the International Accounting Standards Committee from 1996 to 2001, is a chartered accountant and has been a professor of accounting at the University of Manchester and the London School of Economics.



**Professor Tim Brighouse**  
Independent Non-Executive  
Director (n)

Tim Brighouse (age 67) was appointed to the Board as a Non-Executive Director in May 2004. Tim is one of the UK's leading educationalists and chairs the Group's Education Advisory Council. He is the former Chief Education Officer of Birmingham City Council, a member of the Governing Council of the National College for School Leadership and a visiting Professor at the University of London's Institute of Education. He also served on RM's Board between October 2002 and January 2003, but stood down on his appointment as London Schools Commissioner.

# Directors' report

The Directors present their Report and the Group's audited financial statements for the year ended 30 September 2007.

## Principal activities

The principal activities of the Group are the supply of information and communications technology (ICT) software, systems and services to UK educational establishments and the delivery of education services.

## Review of the business and future developments

The Directors are required, under the Companies Act 1985, to present a fair review of the business, its position at the year end, and any likely future developments. This review comprises: this Directors' report; the Business review (pages 13 to 23); and the Audit Committee report (pages 32 to 33).

## Dividends

The Directors propose the payment of a final dividend per share of 4.30p bringing the total dividend for the year to 5.49p per share (2006: 5.17p). Subject to approval at the Annual General Meeting (AGM), the final dividend is payable on 1 February 2008 to shareholders on the register on 4 January 2008.

## Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## Directors

The following Directors served throughout the year: John Leighfield, Tim Pearson, Rob Sirs, Mike Greig, Tim Brighthouse, Sir Bryan Carsberg, Sherry Coutu, Sir Mike Tomlinson and John Windeler. Since year-end Sherry Coutu has retired from the Board, having served three terms as a Non-Executive Director.

The interests of the Directors in the share capital of the Company (including interests in share options) are set out in the Remuneration report on page 43.

The Group holds Directors' and Officers' liability insurance, with an indemnity limit of £10m, covering legal liabilities for wrongful acts committed by them. This insurance was in force throughout the year and remains in force at the date of this Report. The Group has indemnified the Directors against liability relating to proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985.

No Director of the Company was materially interested in a contract of significance (other than a service contract) involving the Company or any of its subsidiary undertakings during the year.

## Re-election of Directors

The Company's Articles of Association require that one-third of all Directors retire, by rotation, each year. This year, Sir Bryan Carsberg, John Windeler and Tim Pearson will retire and offer themselves for re-election at the Group's AGM. The Directors who are proposed for re-election have either a letter of appointment or a service contract, details of which can be found in the Remuneration report.

As required by the Combined Code on Corporate Governance, the Group's Chairman confirms that Sir Bryan Carsberg and John Windeler continue to perform effectively and to demonstrate commitment to their roles as Non-Executive Directors.

Biographical details for those Directors standing for re-election are provided on pages 24 to 25.

## Directors' statement on disclosure of information to Auditors

The Directors having made enquiries to fellow Directors and the Company's auditors, state that:

- So far as they are aware, there is no relevant audit information of which the Company's auditors are unaware.
- They have taken all reasonable steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted with the provisions of S234ZA of the Companies Act 1985.

## Research and development

The Group undertakes an extensive research and development programme, with the objectives of making significant technical advances to enhance the performance of existing product areas, developing new products for markets, and enhancing access to potential new markets. This activity involves considerable innovation.

Expenditure of £14.9m was incurred in 2007 (2006: £14.9m). All research and development costs incurred in 2007 were written off because they did not meet the criteria for capitalisation.

## **Employment policies**

### **Objectives**

The Group's policy is that all staff should work towards agreed job-related objectives and personal development objectives. For all of the Group's people, an element of pay is linked to the achievement of these objectives.

The Executive Committee sets Group-wide corporate objectives at the start of each year. These objectives are designed to reinforce the Group's culture as well as drive financial performance. The corporate objectives are introduced and explained to all staff through an annual 'Company Brief' programme. Individual employees' personal objectives are 'cascaded' from the corporate objectives. In 2007, personal development objectives were agreed with 99% of staff.

The Executive Committee reports progress against the corporate objectives at quarterly senior management meetings. These progress reports are onward briefed to all staff in the organisation. At the annual 'Company Brief', the CEO reviews progress against objectives for the previous year and presents an objectives 'scorecard'.

For senior staff the Group has identified a set of preferred management competences, which are used in employee development and recruitment. The Executive Committee and a group of divisional directors and senior managers participate in a '360 degree' feedback process in order to understand the extent to which their work behaviour supports the Group's values.

### **Appraisal**

The Group's policy is that all employees should participate in an appraisal process; this involves both regular informal review meetings and a formal half-yearly review of performance to assess progress against personal objectives and identify personal & professional development needs. In 2007, 100% of staff participated in a formal appraisal session. For senior staff, appraisal meetings address the development of the Group's preferred management competences as well as personal objectives. Senior staff are assessed on their management competences and rated relative to their peers. These ratings are used as an input into career development discussions.

### **Personal development**

Technical and personal skills training are provided for employees at all levels in the organisation. Directors and managers receive training in RM's key management methods. Self-directed learning through teaching manuals and computer programs and formal training courses are used to provide technical training for support employees.

All new employees attend an induction programme designed to reinforce the Group's commitment to customer satisfaction.

RM also offers a 'Learning for Life' scheme, which provides encouragement and funding to employees who wish to follow personal learning goals outside of those related specifically to their job.

### **Communications**

The Group has an open communications policy designed to involve employees and keep them informed about the performance of the business and about matters affecting them as employees.

Employees receive news about the Group and its operations through formal and informal briefing meetings, the 'CEO Blog', frequent email notices, internal notice boards and through RMI (the Group's corporate intranet).

All RM Education plc office-based employees, including Directors and managers, share open plan office accommodation, which provides good opportunities for informal communication about issues concerning the Group's operations and development.

The Group has formally adopted a Communications Charter. This Charter, which was drafted following input from staff, is published on the Group's intranet and sets out in detail the kinds of communication staff can expect and are entitled to. The Communications Charter is a 'pre-existing agreement' that has been approved by the Group's employees under the Information and Communications regulations that came into force on 6 April 2005.

### **Equal opportunities**

RM is an equal opportunities employer. Applications for employment are always fully considered irrespective of gender, ethnic origin, race, age, religion, sexual orientation or disability. In the event of employees becoming disabled, every effort is made to ensure that their employment continues and that appropriate training is arranged. It is RM's policy that the training, career development and promotion of disabled employees should, so far as is possible, be identical to that of other employees.

### **Other employment policies**

RM has a wide range of other written policies, designed to ensure that the Group operates in a legal and ethical manner. These include policies related to health and safety, 'whistle blowing', business gifts, grievance, career planning, parental leave, sabbatical, systems and network security. All of the RM Education's employment policies are published on RMI.

### Creditors' payment policy

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to their being met by the supplier.

Trade creditor days, which have not been adjusted for the seasonal nature of the business of the Group, for the year ended 30 September 2007 were 44 days (2006: 37 days) based on the ratio of trade creditors at the year end to the amounts invoiced by suppliers during the year.

### Acquisition of Company's own shares

At the end of the year, the Directors had authority to purchase through the market up to 9,172,991 of the Company's ordinary shares, being 10% of the issued share capital, at prices ranging between the nominal value and an amount equal to 5% above the average of the middle-market quotations of the Company's ordinary share for the five business days immediately preceding the day on which such share is contracted to be purchased.

This authority expires at the conclusion of the 2008 AGM or on 22 April 2008, whichever is the earlier. The Directors will seek to renew this authority at the next AGM.

No shares were purchased under this authority during the year.

### Post balance sheet events

Subsequent to year end, on 1 October 2007, the Group acquired SpaceKraft Limited for a net cost of up to £4.4m. SpaceKraft is one of the UK's leading suppliers of special educational needs and early years products and services.

### Charitable donations

During the year the Group made various charitable donations totalling £74,000 (2006: £21,000). A further £22,000 was given to locally based community support projects (2006: £5,000). The Group made no political donations during this year or the previous year.

### Substantial shareholdings

On 19 November 2007 the Company had notifications that the following were interested in 3% or more of the Company's ordinary share capital:

	Number of shares	Percentage held
Schroders Investment Management	16,500,228	17.82
Ameriprise Financial, Inc.	6,198,848	6.69
Legal & General	4,986,348	5.38
Aviva plc	4,801,304	5.18
AXA S.A.	4,788,014	5.17
Barclays PLC	3,289,151	3.55

### Annual General Meeting

The AGM of the Company will take place at 2pm on Monday 21 January 2008 at 140 Milton Park, Abingdon, Oxfordshire, OX14 4RS.

In addition to the routine business of the meeting, there will be three special resolutions proposing that:

- In accordance with Section 80 of the Companies Act 1985, the Directors be granted authority to issue shares in the capital of the Company up to a nominal amount of £617,670 (33.33% of the issued share capital as at 16 November 2007).
- Pursuant to Section 95 of the Companies Act, the Directors be authorised to allot further shares for cash, by way of a rights issue, and, other than by way of a rights issue, up to an aggregate amount of £92,660 (5.0% of the nominal value of the issued share capital as at 16 November 2007). The Directors have no present intention of allotting further ordinary shares other than in connection with employee share schemes.
- The Directors be authorised to make market purchases of up to 10% of the Company's issued share capital.

In each case, the authority sought will expire on the date of the next AGM or on 21 April 2009, whichever is the earlier.

By order of the Board

### A.J. Robson

Company Secretary  
19 November 2007

# Corporate governance report

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRS as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. In doing so, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's Web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Compliance

The Group, has throughout the year, complied with the Combined Code on Corporate Governance July 2003 as published by the Financial Reporting Council.

The Company has applied the Principles of Good Governance set out in section 1 of the Code. Further explanation of how the principles have been applied is set out in the following text, in connection with Directors' remuneration, in the relevant section of the Remuneration report and, in connection with internal controls and principal risks, in the relevant section of the Audit Committee report.

## Board of Directors

During the year, the Board comprised the Chairman, three Executive Directors and five Non-Executive Directors. The biographical details provided on pages 24 to 25 set out the wide range of knowledge, skills and experience Board members bring to the Group.

John Leighfield, the Group's Chairman, is not considered independent under the terms of the Combined Code (A.3.1) because he has served on the Board for more than nine years; he was independent at the time of his appointment. The Group's Non-Executive Directors are all considered independent under the terms of the Code.

The division of responsibilities between the Chairman and Chief Executive Officer has been formally defined.

The Senior Independent Director during the year was Sherry Coutu. Since year-end she has retired from the Board, having served three terms as a Non-Executive Director. She is succeeded as Senior Independent Director by John Windeler.

The Board has formally adopted a schedule of matters that are brought to it for discussion and decision. This schedule includes overall Group strategy, acquisition policy, internal controls, major capital investment and risk management, and is intended to ensure that the Board maintains full and effective control over appropriate strategic, financial and compliance issues and oversees operational activities.

The Board delegates the operational management of the Group to the Executive Committee.

There is an established procedure for all Directors to take independent professional advice, at the expense of the Group, as necessary in the pursuit of their duties.

### Board committees

There are four Board committees: Audit, Remuneration, Nominations and Transactions; each of which, apart from the Transactions Committee, comprises only Non-Executive Directors.

During the year, the Audit Committee was chaired by Sir Bryan Carsberg and comprised three independent Non-Executive Directors. The Audit Committee meets at least three times a year. The Company's external auditors, the Chairman, Group Finance Director, Group Financial Controller and the Head of Internal Audit normally attend part of these meetings. The Audit Committee is responsible for reviewing the accounting policies, internal control assessment and the financial information contained in the annual and interim reports. It provides an opportunity for the Non-Executive Directors to make independent judgements and contributions, thus furthering the effectiveness of RM's internal financial controls. Further details of the Audit Committee's activities are given in the Audit Committee report. The terms of reference for the Audit Committee are published on [www.rm.com](http://www.rm.com)

During the year the Remuneration Committee was chaired by Sherry Coutu and comprised four independent Non-Executive Directors. Following Sherry Coutu's retirement from the Board in October 2007, Sir Mike Tomlinson was appointed Chairman. The Remuneration Committee meets at least twice a year. Executive Directors and senior managers may be invited to attend Committee meetings, but will not be present during any discussion of their own pay arrangements. The Remuneration Committee sets the remuneration of RM's Executive Directors and senior management. It also considers grants and performance conditions under RM's share-based payment schemes and reviews RM's employment strategy generally. Further details of the Remuneration Committee's activities are given in the Remuneration report. The terms of reference for the Remuneration Committee are published on [www.rm.com](http://www.rm.com)

During the year, the Nominations Committee was chaired by John Leighfield and comprised the Group Chairman and four independent Non-Executive Directors. The Nominations Committee recommends to the Board candidates for appointment as Directors. It meets at least once a year, with more frequent meetings when the Group is actively selecting Directors. Further details of the Nominations Committee's activities are given in the Nominations Committee section of the Corporate governance report.

During the year, the Transactions Committee was chaired by John Leighfield and comprised the Group Chairman plus any independent Non-Executive Director and any one Executive Director. The Transactions Committee meets at such times as the Chairman of the Committee requires. During 2007 it met 12 times. The Transactions Committee approves, enters into and executes all deeds and documents and does everything that is necessary to give effect to any 'substantial transaction' that has already been approved in principle by the Board.

### Board meetings

There is a formal schedule of nine Board meetings a year. Board members also receive updates about Group activities by email, and communicate informally by telephone and email.

Directors receive a detailed information pack, one week before each Board meeting, which contains background papers on all the agenda items. Executive managers are regularly invited to Board meetings to present and discuss strategic topics with the Directors.

During the year, the Non-Executive Directors met without the Executive Directors present. The Non-Executive Directors, led by the Senior Independent Non-Executive Director, also met to appraise the Chairman's performance.

### Directors' attendance

The number of Board and Committee meetings attended by the Directors during the year was as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
<b>Executive</b>				
T.R. Pearson	8/9	–	–	–
M.D. Greig	9/9	–	–	–
R.A. Sirs	8/9	–	–	–
<b>Non-Executive</b>				
J.P. Leighfield	9/9	–	–	1/1
S.L. Coutu	8/9	3/3	6/6	1/1
B. Carsberg	9/9	3/3	6/6	1/1
J.R. Windeler	8/9	3/3	5/6	0/1
M.J. Tomlinson	6/9	–	4/6	–
T.R.P. Brighouse	9/9	–	–	1/1



### **Board effectiveness**

The Board has put in place a formal process for reviewing its effectiveness and the effectiveness of its committees. This review is led by the Chairman and uses a process agreed by the Board as a whole. Each Board member provides an individual evaluation of performance against a series of criteria, and these evaluations are then used as the basis of a collective discussion. The Board plans to review its approach to performance appraisal during 2008.

In conducting this year's annual review of Board effectiveness, a small number of suggestions for improvement have been identified.

An assessment of the effectiveness of individual members of the Board was also carried out.

### **Executive Committee**

The Executive Committee comprises Tim Pearson (Chairman), Mike Greig and Rob Sirs. The Committee meets weekly with the Group's Human Resources Director invited to attend. The Executive Committee is responsible for implementing the strategy set out by the Group Board, preparing strategic proposals to be considered by the Board, and providing day-to-day operational management and control for the business.

### **Nominations Committee**

The Nomination Committee met once during 2007, on 23 July 2007. The agenda comprised: a review of the succession plan for senior executives and Non-Executive Directors; and putting in place arrangements to select a Non-Executive Director to replace Sherry Coutu (whose third term as a Board Member was coming to an end). The Nominations Committee has subsequently appointed independent consultants to assist with the selection of Sherry Coutu's successor.

### **Relations with shareholders**

RM maintains regular contact with institutional shareholders, fund managers and investment analysts through an active investor relations programme.

As part of this programme, the Group's Chief Executive Officer and Group Finance Director provide detailed briefings for investment analysts and institutional shareholders at the time of the Group's interim and preliminary results announcements; hold regular meetings with analysts, institutional shareholders and fund managers during the year; and typically host two analyst seminars and two investor seminars during the year. The Group Chairman attends at least one Group meeting with investment analysts during the year. The Senior Independent Non-Executive Director meets with major shareholders at least annually. The Chair of the Remuneration Committee consults with major shareholders annually about any significant proposed changes to remuneration policy.

Private investors are encouraged to participate in the Annual General Meeting. In order to improve communications with investors in general and private investors in particular, the Group maintains a detailed investor relations Web site at [www.rm.com/investors](http://www.rm.com/investors)

The Board is provided with detailed, independently produced reports providing non-attributable feedback from analysts, institutional shareholders and fund managers following results announcements and analyst/investor seminars. Discussion of these reports is included as a formal agenda item at Board meetings. The Board is also provided with regular updates about investor relations activities and receives analysts' notes about RM as they are published.

All Directors are available at the Group's AGM to address any shareholder questions.

RM has identified a senior manager (the Director of Corporate Affairs) with responsibility for managing the Group's investor relations programme.

# Audit Committee report

The Audit Committee operates under terms of reference approved by the Board, with the purposes of:

- appointing the Group's internal and external auditors;
- reviewing the performance of and relationship with the Group's external auditors (including considering fee levels and the provision of non-audit work);
- reviewing the performance of the Group's internal audit function;
- reviewing the Group's financial reporting and internal control processes;
- monitoring the integrity of the Group's financial statements and announcements regarding performance;
- ensuring that a system is operated for the assessment and management of key risks as required by the Turnbull Report.

## Composition and qualifications of the Audit Committee

During the year the Audit Committee comprised Sir Bryan Carsberg MSc(Econ), FCA (Chair), Sherry Coutu BA, MSc(Econ), MBA, and John Windeler BA, MBA, all of whom are independent Non-Executive Directors. The Group considers that Sir Bryan Carsberg, as a previous Secretary General of the International Accounting Standards Committee and a former professor of accounting, has significant recent technical accounting experience.

John Leighfield (Chairman), Mike Greig MA, MSc, FCMA (Group Finance Director), Douglas Muir BSc, FCA (Group Financial Controller) and Edward Warwick MEng, ACA (Head of Internal Audit) are invited to attend Audit Committee meetings.

## Schedule of meetings

The Audit Committee met three times during the year. Two of these meetings were part of the regular schedule of meetings set out in the Committee's terms of reference.

Audit Committee meetings have formal agendas, which cover all of the areas of responsibility set out in the Committee's terms of reference. These agendas include meetings with the external auditors without Executive Directors or managers of the Company present.

## Appointment of external auditors

The Audit Committee recommended, and shareholders approved at the Group's AGM on 22 January 2007, the re-appointment of Deloitte & Touche LLP as the Group's external auditors. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Deloitte & Touche LLP be reappointed as auditors of the Company will be proposed at the next AGM.

## Internal audit

The Audit Committee has approved the appointment of RM's Group Reporting Manager, Edward Warwick MEng, ACA, as Head of Internal Audit. The Audit Committee, with the advice and support of the Head of Internal Audit, sets an internal audit plan. The Head of Internal Audit reports on progress against this plan at Audit Committee meetings.

During the year, the Group engaged KPMG LLP to advise it on internal audit matters and to perform review work on certain subsidiaries' accounting and financial controls. Their report has been reviewed by the Committee, together with reports which were prepared by RM finance personnel working under the direction of the Head of Internal Audit in accordance with the internal audit plan.

## Policy on non-audit work

The Audit Committee has considered the issue of the provision of non-audit work by the external auditors and, in March 2003, agreed a policy intended to ensure that the objectivity of the external auditors is not compromised. The policy states that non-audit work should only be undertaken by the external auditors where there is a clear commercial benefit of doing so; any significant activity must be approved, in advance, by at least two Audit Committee Members.

In practice, this policy has resulted in a steady reduction in non-audit work undertaken by the Group's external auditors. In 2007, no non-audit was undertaken by the Group's external auditors.

## Internal control

The Combined Code requires the Directors to review, at least annually, the effectiveness of the Group's system of internal control, and to report to shareholders that they have done so. The Audit Committee provides the information required by the Board to do this. The Board attaches considerable importance to the Group's systems of internal control and risk management and confirms that, throughout the period covered by these accounts and up to the date of their approval, it has regularly reviewed these areas in accordance with the Turnbull guidance.

The Board and the Audit Committee reviews annually the process of risk management and internal control within the Group. The Board carries out an analysis to identify the major risks that affect the Group and the impact of those risks and considers how those risks are managed. The Group has appointed a Group Risk Manager, who leads this work and has continued to develop the Group's approach towards risk management, which includes taking action to avoid or mitigate the impact of each risk.

The Board recognises that exposure to risk is an inherent part of creating value. The Group's internal controls are designed to meet the particular requirements of the Group and address the risks to which it is exposed. In this context, the controls can provide reasonable but not absolute assurance against material misstatement or loss. The internal controls are designed to manage rather than eliminate risk.

The processes to identify, assess and manage the risks to the Group's continued success are an integral part of the system of internal control. These processes include systems to assess operational risks, linkage with the business planning process, monthly forecasting, appointment of senior managers and controls over capital expenditure. The process of enhancing and improving these processes ensures that business risks and opportunities are effectively managed. Principal risks are identified in the statement of risks section within this report.

Principal risks are formally assessed by the Board during the annual planning process and steps are taken following this process to ensure that these risks are monitored and managed. The Board delegates responsibility for operational risks to the CEO and the Executive Committee, who review the effectiveness of internal controls over such risks on a regular basis.

The key features of the internal control system that operated throughout the period covered by the accounts are described below.

**Control environment** – The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority to executive management. Individuals are formally made aware of their level of authority and their budgetary responsibility, which enables them to identify and monitor financial performance. There are established policies and procedures, which are subject to regular review. The Boards of the operating companies work within strict terms of reference and any matters outside those terms or the agreed business plan are referred to the full Board for approval. The Group's selection and recruitment procedures are set to exacting criteria and the performance management process is supportive of these same criteria.

**Identification and evaluation of business risks and control objectives** – The Board has the primary responsibility for identifying the principal business risks facing the Group and developing appropriate policies to manage those risks. The Executive Committee meets weekly with an agenda of specific operational measures for review.

**Information systems** – Executive managers are required to produce a business plan for approval at the beginning of each financial year and detailed financial forecasts are formally compiled quarterly and reviewed by the Board. Consolidated management accounts are produced each month and results measured against plan and previous year to identify any significant variations.

**Main control procedures** – The financial systems and procedures established lead the Board to a high level of confidence in the completeness and accuracy of financial transactions. The well-established processes in place and the level of analytical detail given within the management accounts facilitate the identification of unreliable data. The Group's treasury function operates within a defined policy designed to control the Group's cash and to minimise its exposure to foreign exchange risk.

**Monitoring** – The Board has an established Audit Committee that meets periodically to review reports from management and the external auditors so as to derive reasonable assurance on behalf of the Board that financial control procedures are in place and operate effectively. An internal audit function reports directly to the Audit Committee and has annual plans agreed by the Audit Committee.

#### **'Whistle blowing' policy**

The Group has adopted a formal 'whistle blowing' policy, which allows staff to raise concerns about possible improprieties. No concerns were raised during the year.

#### **Statement of risks**

As with any business, RM is exposed to risks to the continued success of the business. As described above, the Group has put in place processes designed to identify these principal risks and to manage and mitigate the effect of them. The Audit Committee is responsible for ensuring that risks are properly considered and the Board is responsible for deciding what risks should be taken and how best to manage and mitigate against the risks.

A review of the most significant risks the Group is exposed to is given in the Business Review on pages 18 to 19 of this Report.

The Audit Committee is satisfied that the Group's risk management and internal control processes provide a high level of confidence that the Executive Committee has identified and addressed the principal risks affecting RM.

#### **Sir Bryan Carsberg**

Chair, Audit Committee

19 November 2007

# Remuneration report

This report sets out the Group's remuneration policy and principles under which our Directors are remunerated. It provides details of remuneration and share interests of all Executive and Non-Executive Directors for the year ended 30 September 2007.

## 2007 highlights

RM's share price grew 6.4% during the year, closing at 191.50p (2006: 180.00p) per share. The proposed final dividend of 4.30p makes a total dividend return of 5.49p per share (2006: 5.17p), an increase of 6.2%. There were also improvements in customer satisfaction and market share measures and therefore as a result of this performance:

- Executive Directors achieved bonus awards of £462k (72% of the maximum achievable).
- The Co-Investment Plan (CIP) awarded a 1.64 for 1 match for the shares held by the executives for the criteria set in 2004.

## Remuneration review

The Remuneration Committee reviews the Group's remuneration policy and practices annually to ensure continued alignment between the Executive Directors' and shareholders' interests. Advisers from PricewaterhouseCoopers LLP assist us. We have not made any changes to the remuneration policies we had in place in 2004 and the Committee considers the changes made three years ago to be operating effectively. We believe that the policies and measures we have in place remain appropriate and are in line with the Company's circumstances, business outlook and strategy. We have, however, reviewed the detailed targets to ensure that they remain appropriate in view of the Company's circumstances.

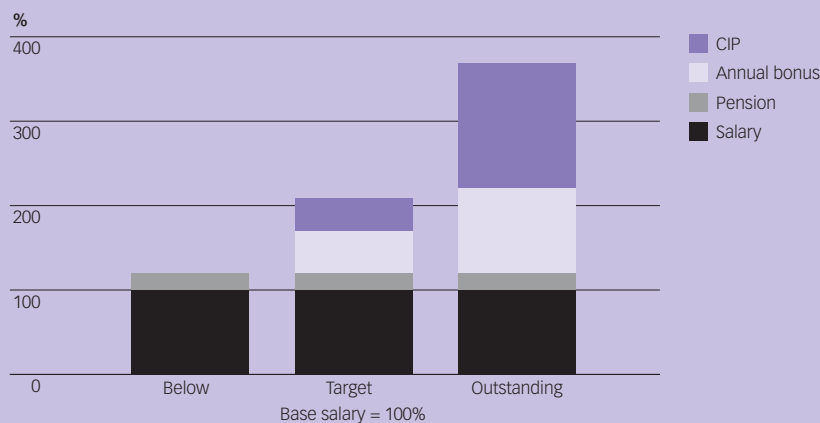
Full details are given in this report.

## 1 Remuneration policy

RM's remuneration policy is designed to attract, retain and motivate senior executives to achieve both the Group's business objectives and deliver outstanding shareholder returns. The Committee believes that Executive Directors' total remuneration should be strongly linked to delivering shareholder returns. To do this, RM's remuneration package offers rewards that are 'median' compared to our competitors when acceptable levels of performance have been delivered. However, they are at the 'upper quartile' compared to competitors when outstanding performance has been achieved. Higher payments are only made when improved business performance, customer satisfaction and superior shareholder returns have been realised. Executive Directors are required to hold shares worth 100% of their base salary, and to make a personal commitment in shares from their own resources before participating in the long-term incentive plan.

The graph below shows the way we structure the total remuneration for our Executive Directors:

### Structure of total remuneration for Executive Directors



	Below target	At target	Outstanding
Non-variable:			
salary	Median	Median	Median
pension	Standard	Standard	Standard
Variable:			
annual bonus	Nil	50% of salary	100% of salary
Co-Investment Plan	Nil	1 for 1 match	3 for 1 match

If outstanding performance is achieved, the value of the total package almost doubles in comparison with an on-target performance, and more than trebles what it would be in the event that the Group has not met the targets set. These increases are derived entirely from the incentive programmes. It is clear that the Executive Directors' personal wealth rises and falls with Company performance and the impact of share price changes on their shareholdings in RM. The Remuneration Committee is satisfied that this model provides appropriate alignment with Company performance and shareholder returns, and therefore acts as a real motivator to the Executive Directors.

The Committee supports Executive Directors who wish to serve as a Non-Executive Director on the Board of one other company. The Committee believes that this can offer the executive valuable additional experience, which then benefits RM. Mike Greig serves as a Non-Executive Director and Chair of the Audit Committee of CODA plc. His remuneration for this position is disclosed in section 4 of this report.

In setting Executive Directors' reward, the Remuneration Committee takes account of the level and structure of reward elsewhere within the Company. The Committee strongly believes that all employees should share in the success of the Group.

- Through the RM plc 2002 Staff Share Scheme all UK employees, who have been in service for at least seven months at the date of the annual award, receive free shares.
- 100% of employees can earn bonuses linked to EPS and/or customer satisfaction, and personal objectives.
- Selected senior executives are invited to participate in the CIP, though at lower levels of commitment than the Executive Directors, and are subject to minimum shareholding guidelines.

#### Remuneration policy composition: purpose and measures

Executive Directors' remuneration comprises base salary, annual bonus and a long-term incentive plan linked to the Company's performance over a three-year period. In line with industry practice, Executive Directors are provided with a range of benefits including pension, private medical insurance, life assurance, permanent health insurance and a company car (or equivalent cash allowance). The role, purpose and performance measures for each of these elements of the package for 2008 are summarised in the table below.

Element	Purpose	Performance targets
<b>Base salary</b>	To attract and retain	Role and contribution
<b>Pension and benefits</b>	Competitive fixed benefits to provide security and protection, and to retain	Role
<b>Annual bonus</b>		
<ul style="list-style-type: none"> <li>• 100% of salary maximum (of which 40% paid in shares and deferred for three years)</li> </ul>	Provide upside potential to motivate and to reward achievement of short-term business plan  Deferral supports retention and shareholder alignment	50% on EPS 20% on customer satisfaction 20% on market indicators 10% on personal objectives
<b>Long-term incentives</b>		
<ul style="list-style-type: none"> <li>• Maximum investment of 33% of base salary per year</li> <li>• Maximum 3 for 1 match</li> </ul>	Provide further upside potential related to long-term goals, and to encourage leadership and strategic actions. Supports retention and strong alignment with shareholders	Relative Total Shareholder Return (TSR) EPS Share price movement
<b>Shareholding requirement</b>		
<ul style="list-style-type: none"> <li>• 100% of salary</li> </ul>	Ensure alignment between the interests of Executive Directors and shareholders	

A high proportion of Executive Directors' potential total remuneration is, as shown, performance related and a significant proportion provided in the form of shares. Executive Directors have the opportunity to earn high levels of reward, but only if they enhance shareholder returns by meeting the Company's short-term and long-term targets. The Remuneration Committee reserves the flexibility to adjust the performance conditions from time to time, should this be necessary, in the light of market or Company developments.

#### a) Base salaries

The policy of the Remuneration Committee is that base salary is only one element of the entire package and should be considered within this context. The policy is that an average remuneration package should be received by executives, for delivering average performance to shareholders, and an excellent remuneration package should be received by executives delivering upper quartile results. The leverage and alignment, therefore, come entirely from the generous bonus and long-term incentives. The base salary is set at median in the market to achieve the desired leverage. If our targets are exceeded, then the executive has the opportunity to more than treble the value of their remuneration package, but this is delivered by the variable element in the package, not the salary.

We benchmark remuneration packages with a group of 13 UK software and IT companies identified as appropriate peers. We identify the most similar companies in terms of size, complexity and business field. As a result of the benchmarking exercise, Executive Directors' base salaries have been increased this year.

Rob Sirs' and Mike Greig's salaries have been increased by 4.48% and 9.55% respectively, bringing them in line with market median.

Last year's Report noted that the base salary of the Group's CEO was significantly below market median level; this is not reflective of performance and the Committee set out a proposal to move it to median level in two equal steps over two years. Analysis performed this year indicates that market conditions have moved on and the proposed action will not close the gap. The Committee has awarded the CEO a base salary increase of 14.23% which is in line with last year's proposal, and agreed to ensure that his base salary reaches market median level in the next three years.

The level of annual bonus, long-term incentive potential and pension benefit are all linked to base salaries and so the costs or potential costs of these will increase proportionately. The overall balance of the package remains unchanged.

**b) Annual bonus**

The annual bonus potential is 100% of base salary with 40% of any bonus paid deferred into shares for three years calculated by using the RM share price on the date of the bonus payment.

The bonus payment made to the executives depends on the performance conditions, set by the Remuneration Committee at the beginning of the year, being met. The performance targets reflect the factors that we believe to be critical to RM's business success and the Remuneration Committee is satisfied that the targets set are stretching and aligned to shareholders interests.

We explain below what the performance targets are. The attainment of the targets is independently audited prior to any rewards being made.

**Bonus for 2008**

The performance targets that the Remuneration Committee believes are critical to achieve in 2008 are increases in EPS, customer satisfaction, and market share indicators and attainment of personal objectives relating to RM's overall success.

The weighting of the different bonus measures is as follows:

	%
EPS	50
Customer satisfaction	20
Market share and acquisition	20
Personal objectives	10

For each parameter we have a range between 'unacceptable', 'target', and 'outstanding'. These rewards are set so that the remuneration package, as a whole, will be better than most competitors' packages if sufficient benefits have been delivered to shareholders. This ensures that Executive Directors have the opportunity to earn high rewards, relative to competitors, but only for superior performance.

If there is an unacceptable level of EPS, no bonus, other than personal, is awarded even if performance in the customer satisfaction, market share and acquisition areas has been achieved.

Given the nature of the education market, improving customer satisfaction is critical to long-term shareholder returns. Therefore, achieving customer satisfaction targets could result in an annual bonus payment of up to 20% of base salary. If customer satisfaction does not increase, then none of the 20% bonus is paid. We measure our customer satisfaction constantly and we set targets based on the best data we can find on what outstanding companies achieve in terms of improvement.

The Committee believes that it is in shareholders' interests that bonuses are tied to an increase in market share and we consider a variety of measures to inform our judgement on whether or not it is clear that targets have been met. Achieving market share targets could result in an annual bonus payment of 20% of base salary. Personal objectives are set by the CEO with Remuneration Committee approval and related to business critical issues in the executives' specific area. The CEO's personal objectives are set by the Chairman of the Board and approved by the Remuneration Committee.

**Bonus for 2007**

In 2007, the maximum bonus Executive Directors could earn was 100% of salary. Based on the performance for the year just passed, Tim Pearson, Mike Greig and Rob Sirs each received on average an annual bonus of 72% of their salary (of which 40% was deferred into shares). This was based on EPS growth of 7.0% which triggered the customer satisfaction and market share targets to be taken into consideration. The Co-Investment Plan (CIP) also matched shares at 1.64 for 1 – given the EPS growth and TSR results over the preceding three years.

**c) Long-term incentives**

In order to focus Executive Directors on longer-term performance delivery and value creation, the Remuneration Committee employs a CIP. For 2008 it is intended that this will be the sole, long-term, incentive plan for Executive Directors (in years prior to 2005 share options were also granted).

The CIP operates on a three-year cycle. A new cycle is started each year and Executive Directors are invited to commit shares worth up to 33% of their base salary. At the end of the three-year period, up to three matching shares may be awarded for each committed share, subject to the achievement of performance conditions. Therefore, the maximum award of matching shares that can be made under any plan cycle is 99% of salary. Committed shares have to be retained throughout the plan cycle to qualify for matching shares.

The Remuneration Committee operates this plan on an annual basis. Each year it will consider the appropriateness of the plan and set performance conditions relevant to the circumstances that the Group faces at the time. It will take into account competitive market practice, consensus expectations for TSR growth, and Group business plans. Such performance conditions will always be established at levels that are demanding in the circumstances and that are aligned with shareholder interests.

As in previous years, there are two performance conditions for the plan cycle starting in 2008. These are based on diluted EPS growth and relative Total Shareholder Return (TSR), both of which will be measured over three years. TSR will be measured relative to the FTSE Software and Computer Services index. EPS will be measured prior to exceptional items and will only come into operation if the share price at vesting is at least equal to 100% of the share price at the date of award. Matching shares will be subject to each condition, as shown in the table below. There is no re-testing of the performance conditions under the plan. Matching awards vary on a sliding scale between the levels shown.

EPS growth		TSR relative to FTSE Software and Computer Services index	
Annual compound growth	Match	Relative ranking	Match
Less than RPI + 3.0%	Nil	Below median	Nil
RPI + 3.0%	0.5 for 1	Median	0.5 for 1
RPI + 8.5%	1.5 for 1	Upper quartile or above	1.5 for 1

The EPS measure is based on audited figures, and the TSR measurement is independently verified by PricewaterhouseCoopers LLP. The Remuneration Committee has the discretion to adjust the base or final year EPS figures to ensure a fair and consistent comparison in light of the introduction of International Financial Reporting Standards. The Committee also reserves the right to exercise discretion to override the share price underpin in circumstances where it determined that the share price performance had been good and the reason that the underpin had not been met was due to circumstances beyond management control.

If a change of control of the Company were to happen, awards will vest in line with the extent to which performance conditions have been met at the point of change of control, and pro-rata in line with the proportion of the performance period that has elapsed.

#### d) Share option scheme

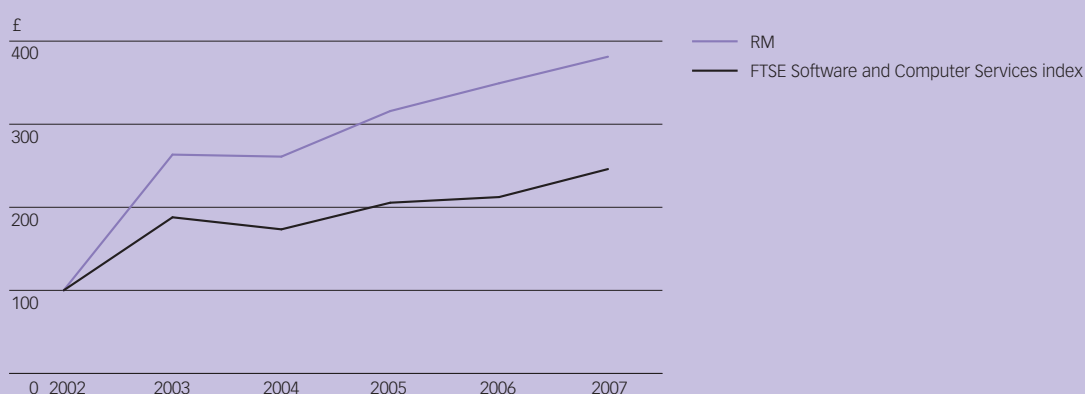
Following a review of Executive Director's remuneration during 2004, the Remuneration Committee decided that share options would not be granted to Executive Directors (this is kept under review by the Remuneration Committee in light of evolving market practice). The Remuneration Committee believes, however, that the grant of share options can be vital in attracting high-calibre employees in our competitive marketplace and, therefore, reserves the flexibility to use options at senior levels for this purpose.

Details of prior year option grants and performance conditions can be found in section 6.

## 2 Performance graphs

The Group's TSR is compared in the graph below against the TSR of the FTSE Software and Computer Services index. This index has been chosen as the best benchmark of RM's performance as this is the sector within which RM operates. RM is a constituent of this index. £100 invested in RM shares on 1 October 2002 would have been worth £381.25 at 1 October 2007. An investor, who had invested the same amount in the FTSE Software and Computer Services index, would have seen their investment increase to £245.98 over the same period.

### Total shareholder return – cumulative



The graph above shows the value over five years of £100 invested in RM shares on 1 October 2002, assuming that all dividend income is reinvested, compared to the FTSE Software and Computer Services index.

### 3 Directors' service contracts and letters of appointment

The Committee's policy on Executive Directors' service contracts is for them to contain a maximum notice period of one year. All Executive Directors' service contracts can be terminated on one year's notice. Each service contract expires at the respective normal retirement date of the Director, but is subject to earlier termination for cause or if notice is given under the contract. The contracts are designed to allow for flexibility to deal with each case on its own particular merits, in accordance with the law and policy as they have developed at the relevant time. In the event that the Company wishes to terminate the employment of a Director, it will take into account the Director's obligation to mitigate when deciding on an appropriate level of compensation.

#### a) Tim Pearson

Tim Pearson has a service contract, dated 15 February 2002, which provides for 12 months' notice on the part of the Company and six months by the Director. The contract ends automatically when he reaches his retirement age of 60. Under the terms of his contract, the Company may, at its sole and absolute discretion, pay salary in lieu of any required period of notice.

#### b) Mike Greig

Mike Greig has a service contract, dated 13 February 2002, which provides for 12 months' notice on the part of the Company and six months by the Director. The contract ends automatically when he reaches his retirement age of 65. Under the terms of his contract, the Company may, at its sole and absolute discretion, pay salary in lieu of any required period of notice.

#### c) Rob Sirs

Rob Sirs has a service contract, dated 13 February 2002, which provides for 12 months' notice on the part of the Company and six months by the Director. The contract ends automatically when he reaches his retirement age of 65. Under the terms of his contract, the Company may, at its sole and absolute discretion, pay salary in lieu of any required period of notice.

#### d) Chairman and Non-Executive Directors

The Chairman and the Non-Executive Directors do not have service contracts with the Company. Their appointments are governed by letters of appointment, which are for a specified term. Each Non-Executive Director's date of appointment as a Non-Executive Director of the Company and most recent date of reappointment are shown below. Following a review of market practice, annual fees for the basic fiduciary duties of a Non-Executive Director were increased to £25,000 per annum. Additional fees were also introduced to recognise responsibility and time commitment associated with chairing or membership of Board Committees and the role of the Senior Independent Director. These changes mean that the total average annual payment for a Non-Executive Director is just below £37,000, which is broadly in line with the comparator group that is used for benchmarking the salaries of Executive Directors. Non-Executive Directors are also entitled to reimbursement of reasonable business expenses.

	Date of appointment as a Non-Executive Director	Date of last reappointment	Specified term (years)
J.P. Leighfield	3 November 1993	1 May 2007	3
B. Carsberg	1 September 2002	1 September 2007	3
J.R. Windeler	1 October 2002	1 October 2005	3
M.J. Tomlinson	2 February 2004	28 January 2007	3
T.R.P. Brighthouse	20 May 2004	1 February 2007	3

### 4 Directors' remuneration

The total amounts for Directors' remuneration and other benefits were as follows:

	2007 £000	2006 £000
Emoluments	1,418	1,176
Gains on exercise of share options	75	71
Amounts receivable under long-term incentive schemes	324	581
	1,817	1,828



Directors' emoluments in respect of the Directors of the Company who served during the year ended 30 September 2007 were as follows:

Name	Salaries and fees £000	Taxable benefits £000	Annual bonuses** £000	2007 Total £000	2006 Total £000
<b>Executive</b>					
T.R. Pearson	276	13	192	481	370
M.D. Greig*	168	14	127	309	265
R.A. Sirs	189	12	143	344	307
<b>Non-Executive</b>					
J.P. Leighfield	78	21	–	99	85
S.L. Coutu	44	–	–	44	32
B. Carsberg	40	–	–	40	34
J.R. Windeler	34	–	–	34	28
T.R.P. Brighthouse	33	–	–	33	27
M.J. Tomlinson	34	–	–	34	28
	<b>896</b>	<b>60</b>	<b>462</b>	<b>1,418</b>	<b>1,176</b>

\*In addition M.D. Greig received and retained £25,875 (2006: £25,500) in respect of his position as a Non-Executive Director at CODA plc.

\*\*60% is paid in cash and 40% deferred into shares payable after three years.

Taxable benefits comprise provision of a company car, car and fuel allowance payments, private healthcare and the cost of providing additional lump sum life cover.

With effect from 1 November 2007 the base salary figures of the Executive Directors are:

	£
Tim Pearson	305,000
Mike Greig	195,000
Rob Sirs	210,000

## 5 Directors' long-term incentive plan – the Co-Investment Plan

### a)

The Co-Investment Plan is described in section 1(c) of this Remuneration report. The performance conditions for the first operation of the Plan were approved by shareholders at the Group's annual general meeting in January 2003. These conditions were that the grant of matching shares be subject to two performance conditions over a three-year period. A maximum of three matching shares can be awarded for each committed share, with half of the matching shares subject to a condition based on real growth in EPS (excluding goodwill and before exceptional charges) and half subject to a relative TSR measure. For the first grant, the TSR measure was based on the extent to which the Company's TSR outperformed the FTSE 250 (measured in terms of standard deviations).

The performance measure for the plan cycle starting in 2008 has the same structure as the initial award, except that relative TSR is measured as a percentile ranking against the FTSE Software and Computer Services index and EPS will only come into operation if the share price at vesting is at least equal to 100% of the share price at the date of award. Previous year Co-Investment Plan performance conditions are summarised in the table below. The Committee considers these performance conditions to be challenging, relative to the performance required.

	2007 Grant	2006 Grant	2005 Grant
EPS condition 3-year average annual EPS growth (50% of grant)	<b>Less than RPI + 5.2% = Nil</b> <b>RPI + 5.2% = 0.5 for 1 match</b> <b>RPI +8.5% = 1.5 for 1 match</b> <b>(sliding scale)</b>	Less than RPI + 2.9% = Nil RPI + 5.2% = 0.5 for 1 match RPI +8.5% = 1.5 for 1 match (sliding scale)	Less than RPI + 5.0% = Nil RPI + 5.0% = 0.5 for 1 match RPI +12.0% = 1.5 for 1 match (sliding scale)
Relative TSR condition (50% of grant)	<b>Versus FTSE S&amp;CS</b> <b>Median = 0.5 for 1 match</b> <b>Upper quartile = 1.5 for 1 match</b> <b>(sliding scale)</b>	Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)	Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)

The Remuneration Committee has discretion to adjust for the impact of the introduction of IFRS in determining whether the performance condition has been met.

**b)**

The Directors' interests in the long-term incentive plan are listed below:

Date of award	Maximum number of matching shares* at 01/10/06	Market price on award date	Performance period for matching shares	Number of matching shares released	Release date	Market price on release date	Maximum number of matching shares* at 30/09/07
<b>T.R. Pearson</b>							
16/12/03	89,040	135.0p	01/10/03-30/09/06	56,838	05/12/06	177.0p	–
10/12/04	51,297	156.0p	01/10/04-30/09/07	–	–	–	51,297
20/12/05	145,698	159.0p	01/10/05-30/09/08	–	–	–	145,698
05/01/07	–	211.5p	01/10/06-30/09/09	–	–	–	124,977
<b>M.D. Greig</b>							
16/12/03	107,607	135.0p	01/10/03-30/09/06	68,690	05/12/06	177.0p	–
10/12/04	67,011	156.0p	01/10/04-30/09/07	–	–	–	67,011
20/12/05	102,735	159.0p	01/10/05-30/09/08	–	–	–	102,735
05/01/07	–	211.5p	01/10/06-30/09/09	–	–	–	83,319
<b>R.A. Sirs</b>							
16/12/03	90,000	135.0p	01/10/03-30/09/06	57,450	05/12/06	177.0p	–
10/12/04	95,268	156.0p	01/10/04-30/09/07	–	–	–	95,268
20/12/05	121,413	159.0p	01/10/05-30/09/08	–	–	–	121,413
05/01/07	–	211.5p	01/10/06-30/09/09	–	–	–	94,083

\*The number of matching shares is the maximum (a match of 3 for 1) that could be received by the Executive Director if performance conditions outlined in the policy section are fully met.

**6 Directors' share options**

The Remuneration Committee has determined that Executive Directors will not be granted share options in 2008. However, Executive Directors have been granted options in previous years.

**a)**

The Company operates three executive share option schemes: the RM plc 1994 Executive Share Option Scheme (the '1994 Scheme'), which was adopted at the time of the Group's flotation in December 1994; the RM plc 2001 Executive Share Option Scheme (the '2001 Scheme'), which was adopted at the annual general meeting held on 24 January 2001; and the RM plc 2004 Executive Share Option Scheme (the '2004 Scheme') which was adopted at the annual general meeting held on 28 January 2004. Performance conditions are set each year in light of the Company's prospects over the coming three-year period, including giving consideration to analysts' consensus forecasts for EPS growth. RM share options are not offered at a discount.

**1994 Scheme**

Under the 1994 Scheme, which is now closed, Ordinary or Super options were granted at market value at the time of grant and are normally exercisable between three and ten years from the date of grant. The proviso is however, that the increase in the Company's EPS over a three year period exceeds RPI by 6% for Ordinary options and 10% for Super options. Executive Directors only received Super options with no re-testing of the performance condition on these.

### 2001 Scheme

Under the 2001 Scheme, options were granted at the market value at the time of grant and were exercisable three years after the date of the grant, provided performance conditions were met. The performance conditions related to the Group's EPS (excluding goodwill and before exceptional charges) growth relative to RPI, with the number of options exercisable varying on a sliding scale depending on the extent to which EPS exceeds RPI. The 2001 Scheme had a life of three years, and closed in 2004.

The performance conditions for share options granted under the 2001 Scheme are summarised in the following table:

Grant date	Performance condition	% of options vesting (with sliding scale)
<b>November 2001 and March 2002</b>	3 year growth EPS	
	RPI + 3%	25
	RPI + 22%	100
<b>June 2002</b>	2003 EPS = 5.51p + RPI	37.5
	2003 EPS = 6.12p + RPI	50
	2004 EPS = 7.96p + RPI	37.5
	2004 EPS = 8.84p + RPI	50
<b>December 2002</b>	3 year growth EPS	
	RPI + 3%	25
	RPI + 22%	100
<b>December 2003</b>	3 year growth EPS	
	RPI + 7.5%	33
	RPI + 17.5%	100

There is no re-testing of the performance conditions.

### 2004 Scheme

Shareholder approval was obtained in January 2004 for an extension of the 2001 Scheme with a reduced overall dilution limit of 13% (down from 15% in the 2001 Scheme). RM has also committed to keep future years' annual option grants to less than 1% pa dilution. Maximum grants under the scheme are 200% of basic salary. No options have been granted to Executive Directors under the 2004 Scheme. No options will be granted to Executive Directors under this scheme during 2008.

As described elsewhere in this report, it is intended that the 2004 Scheme will only be used at Director level in exceptional circumstances (for example, recruitment). In the event that the scheme is used for grants up to 100% of salary, vesting will require EPS growth of RPI + 3% pa (from the December 2007 grant) over the fixed three year performance period. For larger grants, a sliding scale would be applied, requiring more stretching levels of performance for full vesting. Following advice on the potential profit and loss impact, the Committee has decided that future awards granted under this scheme will be subject to a cap on the potential gain at vesting – which will be set at the time of each award. There will be no re-testing of performance conditions.

The performance conditions for share options granted under the 2004 Scheme are summarised in the following table:

Grant date	Performance condition	% of options vesting (with sliding scale)
<b>December 2004</b>	3 year growth EPS	
	RPI + 5%	100
<b>November 2005</b>	3 year growth EPS	
	RPI + 5%	100
<b>December 2006</b>	3 year growth EPS	
	RPI + 5%	100
<b>June 2007</b>	3 year growth EPS	
	RPI + 5%*	100

\*The gain on the option will be restricted to 2.5 times the exercise price of the option.

The total number of options currently outstanding is 5,710,693 which represents 6.16% of RM's current shares in issue.

Growth in EPS compared with 2003 means that the options granted in December 2004 will become exercisable.

**b)**

The Directors' interests in share options are listed below:

At 01/10/06	Granted in year	Exercised in year	Lapsed in year	At 30/09/07	Exercise price*	Market price at date of exercise	Dates from which exercisable	Expiry dates
<b>T.R. Pearson</b>								
<b>Options with an exercise price equal to or above £1.915</b>								
146,919	Nil	Nil	Nil	146,919	£4.926	–	20/05/01-24/05/03	20/05/08-24/05/10
Options exercised during the year								
70,000	Nil	70,000	Nil	Nil	£1.475	£1.850	17/02/00	17/02/07
15,000	Nil	12,000	3,000	Nil	£1.445	£1.850	01/12/06	01/12/13
<b>M.D. Greig</b>								
<b>Options with an exercise price equal to or above £1.915</b>								
146,919	Nil	Nil	Nil	146,919	£4.926	–	20/05/01-24/05/03	20/05/08-24/05/10
Options with an exercise price below £1.915								
226,379	Nil	Nil	3,000	223,379	£0.912	–	03/12/00-01/12/06	03/12/07-01/12/13
Options exercised during the year								
25,000	Nil	25,000	Nil	Nil	£1.475	£1.850	17/02/00	17/02/07
<b>R.A. Sirs</b>								
<b>Options with an exercise price equal to or above £1.915</b>								
124,252	Nil	Nil	Nil	124,252	£4.973	–	20/05/01-24/05/03	20/05/08-24/05/10
Options with an exercise price below £1.915								
231,750	Nil	Nil	3,000	228,750	£0.816	–	05/03/05-01/12/06	05/03/12-01/12/13
Options exercised during the year								
16,670	Nil	16,670	Nil	Nil	£1.475	£1.850	17/02/00	17/02/07
66,670	Nil	66,670	Nil	Nil	£1.635	£2.065	03/12/00	03/12/07

\*Other than for exercised options the price shown is the weighted average exercise price.

The gains on exercise of options were as follows:

	£
Tim Pearson	31,110
Mike Greig	9,375
Rob Sirs	34,919

A significant proportion of Executive Directors' share options have exercise prices significantly above current share price levels. Many of these also have performance conditions that are now unlikely to be achieved.

There have been no changes in the Directors' interests in the shares of the Company during the period 1 October 2007 to 16 November 2007.

The market price of the ordinary shares at 30 September 2007 was 191.50p per share and the range during the year was 161.25p to 224.50p per share.

## 7 Directors' shareholdings

The beneficial interests of the Directors in the ordinary shares of RM plc as at 30 September 2007 or at their date of appointment if later were:

	30 September 2007	30 September 2006
J.P. Leighfield	150,000	150,000
T.R. Pearson	185,052	155,974
M.D. Greig	179,999	179,939
R.A. Sirs	127,138	172,837
S.L. Coutu	50,816	50,816
B. Carsberg	–	–
J.R. Windeler	32,000	32,000
M.J. Tomlinson	–	–
T.R.P. Brighthouse	10,000	10,000

In addition to the interests listed above, Tim Pearson has a non-beneficial interest as a trustee of the RML Staff Share Scheme in 1,361 shares (2006: 1,361).

## 8 Directors' pensions

### a)

All Executive Directors are members of the Group's principal pension scheme, the Research Machines plc 1988 Pension Scheme. This scheme provides a pension of 1/60ths of a member's final pensionable salary for each year of service, subject to Inland Revenue limits. Only base salary is pensionable. Following the lifetime allowance introduced with the April 2006 pensions changes Tim Pearson elected to cease accruing pension from February 2007 and receive a cash supplement in lieu of the employer contributions instead.

Normal retirement age is 60 in respect of benefits accrued prior to 1 May 2002. For benefits accrued after 1 May 2002 normal retirement age is 65, but members were able to choose to maintain the normal retirement age at 60 subject to paying a higher rate of contributions:

Member contributions % salary	Normal retirement age (Pre 1 May 2002 benefits)	Normal retirement age (Post 1 May 2002 benefits)
6.3%	60	65
12.10%	60	60

Tim Pearson paid contributions at the higher rate whilst Mike Greig and Rob Sirs pay at the lower rate.

The scheme also provides life insurance cover and dependant pensions. Member contributions are notionally held in individual accounts that are increased in line with the fund's investment returns. Benefits received under the scheme are guaranteed to have a value at least as high as the value of these individual accounts at retirement.

**b)**

The table below shows at the year-end the accrued pension should the Directors leave employment; the increase in the accrued pension during the year; the increase excluding inflation and the transfer value of that increase less member contributions and any increase/(decrease) in this value assessed on the transfer value basis of the scheme.

	T.R. Pearson (age 47) £000	M.D. Greig (age 51) £000	R.A. Sirs (age 46) £000
Accrued annual pension at 30 September 2007	75	50	53
Increase in accrued pension during the year	5	5	5
Increase in accrued pension (net of inflation)	5	3	3
Transfer value of increase (net of inflation and Director's contributions)	58	32	25
Transfer value of accrued pension at 30 September 2007	881	577	503
Transfer value of accrued pension at 30 September 2006	732	484	429
Increase in transfer value (net of Director's contributions)	149	93	74

As from 1 June 2006 all three Directors opted to join the SMART Scheme (pension salary sacrifice) and as such, ceased employee contributions from that date.

No money purchase scheme contributions were paid by the Company in respect of any Directors during the year.

**9 Compliance with regulations**

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the UK Listing Authority and illustrates how the principles of the Combined Code relating to directors' remuneration are applied by the Company.

This report has been approved by the Board, and shareholders will be asked to consider and approve it at the annual general meeting to be held on 21 January 2008.

The Group's auditors are required to comment on whether certain parts of the Group's Remuneration Report have been prepared in accordance with the Companies Act 1985 (as amended by the Regulations). Accordingly, sections 4, 5(b), 6(b) and 8(b) have been audited by Deloitte & Touche LLP.

**10 Remuneration Committee**

The Remuneration Committee operates under terms of reference approved by the Board with the purposes of determining, on behalf of the Board and shareholders, all elements of the remuneration of the Company's Executive Directors and of overseeing major changes to the overall reward policy structure throughout the Group. These terms of reference can be found on the Group's Web site at [www.rm.com/investors](http://www.rm.com/investors). The Remuneration Committee undertakes an annual appraisal and addresses any areas that have been highlighted for improvement.

None of the members of the Committee has any personal financial interest in the Company other than through fees received or as a shareholder. They are not involved in the day-to-day running of the business and have no personal conflicts of interest.

The Committee believes in regular dialogue with shareholders on remuneration matters and actively meets with leading shareholders to discuss the Company's reward programmes.

The fees of Non-Executive Directors are a matter for the consideration of the Board as a whole. Each Director receives a fee for being a Director. If Committee work requires additional time commitment, then the Directors are paid on a per diem basis.

**a) Composition of the Remuneration Committee**

RM's Remuneration Committee comprises Sir Mike Tomlinson (Chair), Sir Bryan Carsberg and John Windeler, all of whom are independent Non-Executive Directors. Prior to her retirement from the Board on 28 October 2007 Sherry Coutu chaired the Remuneration Committee.

**b) Schedule of meetings**

The Remuneration Committee met six times during the year.

Details of attendance at Remuneration Committee meetings are as follows: Sherry Coutu, six meetings; Sir Bryan Carsberg, six meetings; John Windeler, five meetings; and Mike Tomlinson, four meetings.

**c) Advisers to the Remuneration Committee**

During 2007, the Committee asked a number of Group employees and external consultants for their views and advice.

Tim Pearson, RM's CEO, attends meetings of the Remuneration Committee by invitation to provide background and context on matters relating to the remuneration of the other Executive Directors, but does not participate in discussions relating to his own remuneration. The Committee also received views and advice from Mike Greig (Group Finance Director), Rob Sirs (Chief Operating Officer), Russell Govan (Human Resources Director) and John Leighfield (Chairman).

PricewaterhouseCoopers LLP, who were appointed by the Committee, provided advice on the Executive Directors' remuneration and information on market practice. PricewaterhouseCoopers LLP were also employed by the Group to audit RM's internal customer satisfaction measure.

This report has been approved by the Board of Directors and signed on its behalf by:

**M.J. Tomlinson**

Chair, Remuneration Committee

19 November 2007

# Independent auditors' report to the members of RM plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of RM plc for the year ended 30 September 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual report, the Directors' Remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specified information cross referred from the Business Review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance report reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual report.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration report to be audited.



## **Opinion**

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2007 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 September 2007;
- the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

## **Separate opinion in relation to IFRSs**

As explained in note 1 to the consolidated financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 30 September 2007 and of its profit for the year then ended.

## **Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

Reading, United Kingdom

19 November 2007

If you have obtained this document as a .pdf download from RM's investor relations Web site ([www.rm.com/investors](http://www.rm.com/investors)), please note the following:

Neither an audit nor a review provides assurance on the maintenance and integrity of the Web site, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

## Consolidated income statement

for the year ended 30 September 2007

	Notes	Before amortisation of acquisition related intangible assets and exceptional pension credit £000	Amortisation of acquisition related intangible assets and exceptional pension credit £000	2007 Total £000	2006 Total £000
Revenue	3	<b>270,910</b>		<b>270,910</b>	262,310
Cost of sales		<b>(197,376)</b>		<b>(197,376)</b>	(191,177)
<b>Gross profit</b>		<b>73,534</b>		<b>73,534</b>	71,133
Selling and distribution costs		<b>(33,979)</b>		<b>(33,979)</b>	(33,166)
Research and development expenses		<b>(14,886)</b>		<b>(14,886)</b>	(14,918)
Administrative expenses		<b>(11,174)</b>		<b>(11,174)</b>	(10,193)
Amortisation of acquisition related intangible assets			<b>(580)</b>	<b>(580)</b>	(53)
Exceptional pension credit	30		<b>3,500</b>	<b>3,500</b>	–
		<b>(60,039)</b>	<b>2,920</b>	<b>(57,119)</b>	(58,330)
<b>Profit from operations</b>	5	<b>13,495</b>	<b>2,920</b>	<b>16,415</b>	12,803
Investment income	7	<b>2,047</b>		<b>2,047</b>	1,876
Finance costs	8	<b>(27)</b>		<b>(27)</b>	(135)
<b>Profit before tax</b>		<b>15,515</b>	<b>2,920</b>	<b>18,435</b>	14,544
Tax	9	<b>(4,153)</b>	<b>(877)</b>	<b>(5,030)</b>	(4,055)
<b>Profit for the period attributable to equity holders of the parent</b>		<b>11,362</b>	<b>2,043</b>	<b>13,405</b>	10,489
<b>Earnings per ordinary share:</b>	10				
Basic		<b>12.4p</b>	<b>2.2p</b>	<b>14.6p</b>	11.6p
Diluted		<b>12.3p</b>	<b>2.2p</b>	<b>14.5p</b>	11.5p
<b>Paid and proposed dividends per share:</b>	11				
Interim				<b>1.19p</b>	1.12p
Final				<b>4.30p</b>	4.05p

All activities relate to continuing operations. The accompanying notes are an integral part of this consolidated income statement.

## Consolidated statement of recognised income and expense

for the year ended 30 September 2007

	Notes	2007 £000	2006 £000
Exchange differences on translation of foreign operations		<b>194</b>	(48)
Actuarial gains/(losses) on defined benefit pension scheme	30	<b>7,565</b>	(3,914)
Tax on items taken directly to equity	9	<b>(2,096)</b>	1,287
<b>Net income/(loss) recognised directly in equity</b>		<b>5,663</b>	(2,675)
<b>Profit for the year</b>		<b>13,405</b>	10,489
<b>Total recognised income and expense for the year attributable to equity holders of the parent</b>		<b>19,068</b>	7,814

The Company has no other recognised income and expense other than the profit for the year as shown in note 24, consequently a statement of recognised income and expense has not been prepared.

# Consolidated balance sheet

as at 30 September 2007

	Notes	2007 £000	2006 £000
<b>Non-current assets</b>			
Goodwill	12	24,626	22,332
Acquisition related intangible assets	13	3,267	1,002
Other intangible assets	13	2,395	2,460
Property, plant and equipment	14	21,125	22,483
Deferred tax assets	9	2,739	7,394
		<b>54,152</b>	55,671
<b>Current assets</b>			
Inventories	16	13,701	10,815
Trade and other receivables	18	58,803	51,361
Cash and cash equivalents	26	29,321	30,092
		<b>101,825</b>	92,268
<b>Non-current assets held for sale</b>			
		–	1,094
<b>Total assets</b>		<b>155,977</b>	149,033
<b>Current liabilities</b>			
Trade and other payables	19	(86,006)	(78,871)
Tax liabilities	19	(1,221)	(1,416)
		<b>(87,227)</b>	(80,287)
<b>Net current assets</b>		<b>14,598</b>	11,981
<b>Non-current liabilities</b>			
Retirement benefit obligation	30	(3,269)	(18,707)
Deferred tax liabilities	9	(135)	(234)
Other payables	19	(5,182)	(6,793)
Provisions	21	(2,252)	(737)
		<b>(10,838)</b>	(26,471)
<b>Total liabilities</b>		<b>(98,065)</b>	(106,758)
<b>Net assets</b>		<b>57,912</b>	42,275
<b>Equity attributable to equity holders of the parent</b>			
Share capital	22	1,854	1,836
Share premium account		25,727	23,877
Own shares	23	(998)	(954)
Capital redemption reserve		94	94
Translation reserve		190	(4)
Retained earnings		31,045	17,426
<b>Total equity</b>	24	<b>57,912</b>	42,275

These financial statements were approved and authorised for issue by the Board of Directors on 19 November 2007.

**T.R. Pearson** **M.D. Greig**

Director Director

The accompanying notes form an integral part of this consolidated balance sheet.

# Company balance sheet

as at 30 September 2007

	Notes	2007 £000	2006 (restated) £000
<b>Non-current assets</b>			
Investments	15	55,297	42,736
		<b>55,297</b>	42,736
<b>Current assets</b>			
Trade and other receivables	18	4,812	16,841
Cash and cash equivalents		11	35
		<b>4,823</b>	16,876
<b>Total assets</b>		<b>60,120</b>	59,612
<b>Current liabilities</b>			
Trade and other payables	19	(1,009)	(2,135)
Tax liabilities	19	(90)	(90)
		<b>(1,099)</b>	(2,225)
<b>Net current assets</b>		<b>3,724</b>	14,651
<b>Non-current liabilities</b>			
Provisions	21	(1,710)	–
		<b>(1,710)</b>	–
<b>Total liabilities</b>		<b>(2,809)</b>	(2,225)
<b>Net assets</b>		<b>57,311</b>	57,387
<b>Equity attributable to equity holders of the parent</b>			
Share capital	22	1,854	1,836
Share premium account		25,727	23,877
Own shares	23	(998)	(954)
Capital redemption reserve		94	94
Retained earnings		30,634	32,534
<b>Total equity</b>	24	<b>57,311</b>	57,387

International Financial Reporting Interpretations Committee interpretation 11 has been adopted during the year. The prior year balance sheet has been restated to reflect this with further information provided in note 31.

These financial statements were approved and authorised for issue by the Board of Directors on 19 November 2007.

**T.R. Pearson**   **M.D. Greig**  
Director                      Director

The accompanying notes form an integral part of this Company balance sheet.

# Consolidated cash flow statement

for the year ended 30 September 2007

	Notes	2007 £000	2006 £000
<b>Profit from operations</b>		<b>16,415</b>	12,803
Adjustments for:			
Loss/(gain) on derivatives		55	(14)
Amortisation of acquisition related intangible assets		580	53
Depreciation of property, plant and equipment		8,793	9,071
Amortisation of other intangible assets		1,010	342
(Gain)/loss on disposal of property, plant and equipment		(657)	77
Decrease in provisions		(195)	(233)
Share-based payment charge		1,038	803
Defined benefit pension cash contribution in excess of charge to profit		(1,573)	(1,196)
Exceptional pension credit		(3,500)	–
<b>Operating cash flows before movements in working capital</b>		<b>21,966</b>	21,706
(Increase)/decrease in inventories		(1,934)	1,211
(Increase)/decrease in receivables		(6,492)	3,035
Increase in payables		4,508	585
<b>Cash generated by operations</b>		<b>18,048</b>	26,537
Additional special defined benefit pension contribution		(2,000)	–
Tax paid		(3,470)	(3,110)
Income on sale of finance lease debt	7	688	854
Interest paid		(27)	(36)
<b>Net cash inflow from operating activities</b>		<b>13,239</b>	24,245
<b>Investing activities</b>			
Interest received		872	784
Proceeds on disposal of property, plant and equipment		2,004	743
Purchases of property, plant and equipment		(7,482)	(8,903)
Purchases of other intangible assets		(1,303)	(803)
Acquisition of subsidiaries, net of cash acquired		(2,767)	(2,281)
<b>Net cash used in investing activities</b>		<b>(8,676)</b>	(10,460)
<b>Financing activities</b>			
Dividends paid		(4,801)	(4,473)
Proceeds from share capital issue, net of share issue costs		1,280	831
Repayment of borrowings assumed in acquisitions		–	(322)
Purchase of own shares		(559)	(816)
Share buy backs		–	(65)
Repayment of loan notes and deferred consideration		(1,316)	(1,790)
<b>Net cash used in financing activities</b>		<b>(5,396)</b>	(6,635)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(833)</b>	7,150
Cash and cash equivalents at the beginning of year		30,092	22,942
Effect of foreign exchange rate changes		62	–
<b>Cash and cash equivalents at the end of year</b>	26	<b>29,321</b>	30,092

The accompanying notes form an integral part of this consolidated cash flow statement.

# Company cash flow statement

for the year ended 30 September 2007

	2007 £000	2006 £000
<b>(Loss)/profit from operations and operating cash flows before movements in working capital</b>	<b>(463)</b>	15
Decrease/(increase) in receivables	<b>2,415</b>	(4,280)
Increase in payables	<b>86</b>	1,727
<b>Cash used by operations</b>	<b>2,038</b>	(2,538)
Dividends received	<b>3,230</b>	8,882
Interest paid	–	(31)
<b>Net cash inflow from operating activities</b>	<b>5,268</b>	6,313
<b>Investing activities</b>		
Interest received	–	1
<b>Net generated by investing activities</b>	–	1
<b>Financing activities</b>		
Dividends paid	<b>(4,801)</b>	(4,473)
Proceeds from share capital issue, net of share issue costs	<b>1,281</b>	831
Purchase of own shares	<b>(559)</b>	(816)
Share buy backs	–	(65)
Repayment of loan notes	<b>(1,213)</b>	(1,790)
<b>Net cash used in financing activities</b>	<b>(5,292)</b>	(6,313)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(24)</b>	1
Cash and cash equivalents at the beginning of year	<b>35</b>	34
<b>Cash and cash equivalents at the end of year</b>	<b>11</b>	35

The accompanying notes form an integral part of this Company cash flow statement.

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## 1 General information

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RM plc is a company incorporated in the United Kingdom under the Companies Act 1985. It is a parent company of a group of companies, the nature of whose operations and its principal activities are set out in the Business Review.

The accounting policies are drawn up in accordance with those International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted for use in the EU and therefore comply with Article 4 of the EU IAS Regulation applied in accordance with the provisions of the Companies Act 1985.

### Income statement presentation

The income statement for the year ended 30 September 2007 has been presented in three columns. This presentation is intended to give a better guide to business performance by separately identifying the amortisation charge relating to acquisition related intangible assets and, for 2007, the exceptional pension credit. The columns extend down the income statement to allow the tax and earnings per share impacts of these transactions to be understood.

### Adoption of new and revised International Financial Reporting Standards

At the date of approval of these financial statements the following standards and interpretations were issued but not yet mandatory for the Group and have not been adopted:

#### IFRS:

IFRS 7 Financial Instruments: Disclosures

IFRS 8 Operating Segments

#### International Financial Reporting Interpretations Committee (IFRIC) interpretations:

IFRIC 8 Scope of IFRS 2

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 10 Interim Financial Reporting and Impairment

IFRIC 12 Service Concession Arrangements

#### Amendments to existing standards:

Amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures

Amendments to IAS 23 Borrowing Costs – Capitalisation of Borrowing Costs

The Directors are finalising their analysis and do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial adoption.

Although it was not mandatory at the date of approval of these financial statements the Group has decided to adopt IFRIC 11 IFRS 2 – Group Treasury Share Transactions.

The significant IFRS accounting policies adopted by the Group are listed below.

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## 2 Significant accounting policies

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### Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, share-based payments and pension assets and liabilities which are measured at fair value. The preparation of financial statements, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### Consolidation

The Group financial statements incorporate the financial statements of the Company and all its subsidiaries for the periods during which they were members of the Group.

Inter-company balances between Group businesses are eliminated on consolidation. On acquisition, assets and liabilities of subsidiaries are measured at their fair values at the date of acquisition with any excess of the cost of acquisition over this value being capitalised as goodwill.

### Investment in subsidiaries

In the Company accounts investments in subsidiaries are stated at cost less any provision for impairment where appropriate.

### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date.

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## 2 Significant accounting policies continued

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### Revenue

Revenue represents amounts receivable for goods supplied and services provided to third-parties net of VAT and other sales-related taxes.

Revenue from the sale of goods and services is recognised upon transfer to the customer of the significant risks and rewards of ownership. This is generally when goods are despatched to, or services performed for, customers. Revenue on hardware and perpetual software licences is recognised on shipment providing there are no unfulfilled obligations that are essential to the functionality of the delivered product. If such obligations exist, revenue is recognised as they are fulfilled. Revenue from term licences is spread over the period of the licence, reflecting the Group's obligation to support the relevant software products or update their content over the term of the licence. Revenue from contracts for maintenance, support and annually and other periodically contracted products and services is recognised on a pro-rata basis over the contract period. Revenue from installation, consultancy and other services is recognised when the service has been provided.

Appropriate provisions for returns, trade discounts and other allowances are deducted from revenue.

Revenue on long-term contracts is recognised while contracts are in progress. Revenue is recognised proportionally to the stage of completion of the contract, based on the fair value of goods and services provided to date.

### Long-term contracts

Profit on long-term contracts is recognised when the outcome of the contract can be assessed with reasonable certainty. Thereafter profit is recognised based upon the expected outcome of the contract and the revenue recognised at the balance sheet date as a proportion of total contract revenue.

If the outcome of a long-term contract cannot be assessed with reasonable certainty no profit is recognised. Any expected loss, on a contract as a whole, is recognised as soon as it is foreseen. The loss is calculated using a discounted cash flow model utilising a discount rate that reflects an estimate of the markets' assessment of the time value of money and the risks specific to the liability. Any unwinding of the discount is included in the income statement in finance costs.

The balance of total cost incurred on work carried out, net of any amounts recognised in cost of sales, is taken to the balance sheet, within trade and other receivables, as long-term contract balances.

Where the cumulative fair value of goods and services provided exceeds amounts invoiced the balance is included within trade and other receivables as long-term contract balances. Where amounts invoiced exceed the fair value of goods and services provided the excess is first set off against long-term contract balances and then included in amounts due from long-term contract customers within trade and other payables.

Pre-contract costs are expensed until the awarding of the contract to the Group is considered to be virtually certain which is not before the Group has been appointed sole preferred bidder. Once virtual certainty has been established and the contract is expected to be awarded within a reasonable timescale and pre-contract costs are expected to be recovered from the contract's net cash flows, then pre-contract costs are recognised as an asset and accounted for as long-term contract costs.

### Property, plant and equipment

Property, plant and equipment assets are stated at cost, less depreciation and provision for impairment where appropriate.

Property, plant and equipment are depreciated by equal annual instalments to write down the assets to their estimated disposal value at the end of their useful lives as follows:

Freehold property	Up to 50 years
Leasehold building improvements	Up to 25 years
Plant and equipment	3-10 years
Computer equipment	2-5 years
Vehicles	2-4 years

Computer units produced by the Group which are used for the purposes of administration, research and development and customer demonstrations are capitalised and carried at cost less accumulated depreciation.

### Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses.



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## 2 Significant accounting policies continued

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### **Goodwill**

Goodwill represents the amount by which the fair value of the cost of a business combination exceeds the fair value of net assets acquired. For business combinations occurring before 1 October 2004, the Group's transition date to IFRS, goodwill is carried at cost, deemed to be the UK GAAP net book value at this date. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognised immediately in profit or loss. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### **Research and development costs**

Research and development costs associated with the development of software products or enhancements and their related intellectual property rights are expensed as incurred until all of the following criteria can be demonstrated, in which case they are capitalised as an intangible asset:

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- b) an intention to complete the intangible asset and use or sell it.
- c) ability to use or sell the intangible asset.
- d) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- f) an ability to measure reliably the expenditure attributable to the intangible asset during its development.

The technological feasibility for the Group's software products is assessed on an individual basis and is generally reached shortly before the products are released to manufacturing, and late in the development cycle. Capitalised development costs are amortised on a straight-line basis over their useful lives, once the product is available for use. Useful lives are assessed on a project-by-project basis.

### **Other intangible assets**

Intangible assets purchased separately, such as software licences that do not form an integral part of hardware and the costs of internally generated software for the Group's use, are capitalised at cost and amortised over their useful lives of 2-5 years.

For business combinations occurring after 1 October 2004, net assets acquired includes an assessment of the fair value of separately identifiable intangible fixed assets, in addition to other assets, liabilities and contingent liabilities purchased. These are amortised over their useful lives which are individually assessed.

### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

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## 2 Significant accounting policies continued

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### Derivative financial instruments

Derivative financial instruments are initially recorded at cost and then for reporting purposes re-measured to fair value at subsequent balance sheet dates. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of forecast transactions are recognised directly in equity. Amounts deferred in this way are recognised in the income statement in the same period in which the hedged firm commitments or forecast transactions are recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss, on the hedging instrument recognised in equity, is retained there until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

### Inventories

Finished goods and work-in-progress are valued at weighted average cost, including appropriate labour costs and other overheads. Raw materials and bought in finished goods are valued at purchase price. All inventories are reduced to net realisable value where lower than cost. Provision is made for obsolete, slow moving and defective items where appropriate.

### Leasing activity

The Group offers customers the option to finance lease assets. Where these transactions are entered into the lease debt is subsequently sold to a finance institution. At this stage profit on sale of the lease debt is recognised as a financing item within investment income.

### Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. This is only when management is committed to the sale and the asset is expected to be sold within one year.

### Share-based payments

The Group operates a number of executive and employee share schemes. For all grants of share-based payments, the fair value as at the date of grant is calculated using a pricing model and the corresponding expense is recognised over the vesting period. At vesting the cumulative expense is adjusted to take into account the number of awards actually vesting as a result of survivorship and where this reflects non-market-based performance conditions.

### Employee benefits

The Group has both defined benefit and defined contribution pension schemes. For the defined benefit plan, based on the advice of a qualified independent actuary at each balance sheet date and using the projected unit method, the employers' portion of past and current service cost is charged to operating profit, with the interest cost, net of expected return on assets in the plan, reported as a financing item. Actuarial gains or losses are recognised directly in equity such that the balance sheet reflects the scheme's surplus or deficit as at the balance sheet date.

Contributions to defined contribution plans are charged to operating profit as they become payable.

An accrual is maintained for paid holiday entitlements which have been accrued by employees during a period but not taken during that period.

### Employee share trusts

Employee share trusts, which hold ordinary shares of the Company in connection with certain share schemes, are consolidated into the financial statements where the Company controls the trust. Any consideration paid to the trusts for the purchase of the Company's own shares is shown as a movement in shareholders' equity.

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## 2 Significant accounting policies continued

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### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences except in respect of investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax is measured on an undiscounted basis, and at the tax rates that are expected to apply in the periods in which the asset or liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

### Operating leases

Rentals under operating leases are charged to profit on a straight line basis over the lease term.

### Foreign currencies

The Group presents its financial statements in Sterling because this is the currency in its primary operating environment. Balance sheet items of overseas companies are translated into Sterling at the year-end rates of exchange. Income statement items and the cash flows of overseas subsidiary undertakings are translated at the average rates for the year. Exchange differences on the translation of overseas subsidiary opening net assets at closing rates of exchange and the differences arising between the translation of profits at average and closing exchange rates are recorded as movements in the currency translation reserve.

Transactions denominated in foreign currencies are translated into Sterling at rates prevailing at the dates of the individual transactions. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the balance sheet date. Exchange gains and losses arising are charged or credited to the income statement within operating costs. Foreign currency non-monetary amounts are translated at rates prevailing at the time of establishing the fair value of the asset or liability.

### Dividends

Dividends are recognised as a liability in the period in which the shareholders' right to receive payment has been established.

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## 3 Revenue

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An analysis of the Group's revenue is as follows:

	2007 £000	2006 £000
Revenue from supply of products and services to education	270,910	262,310
Investment income	2,047	1,876
<b>Total revenue</b>	<b>272,957</b>	264,186

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## 4 Business segments

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The business operates in one primary segment, being the supply of products and services to education.

The Group operates primarily in the UK, with no other geographical segment being material for disclosure.

**5 Profit from operations**

Profit is stated after charging/(crediting):

	2007 £000	2006 £000
Depreciation of property, plant and equipment	<b>8,793</b>	9,124
Amortisation of other intangible assets	<b>1,010</b>	342
Amortisation of acquisition related intangible assets	<b>580</b>	53
	<b>1,590</b>	395
Administrative expenses	<b>11,174</b>	10,193
Amortisation of acquisition related intangible assets	<b>580</b>	53
Exceptional pension credit	<b>(3,500)</b>	–
Total administrative expenses	<b>8,254</b>	10,246
Research and development costs	<b>14,886</b>	14,918
(Profit)/loss on sale of property, plant and equipment	<b>(657)</b>	77
Staff costs (see note 6)	<b>94,017</b>	86,277
Operating lease expenses	<b>4,274</b>	3,416
Foreign exchange gain	<b>(289)</b>	(325)
Building Schools for the Future bid costs	<b>3,634</b>	3,849

The Group undertakes a programme of research and development, in which advancement of technical knowledge and innovative solutions are used to substantially improve the performance of product areas, to develop new products related to existing markets and to enhance access to potential new markets. During the periods reported the Group has reviewed its research and development expenditure against the criteria outlined in the Accounting Policies. No material expenditure is considered to have met the capitalisation criteria. Consequently capitalised research and development expenditure is nil (2006: nil).

Building Schools for the Future bid costs represent the pre-preferred bidder expenditure incurred by the Group in bidding for these contracts. Profit before tax before amortisation of acquisition related intangible assets, the 2007 exceptional pension credit and BSF bid costs was £19.1m (2006: £18.4m).

Auditors' remuneration (including expenses where applicable):

	2007 £000	2006 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<b>27</b>	82
Fees payable to the Company's auditor and its associates for other services:		
– the audit of the Company's subsidiaries, pursuant to legislation	<b>220</b>	190
– review of the interim financial statements	<b>14</b>	13
– other services pursuant to legislation	–	2
– tax services	–	27
– further assurance services	–	2
	<b>261</b>	316
Fees payable in respect of the audit of the defined benefit pension scheme	<b>5</b>	5
	<b>266</b>	321

A description of the work of the Audit Committee is set out in its report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

## 6 Staff costs

The average monthly number of persons (including Executive Directors and temporary employees) employed by the Group during the year was as follows:

	2007 Number employed	2006 Number employed
Research and development, products and services	1,654	1,580
Marketing and sales	317	310
Corporate services	259	234
	<b>2,230</b>	2,124

Their aggregate remuneration comprised:

	2007 £000	2006 £000
Wages and salaries	80,775	75,024
Social security costs	6,290	6,056
Other pension costs	5,914	4,394
Share-based payment charge – equity settled	1,038	803
	<b>94,017</b>	86,277

There are no staff (2006: nil) employed by the Company.

Information in relation to the Directors' remuneration is shown in the Remuneration report.

Note 29 contains details of the share-based payments to employees, including share options, co-investment schemes, deferred bonus and staff-share schemes.

An accrual is maintained for employees' holiday entitlements which have accrued to them but have not been taken at the period end. As at 30 September 2007 the accrual stood at £0.9m (2006: £1.1m).

## 7 Investment income

	2007 £000	2006 £000
Bank interest	872	784
Income of sale of finance lease debt	688	854
Net finance income on defined benefit pension scheme	300	–
Other finance income	187	238
	<b>2,047</b>	1,876

## 8 Finance costs

	2007 £000	2006 £000
Interest on bank overdrafts and loans	21	5
Interest on loan notes	6	31
Other finance costs	–	99
	<b>27</b>	135

**9 Tax**

## a) Analysis of tax charged in income statement

	2007 £000	2006 £000
<b>Current taxation</b>		
UK corporation tax at 30% (2006: 30%) based on the profit for the year	4,242	3,448
Adjustment in respect of prior years	109	94
Total current tax	4,351	3,542
<b>Deferred taxation</b>		
Temporary differences	1,076	461
Adjustment in respect of prior years	(397)	52
Total deferred tax	679	513
<b>Total income statement tax charge</b>	<b>5,030</b>	4,055

In addition to the amount charged to the income statement £2,096,000 of tax has been charged to equity through the statement of recognised income and expense (2006: credit of £1,287,000). The charge comprises a tax credit on the equity component of share-based payments of £263,000 (2006: £113,000) a tax debit arising from the change in tax rate of £89,000 and a tax debit on actuarial gains and losses of £2,270,000 (2006: credit £1,174,000).

Further analysis of the Group's deferred tax assets and liabilities is shown below.

## b) Factors affecting the tax charge for the period

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows:

	Before amortisation of acquisition related intangible assets and exceptional pension credit £000	Amortisation of acquisition related intangible assets and exceptional pension credit £000	2007 Total £000	2006 Total £000
Profit on ordinary activities before tax	15,515	2,920	18,435	14,544
Tax at 30% thereon:	4,655	877	5,532	4,363
Effects of:				
– impact of change in tax rate on brought forward deferred tax asset	62	–	62	–
– other expenses not deductible for tax purposes	59	–	59	56
– other temporary timing differences	278	–	278	125
– research and development tax credit	(502)	–	(502)	(625)
– effect of overseas (profits)/losses	(111)	–	(111)	(10)
– prior period adjustments	(288)	–	(288)	146
Tax	4,153	877	5,030	4,055

## 9 Tax continued

The Group's effective tax rate of 26.8% (2006: 27.8%) has been calculated excluding the impact of acquisition related intangible amortisation and the exceptional pension credit from profit before tax:

	Before amortisation of acquisition related intangible assets and exceptional pension credit £000	Amortisation of acquisition related intangible assets and exceptional pension credit £000	2007 Total £000	2006 Total £000
Profit before tax	15,515	2,920	18,435	14,597*
Tax charge	4,153	877	5,030	4,055
<b>Effective rate</b>	<b>26.8%</b>	<b>30.0%</b>	<b>27.3%</b>	<b>27.8%</b>

\*Before £53,000 amortisation of acquisition related intangible assets.

### Deferred tax

Deferred tax assets and liabilities have been calculated using the rate of UK Corporation Tax expected to apply when the relevant timing differences reverse. A number of changes to the UK tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts. The changes relating to the decrease in the corporation tax rate from 30% to 28% from 1 April 2008 have been substantively enacted at the balance sheet date, and therefore included in these financial statements. The impact of this change in rate on Group deferred tax balances was a debit to the tax charge in the income statement of £62,000 and a debit to the equity reserve of £89,000.

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Share-based payment £000	Short-term timing differences £000	Tax losses US operations £000	Acquisition related intangible assets £000	Total £000
At 1 October 2005	264	4,767	1,288	789	–	–	7,108
(Charge)/credit to income	(106)	(329)	(139)	61	–	–	(513)
(Charge)/credit to equity	–	1,174	(256)	–	–	–	918
Acquisition of subsidiaries	–	–	–	–	–	(353)	(353)
At 1 October 2006	158	5,612	893	850	–	(353)	7,160
(Charge)/credit to income	787	(2,427)	(25)	(181)	83	173	(1,590)
(Charge)/credit to equity	–	(2,270)	39	–	–	83	(2,148)
Acquisition of subsidiaries	–	–	–	–	–	(818)	(818)
<b>At 30 September 2007</b>	<b>945</b>	<b>915</b>	<b>907</b>	<b>669</b>	<b>83</b>	<b>(915)</b>	<b>2,604</b>

Certain deferred tax assets and liabilities have been offset above. The following analysis shows the deferred tax balances before offset, as shown in the balance sheet:

	2007 £000	2006 £000
Deferred tax assets	2,739	7,394
Deferred tax liabilities	(135)	(234)
	<b>2,604</b>	<b>7,160</b>

At the balance sheet date, the Group has unused tax losses of £0.4m (2006: £0.2m) which are available for offset against future profits. A deferred tax asset has been recognised in respect of £0.2m (2006: £nil) of this amount.

**10 Earnings per ordinary share**

The calculation of basic and diluted earnings per ordinary share is shown below. As explained in note 1, adjusted diluted earnings per share have also been presented which remove the impact of the amortisation of acquisition related intangible assets and also the exceptional pension credit.

	Profit after tax £000	2007 Weighted average number of shares '000	Pence per share	Profit after tax £000	2006 Weighted average number of shares '000	Pence per share
Basic earnings per ordinary share	<b>13,405</b>	<b>91,780</b>	<b>14.6</b>	10,489	90,755	11.6
Effect of dilutive potential ordinary shares: share options	–	<b>505</b>	<b>(0.1)</b>	–	560	(0.1)
Diluted earnings per ordinary share	<b>13,405</b>	<b>92,285</b>	<b>14.5</b>	10,489	91,315	11.5
Effect of amortisation of acquisition related intangible assets and exceptional pension credit	<b>(2,043)</b>	–	<b>(2.2)</b>	53	–	–
Diluted earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and exceptional pension credit	<b>11,362</b>	<b>92,285</b>	<b>12.3</b>	10,542	91,315	11.5

To understand the impact of bid costs expensed in relation to the Building Schools for the Future programme, the following reconciliation is provided:

	Profit after tax £000	2007 Weighted average number of shares '000	Pence per share	Profit after tax £000	2006 Weighted average number of shares '000	Pence per share
Diluted earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and exceptional pension credit	<b>11,362</b>	<b>92,285</b>	<b>12.3</b>	10,542	91,315	11.5
Effect of Building Schools for the Future bid costs – see note 5	<b>2,544</b>	–	<b>2.8</b>	2,694	–	3.0
Diluted earnings per ordinary share adjusted for amortisation of acquisition related intangible assets, exceptional pension credit and Building Schools for the Future bid costs	<b>13,906</b>	<b>92,285</b>	<b>15.1</b>	13,236	91,315	14.5

**11 Dividends**

Amounts recognised as distributions to equity holders in the year:

	2007 £000	2006 £000
Final dividend for the year ended 30 September 2006 of 4.05p (2005: 3.80p) per share	<b>3,688</b>	3,399
Interim dividend for the year ended 30 September 2007 of 1.19p (2006: 1.12p) per share	<b>1,113</b>	1,022
	<b>4,801</b>	4,421

The proposed final dividend of 4.30p per share was approved by the Board on 16 November 2007. The dividend is subject to approval by shareholders at the Annual General Meeting and the expected cost of £4.0m has not been included as a liability as at 30 September 2007.



## 12 Goodwill

	£000
Cost	
At 1 October 2005	24,690
Additions	1,894
Exchange differences	(36)
Adjustment to deferred consideration	(1,747)
At 1 October 2006	24,801
Additions (note 25)	2,128
Exchange differences	74
Restatement of provisional fair values (note 25)	92
<b>At 30 September 2007</b>	<b>27,095</b>
Accumulated impairment losses	
At 1 October 2005, 1 October 2006 and 30 September 2007	(2,469)
Carrying amount	
<b>At 30 September 2007</b>	<b>24,626</b>
At 30 September 2006	22,332

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2007 £000	2006 £000
Education Management Systems	1,497	1,244
Assessment and Data Services	2,956	3,394
Education Resources	15,932	13,453
Infrastructure	4,241	4,241
	<b>24,626</b>	22,332

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on internal growth forecasts of between 3 and 12%.

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by the management for the next year and extrapolates cash flows for the following three to ten years based on forecast growth rates of the CGUs.

The rate used to discount the forecast cash flows is 10% for all cash generating units.

**13 Intangible assets**

	Acquisition related intangible assets			Sub-total £000	Other software assets* £000	Total £000
	Customer and supplier relationships £000	Brands £000	Intellectual property and database assets £000			
Cost						
At 1 October 2005	–	–	–	–	15,560	15,560
Additions	–	–	–	–	803	803
Acquired on acquisition of a subsidiary	498	382	175	1,055	305	1,360
Exchange differences	–	–	–	–	(20)	(20)
At 1 October 2006	498	382	175	1,055	16,648	17,703
Additions	–	–	–	–	1,303	1,303
Restatement of provisional values	275	(237)	80	118	(358)	(240)
Acquired on acquisition of subsidiary/ business combination	1,935	332	460	2,727	–	2,727
Exchange differences	–	–	–	–	–	–
<b>At 30 September 2007</b>	<b>2,708</b>	<b>477</b>	<b>715</b>	<b>3,900</b>	<b>17,593</b>	<b>21,493</b>
Amortisation						
At 1 October 2005	–	–	–	–	13,846	13,846
Charge for the year	25	19	9	53	342	395
At 1 October 2006	25	19	9	53	14,188	14,241
Charge for the year	382	54	144	580	1,010	1,590
<b>At 30 September 2007</b>	<b>407</b>	<b>73</b>	<b>153</b>	<b>633</b>	<b>15,198</b>	<b>15,831</b>
Carrying amount						
<b>At 30 September 2007</b>	<b>2,301</b>	<b>404</b>	<b>562</b>	<b>3,267</b>	<b>2,395</b>	<b>5,662</b>
At 30 September 2006	473	363	166	1,002	2,460	3,462

\*Purchased and internally developed software assets.

## 14 Property, plant and equipment

The movement in the year was as follows:

	Freehold land and buildings £000	Short leasehold improvements £000	Plant and equipment £000	Computer equipment £000	Vehicles £000	Total £000
<b>Group</b>						
Cost						
At 1 October 2005	958	2,661	6,699	27,369	6,203	43,890
Additions	224	73	441	6,488	1,645	8,871
Acquired on acquisition of subsidiaries	–	2	10	46	–	58
On assets reclassified as held for sale	(1,182)	–	–	–	–	(1,182)
Exchange differences	–	(5)	(62)	(27)	(11)	(105)
Disposals	–	(12)	(962)	(1,447)	(1,695)	(4,116)
At 1 October 2006	–	2,719	6,126	32,429	6,142	47,416
Additions	2,287	27	1,260	2,849	1,059	7,482
Acquired on acquisition of subsidiaries/business combinations (note 25)	–	–	–	180	–	180
Transfer	383	–	–	–	–	383
Exchange differences	–	5	29	56	5	95
Disposals	–	(5)	(43)	(688)	(1,339)	(2,075)
<b>At 30 September 2007</b>	<b>2,670</b>	<b>2,746</b>	<b>7,372</b>	<b>34,826</b>	<b>5,867</b>	<b>53,481</b>
Accumulated depreciation						
At 1 October 2005	45	1,210	4,202	11,154	2,636	19,247
Charge for the year	43	152	564	6,894	1,471	9,124
Exchange differences	–	(2)	(32)	(15)	(4)	(53)
On assets reclassified as held for sale	(88)	–	–	–	–	(88)
Eliminated on disposals	–	(9)	(927)	(989)	(1,372)	(3,297)
At 1 October 2006	–	1,351	3,807	17,044	2,731	24,933
Charge for the year	66	172	961	6,150	1,444	8,793
Transfer	114	–	–	–	–	114
Exchange differences	–	3	16	49	1	69
Eliminated on disposals	–	(5)	(26)	(385)	(1,137)	(1,553)
<b>At 30 September 2007</b>	<b>180</b>	<b>1,521</b>	<b>4,758</b>	<b>22,858</b>	<b>3,039</b>	<b>32,356</b>
Carrying amount						
<b>At 30 September 2007</b>	<b>2,490</b>	<b>1,225</b>	<b>2,614</b>	<b>11,968</b>	<b>2,828</b>	<b>21,125</b>
At 30 September 2006	–	1,368	2,319	15,385	3,411	22,483

## 15 Investment in subsidiary undertakings

All principal subsidiaries of the Group are involved in the education market and are consolidated into the financial statements. At 30 September 2007 these were as follows:

	Principal activity	Country of incorporation (and operation)	Proportion of voting rights and shares held %
3T Productions Limited	Software	England (UK)	100
Caz Software Pty Limited*	Software, services and systems	Australia	100
DACTA Limited	Resource supply	England (UK)	100
Music Education Supplies Limited*	Resource supply	England (UK)	100
RM Education plc (formerly Research Machines plc)	Software, services and systems	England (UK)	100
RM Asia-Pacific Pty Limited	Software, services and systems	Australia	100
RM Educational Software Inc	Software	USA	100
RM Education Solutions India Pvt Limited*	Software	India	100
Sentinel Products Limited	Software, services and systems	England (UK)	100
SIR (UK) Limited (t/a Forvus Computer Services)	Data analysis and reporting	England (UK)	100
Softease Limited	Software	England (UK)	100
TTS Group Limited	Resource supply	England (UK)	100

\*Held through subsidiary undertaking.

In the Company, equity investments in subsidiary undertakings are held at cost less provision for impairment:

	Investment in share capital £000	Share-based payments £000	Loan £000	Total £000
<b>Company</b>				
Cost				
At 1 October 2005 (as previously stated)	37,830	–	7,077	44,907
Adoption of IFRIC 11 (note 31)	–	2,257	–	2,257
At 1 October 2005 (restated)	37,830	2,257	7,077	47,164
Adjustment to deferred consideration (note 19)	(1,747)	–	–	(1,747)
Adoption of IFRIC 11 (note 31)	–	803	–	803
At 1 October 2006 (restated)	36,083	3,060	7,077	46,220
Acquisition of subsidiaries	4,523	–	–	4,523
Investment in subsidiaries	7,000	–	–	7,000
Share-based payments	–	1,038	–	1,038
<b>At 30 September 2007</b>	<b>47,606</b>	<b>4,098</b>	<b>7,077</b>	<b>58,781</b>
Impairment				
At 1 October 2005, 1 October 2006 and 30 September 2007	(3,484)	–	–	(3,484)
Carrying value				
<b>At 30 September 2007</b>	<b>44,122</b>	<b>4,098</b>	<b>7,077</b>	<b>55,297</b>
At 30 September 2006	32,599	3,060	7,077	42,736

Loans to subsidiary undertakings are not repayable in the foreseeable future.

## 16 Inventories

	2007 £000	2006 £000
<b>Group</b>		
Components	8,989	7,981
Work in progress	250	135
Finished goods	4,462	2,699
	<b>13,701</b>	<b>10,815</b>

## 17 Long-term contracts

	2007 £000	2006 £000
<b>Group</b>		
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses to date	<b>196,423</b>	165,460
Less: progress billings	<b>(190,344)</b>	(160,013)
	<b>6,079</b>	5,447
Amounts due from contract customers included in trade and other receivables	<b>6,079</b>	5,490
Amounts due to contract customers included in trade and other payables	–	(43)
	<b>6,079</b>	5,447

Total revenue recognised from long-term contracts amounted to £55.4m (2006: £57.1m).

At 30 September 2007, no (2006: nil) amounts due from contract customers are due for settlement after more than 12 months.

### Long-term contract outcome – estimation uncertainty

The Group's long-term contracts represent a significant part of the Group's business. As a result of the accounting for these contracts, as outlined in note 2 it is necessary for the Directors to assess the outcome of each contract and also estimate future costs and revenues to establish ultimate contract profitability. Profit is then recognised based on these judgements and therefore, depending on the maturity of the contract portfolio, a greater or lesser proportion of Group profit will arise from long-term contracts.

## 18 Other financial assets

### a) Trade and other receivables

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 (restated) £000
<b>Current</b>				
Trade receivables	<b>47,943</b>	41,863	–	–
Long-term contract balances	<b>6,079</b>	5,490	–	–
Other receivables	<b>432</b>	725	<b>50</b>	–
Prepayments and accrued income	<b>4,349</b>	3,283	–	–
Amounts owed by subsidiary undertakings	–	–	<b>4,762</b>	16,841
	<b>58,803</b>	51,361	<b>4,812</b>	16,841

The average credit period taken on sales of goods is 47 days (2006: 44 days). An allowance has been made for estimated irrecoverable amounts of trade receivables of £0.1m (2006: £0.1m). This allowance has been determined by reference to specific receivable balances and past default experience.

Included within trade receivables are £3.0m (2006: £5.4m) of receivables relating to finance lease debt awaiting sale to a financial institution, which is expected to complete shortly after the balance sheet date. Upon sale the margin implicit will be recognised as a financing item within investment income.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

### b) Derivative financial instruments

Included within trade and other receivables is a balance of £282,000 (2006: £23,000) representing the fair value of the Group's open foreign exchange contracts. Further information regarding these assets is contained within note 20.

### c) Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

**19 Other financial liabilities****a) Trade and other payables**

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
<b>Current</b>				
Trade payables	26,520	20,544	–	–
Amounts due to subsidiary undertakings	–	–	1,009	923
Other taxation and social security	11,046	9,682	–	–
Other payables – deferred consideration	–	703	–	703
Other payables – other	793	1,624	–	–
Accruals	24,873	24,527	–	–
Amounts due to long-term contract customers	–	43	–	–
Deferred income	22,528	20,864	–	–
Loan notes	246	884	–	509
	<b>86,006</b>	<b>78,871</b>	<b>1,009</b>	<b>2,135</b>
<b>Tax liabilities</b>	<b>1,221</b>	<b>1,416</b>	<b>90</b>	<b>90</b>
<b>Non-current</b>				
Employee benefits – other	–	60	–	–
Deferred income:				
– due after one year but within two years	3,660	5,334	–	–
– due after two years but within five years	1,492	1,399	–	–
– due after five years	30	–	–	–
	<b>5,182</b>	<b>6,793</b>	<b>–</b>	<b>–</b>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days (2006: 37 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Loan notes represent £0.2m in relation to the 2006 acquisition of Music Education Supplies Limited. During the year deferred consideration of £1.3m was paid being: £0.7m in relation to the 2003 acquisition of SIR (UK) Limited (trading as Forvus), £0.5m in relation to the 2004 acquisition of TTS Group Limited and £0.1m in relation to the 2006 acquisition of Caz Software Pty. Loan notes are not secured on assets of the Group.

**b) Non-current liabilities – other payables**

At 30 September 2007 the Group had committed borrowing facilities of £5.0m (2006: £10.0m) which expire in December 2007. None (2006: £nil) of this facility was drawn down at the balance sheet date.

**c) Guarantees**

The Company has entered into guarantees relating to the performance and liabilities of its subsidiaries' major contracts. The Directors are not aware of any circumstances that would give rise to any liability under such guarantees and consider the possibility of any arising to be remote. A fair value of £nil (2006: £nil) has been applied to these guarantees.

**20 Financial instruments**

The financial assets and liabilities of the Group and Company are disclosed in notes 18 and 19 respectively.

The main risks arising from the Group's financial assets and liabilities are foreign currency risk, credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies on a regular basis for managing the risks associated with these assets and liabilities.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken and the Group does not hold or issue derivative financial instruments for speculative purposes.

**Foreign currency risk****a) Translation**

The Group has operations in Australia, the United States of America and India, hence exposing the Group to foreign exchange risk on non-Sterling assets, liabilities and cash flows. The Group does not currently hedge this risk.

The Group also maintains foreign currency denominated cash accounts, but only holds balances required to settle its payables.

## 20 Financial instruments continued

### b) Transaction

Operations are also subject to foreign exchange risk from committed transactions in currencies other than their functional currency, and once recognised, the revaluation of foreign currency denominated assets and liabilities. Specifically these arise from the Group purchasing significant amounts of its components in US dollars. In order to manage these risks the Group enters into derivative transactions in the form of forward foreign currency contracts which are designed to cover 80-90% of forecast currency denominated purchases. These contracts are renewed on a revolving basis of approximately three months.

### Credit risk

The Group's principal financial assets are bank balances and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. Credit checks are performed on new customers and before credit limits are increased. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

### Liquidity risk

Cash is managed to ensure that sufficient liquid funds are available with a variety of counterparties, through short, medium and long-term cash flow forecasting.

### Interest rate risk

The only interest bearing financial assets held by the Group are cash and cash equivalents. Surplus Sterling balances are invested in the money market, or with financial institutions on maturing terms from within 24 hours up to a period of three months with interest earned based on the relevant national inter-bank rates available at the time of investing. Bank overdrafts are used when required in the short-term. At the year end there were no drawn borrowing facilities. Loan notes issued on acquisitions carry interest linked to national inter-bank rates. The interest rate risk on these instruments is not considered significant.

	Floating rate £000	2007 Interest free £000	Total £000	Floating rate £000	2006 Interest free £000	Total £000
Sterling	21,409	5,242	26,651	25,826	2,956	28,782
US dollar	1,461	180	1,641	21	286	307
Australian dollar	96	215	311	302	480	782
Euro	1	220	221	–	7	7
Danish krona	2	84	86	–	–	–
Indian rupee	78	333	411	67	147	214
	<b>23,047</b>	<b>6,274</b>	<b>29,321</b>	26,216	3,876	30,092

### Financial instruments

At the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group has committed to are as below:

	2007		2006	
	Nominal value £000	Fair value £000	Nominal value £000	Fair value £000
Forward foreign currency exchange contracts	16,589	282	13,407	(23)

These fair value amounts are based on market values of equivalent instruments at the balance sheet date and are included within trade and other receivables.

These instruments have not been designated as effective hedges in accordance with IAS 39 Financial Instruments. Changes in the fair value of currency instruments amounting to £0.1m have therefore been charged (2006: £0.1m credit) to income in the year. Commercially effective hedges may continue to lead to income statement volatility in the future.

**21 Provisions**

	Issuable loan notes £000	Restructuring provision £000	Total £000
<b>Group</b>			
At 1 October 2005	1,200	970	2,170
Release of provision	–	(132)	(132)
Utilisation of provision	(1,200)	(101)	(1,301)
At 1 October 2006	–	737	737
Acquisition of subsidiary	1,710	–	1,710
Release of provision	–	(195)	(195)
<b>At 30 September 2007</b>	<b>1,710</b>	<b>542</b>	<b>2,252</b>

Issuable loan notes represent a provision held in the Company. The £1.7m issuable loan notes relate to the acquisition of DACTA Limited.

The restructuring provision principally relates to onerous lease contracts identified during the rationalisation of facilities undertaken in the year ended 30 September 2002, and will be utilised over the remaining life (nine years on average) of the leases.

The above balances are included within non-current liabilities.

**22 Share capital**

Authorised ordinary shares of 2p each:

	2007		2006	
	Number '000	£000	Number '000	£000
	<b>125,000</b>	<b>2,500</b>	125,000	2,500

Allotted, called-up and fully paid ordinary shares of 2p each:

	Number '000	£000
At 1 October 2005	90,730	1,815
Repurchased	(40)	–
Issued on options	1,040	21
At 1 October 2006	91,730	1,836
Repurchased	–	–
Issued on options	930	18
<b>At 30 September 2007</b>	<b>92,660</b>	<b>1,854</b>

929,903 (2006: 1,040,467) ordinary shares of 2p each were allotted in the year, for consideration of £1.3m (2006: £0.8m). These shares have a nominal value of £0.02m (2006: £0.02m).

The Company has the authority to repurchase 9,172,991 shares (2006: 9,072,970) and repurchased no shares during the year (2006: 40,250).

The Company has one class of ordinary shares which carry no right to fixed income.



## 23 Own shares

The RM plc Employee Share Trust (EST) was established in March 2003 to hedge the future obligations of the Group in respect of shares awarded under the RM plc Co-Investment Plan and Deferred Bonus Plan. The trustee of the EST, Computershare Trustees (C.I.) Limited, purchases the Company's ordinary shares in the open market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share-based payment liabilities of the Group. The EST has waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's ordinary shares. The EST's waiver of dividends may be revoked or varied at any time.

	Number	Cost £000
At 1 October 2005	1,278,814	1,632
Acquired in period	473,292	816
Disposed of on exercise of co-investment plan	(1,103,921)	(1,494)
At 1 October 2006	648,185	954
Acquired in period	275,000	559
Disposed of on exercise of co-investment plan	(348,147)	(515)
<b>At 30 September 2007</b>	<b>575,038</b>	<b>998</b>

These shares are shown at weighted average cost within equity in the Company balance sheet.

## 24 Reconciliation of shareholder's equity and reserves

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Hedging and translation reserves £000	Retained earnings £000	Total equity £000
<b>Group</b>							
At 1 October 2005	1,815	22,151	(1,632)	94	44	15,776	38,248
Profit for the year	–	–	–	–	–	10,489	10,489
Exchange differences on translation of foreign operations	–	–	–	–	(48)	–	(48)
Actuarial gains and losses on defined benefit scheme	–	–	–	–	–	(3,914)	(3,914)
Tax credit on items taken directly to equity	–	–	–	–	–	1,287	1,287
Purchase of shares	–	–	(816)	–	–	–	(816)
Repurchase of shares	–	–	–	–	–	(65)	(65)
Transfer in respect of issue of shares to employee trusts	–	916	–	–	–	(916)	–
Share-based payment awards exercised in year	–	–	1,494	–	–	(1,613)	(119)
Share-based payment transactions	–	–	–	–	–	803	803
Dividends paid	–	–	–	–	–	(4,421)	(4,421)
Share issues	21	810	–	–	–	–	831
At 1 October 2006	1,836	23,877	(954)	94	(4)	17,426	42,275
Profit for the year	–	–	–	–	–	13,405	13,405
Exchange differences on translation of foreign operations	–	–	–	–	194	–	194
Actuarial gains and losses on defined benefit scheme	–	–	–	–	–	7,565	7,565
Tax charge on items taken directly to equity	–	–	–	–	–	(2,096)	(2,096)
Purchase of shares	–	–	(559)	–	–	–	(559)
Transfer in respect of issue of shares to employee trusts	–	588	–	–	–	(588)	–
Share-based payment awards exercised in year	–	–	515	–	–	(904)	(389)
Share-based payment transactions	–	–	–	–	–	1,038	1,038
Dividends paid	–	–	–	–	–	(4,801)	(4,801)
Share issues	18	1,262	–	–	–	–	1,280
<b>At 30 September 2007</b>	<b>1,854</b>	<b>25,727</b>	<b>(998)</b>	<b>94</b>	<b>190</b>	<b>31,045</b>	<b>57,912</b>

**24 Reconciliation of shareholder's equity and reserves** continued

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Retained earnings (restated) £000	Total equity £000
<b>Company</b>						
At 1 October 2005	1,815	22,151	(1,632)	94	26,884	49,312
Adoption of IFRIC 11 (see note 31)	–	–	–	–	2,257	2,257
	1,815	22,151	(1,632)	94	29,141	51,569
Profit for the year	–	–	–	–	8,867	8,867
Share issues	21	1,726	–	–	–	1,747
Purchase of shares	–	–	(816)	–	–	(816)
Repurchase of shares	–	–	–	–	(65)	(65)
Share-based payment transactions – including adoption of IFRIC 11 (see note 31)	–	–	1,494	–	(1,789)	(295)
Dividends paid	–	–	–	–	(4,423)	(4,423)
Adoption of IFRIC 11 (see note 31)	–	–	–	–	803	803
At 1 October 2006	1,836	23,877	(954)	94	32,534	57,387
Profit for the year	–	–	–	–	2,767	2,767
Share issues	18	1,850	–	–	–	1,868
Purchase of shares	–	–	(559)	–	–	(559)
Share-based payment transactions	–	–	515	–	(904)	(389)
Dividends paid	–	–	–	–	(4,801)	(4,801)
Share-based payment awards	–	–	–	–	1,038	1,038
<b>At 30 September 2007</b>	<b>1,854</b>	<b>25,727</b>	<b>(998)</b>	<b>94</b>	<b>30,634</b>	<b>57,311</b>

Own shares held represents the cost of shares in RM plc purchased in the market and held by the Group – see note 23.

The capital redemption reserve relates to the Company's repurchase of its own share capital from the market.

As permitted by section 230 of the Companies Act 1985, no separate income statement is presented in respect of the Parent Company. The Company made a profit for the year amounting to £2.8m (2006: £8.9m).

**25 Acquisition of subsidiary and business combinations****DACTA Limited**

On 21 May 2007, the Group acquired 100% of the issued share capital of DACTA Limited (DACTA) for an initial cash consideration of £2.8m and issuable loan notes estimated at £1.7m. DACTA is a distributor of education resources in Europe and has exclusive supply contracts for Lego, TOLO and BRIO in the education market. This transaction has been accounted for by the purchase method of accounting.

	Book value £000	Provisional fair value adjustments £000	Provisional fair value £000
Net assets acquired:			
Acquisition related intangible assets	–	2,041	2,041
Property, plant and equipment	65	–	65
Inventory	725	–	725
Trade and other receivables	1,167	–	1,167
Cash at bank and in hand	704	–	704
Trade and other payables	(1,674)	–	(1,674)
Deferred tax liability	–	(616)	(616)
Other non-current payables	(17)	–	(17)
	970	1,425	2,395
Goodwill			2,128
Total consideration			4,523
Satisfied by:			
Initial cash consideration			2,806
Estimated deferred cash consideration			1,710
Directly attributable costs			7
			4,523

## 25 Acquisition of subsidiary and business combinations continued

	£000
Net cash outflow arising on acquisition:	
Initial cash consideration	2,806
Acquisition costs	7
	2,813

The goodwill arising is attributable to the anticipated profit from distribution of the Group's products in new markets and the anticipated future operating synergies from the combination. In addition fair value adjustments have been recognised representing acquisition related intangible assets. These relate to the valuation of brands and supply contracts purchased – see note 13. These assets are being amortised over three years.

DACTA contributed £2.6m revenue and £0.2m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition of DACTA had been completed on the first day of the financial year, Group revenues would have been £277.9m and the Group profit attributable to equity holders of the parent would have been £13.9m.

### SERAP

On 2 August 2007, the Group acquired certain assets of SERAP, the Schools Exam Results Analysis Project for an initial cash consideration of £0.6m. The purchased assets are being run within the Group's subsidiary company Forvus. SERAP provides specialised educational data matching and reporting services for government departments and agencies and local authorities and already worked with the Group, providing services for the National Pupil Database – Achievement and Attainment Tables (NPD-AAT) contract. This transaction has been accounted for by the purchase method of accounting.

	Book value £000	Provisional fair value adjustments £000	Provisional fair value £000
Net assets acquired:			
Acquisition related intangible assets	–	687	687
Property, plant and equipment	115	–	115
Trade and other receivables	95	–	95
Trade and other payables	(28)	–	(28)
Deferred tax liabilities	–	(206)	(206)
	182	481	663
Goodwill			–
Total consideration			663
Satisfied by:			
Initial cash consideration			580
Acquisition costs			83
			663

	£000
Net cash outflow arising on acquisition:	
Initial cash consideration	580
Acquisition costs	78
	658

Fair value adjustments have been recognised representing acquisition related intangible assets. These relate to the valuation of contractual customer relationships and database assets purchased – see note 13. Acquisition related intangible assets will be amortised over four years.

**25 Acquisition of subsidiary and business combinations** continued**Post year end acquisitions**

On 1 October 2007 the Group acquired 100% of the equity of SpaceKraft Limited and SpaceKraft (International) Limited for an initial consideration of £3.0m and total issued loan notes of £1.0m. SpaceKraft is one of the UK's leading suppliers of special educational needs (SEN) and early years products and services. It has not been practicable to finalise provisional fair value calculations, including acquisition related intangible assets in the intervening time period, hence these have not been included here. The provisional fair value balance sheet will be presented in the Group's interim results announcement for the half year ended 31 March 2008.

**Prior year acquisitions**

In 2006 the Group acquired Music Education Supplies Limited and Caz Software Limited. The fair values disclosed in the prior year were provisional and have been subsequently updated. There were no material adjustments in finalising these disclosures, which are shown in note 13. The amortisation periods over which the assets are being amortised were adjusted from three years to:

	Years
<b>Caz Software Limited</b>	
Customer relationships	5
Intellectual property assets	3
Brand	3
<b>Music Education Supplies Limited</b>	
Customer relationships	5
Brand	25

**26 Net funds**

	2006 £000	Cash flow £000	Non-cash movements £000	2007 £000
Cash and cash equivalents	30,092	(833)	62	29,321
Loan notes	(884)	612	26	(246)
<b>Net funds</b>	29,208	(221)	88	29,075
Issuable loan notes	–	(1,710)	–	(1,710)
Deferred consideration	(703)	703	–	–
	28,505	(1,228)	88	27,365

**27 Operating lease arrangements**

The Group leases certain assets under operating leases and recognised expenses in the year of:

	2007 £000	2006 £000
Minimum lease payments under operating leases recognised as an expense in the year	4,274	3,416

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 £000	2006 £000
Within one year	2,775	2,527
In the second to fifth years inclusive	9,312	8,330
After five years	7,636	7,590

Operating lease payments represent rentals payable by the Group for certain of its office properties. The terms of these are subject to renegotiation on an average term of 12.9 years (2006: 13.5 years) and rentals are fixed for an average of 4.1 years (2006: 6.4 years).

## 28 Capital commitments

The Group has the following capital expenditure commitments (2006: including £2.2m relating to TTS's purchase of a new office and warehouse facilities):

	2007 £000	2006 £000
Contracted for but not provided for	5,866	6,519

## 29 Share-based payments

The Group operates a number of executive and employee equity settled share-based payment schemes including co-investment and deferred bonus plans, share options and staff share schemes. The fair values of these schemes have been assessed using Black-Scholes and Monte Carlo models, as appropriate to the scheme, at the date of grant. The fair values of the schemes are expensed over the period between grant and vesting.

Charges for share-based payments under IFRS have been recognised only for issues that were made after 7 November 2002 and had not vested at the transition date as prescribed by IFRS 1 First-time Adoption and IFRS 2 Share-based Payment.

### a) Employee share option schemes

The Group has in place share option schemes which issue options over shares in the Company. Options are exercisable at a price equal to the average quoted market price of the Company's shares over a five working day period up to the date of grant. The vesting period for options is three years. There are various performance conditions attaching to share option grants, including EPS related conditions. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of share options outstanding during the year are as follows:

	Number of share options	Weighted average exercise price £	Exercise price range £
Outstanding at 1 October 2005	6,437,067	2.75	0.72-7.62
Granted during the period	498,000	1.58	
Lapsed during the period	(166,305)	2.36	
Exercised during the period	(1,040,467)	1.25	
Outstanding at 1 October 2006	5,728,295	3.01	0.72-7.62
Granted during the period	1,150,000	1.88	
Lapsed during the period	(237,699)	2.92	
Exercised during the period	(929,903)	1.38	
<b>Outstanding at 30 September 2007</b>	<b>5,710,693</b>	<b>3.06</b>	<b>0.72-7.62</b>

The options outstanding at 30 September 2007 had a weighted average contractual life of 4.5 years (2006: 4.5 years).

Included within the above balances are options over 2,920,259 shares (2006: 3,673,089 shares) for which a charge has not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002.

In the year to 30 September 2007, options were granted on 6 December 2006 and on 15 June 2007 (2006: 30 November 2005). The estimated fair value of the options granted is £0.56 per option (December 2006) and £0.58 per option (June 2007) (2006: £0.51 per option). These fair values are determined using a Black-Scholes model and are charged to income evenly over the vesting period. Inputs to the model are as follows:

	15 June 2007	6 December 2006	30 November 2005
Share price at grant	2.06	1.87	1.59
Exercise price	2.05	1.74	1.58
Expected volatility	30%	33%	38%
Expected life	5 years	5 years	5 years
Risk free rate	5.6%	4.8%	4.2%
Expected dividends	2.5%	2.8%	3.1%

Expected volatility was determined by calculating the historic volatility of the Company's share price over the previous five years, excluding two time periods of extraordinary volatility. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**29 Share-based payments** continued**b) Co-investment plans**

The Group has in place co-investment plans for the remuneration of senior management. Plan participants commit shares worth up to 33% of their base salary which are matched by the Group with up to three matching shares per committed share provided subject to various vesting conditions, including EPS and total shareholder return (TSR) conditions. The vesting period for the plan is three years. If the vesting conditions are not met or the participants leave the Group's employment then the participant's co-invested shares are returned to them. Details of co-invested shares during the year are included below:

	Maximum number of matching shares	Market price on grant £
Outstanding at 1 October 2005	2,109,027	
Granted during the period	1,229,202	1.54
Exercised during the period	(1,103,921)	
Outstanding at 1 October 2006	2,234,308	
Granted during the period	975,018	2.12
Exercised during the period	(591,373)	
<b>Outstanding at 30 September 2007</b>	<b>2,617,953</b>	

The weighted average market price at the date of vesting of co-investment matching shares during the year was £1.77 (2006: £1.55). The plans outstanding at 30 September 2007 had a weighted average contractual life of 1.4 years (2006: 1.8 years).

In the year to 30 September 2007 co-investment rights were granted on 5 January 2007 (2006: 16 December 2005). The fair values are determined using the Black-Scholes model for EPS vesting conditions, giving £1.25 per committed share (2006: £1.46 per committed share) and a Monte Carlo model for TSR vesting conditions, giving £0.65 per committed share (2006: £0.41 per committed share) and are charged to income evenly over the vesting period with adjustments made for non-market based vesting conditions. Inputs to the models are as follows:

	5 January 2007		16 December 2005	
	EPS	TSR	EPS	TSR
Share price at grant	2.12	2.12	1.54	1.54
Exercise price	Nil	Nil	Nil	Nil
Expected life	3 years	3 years	3 years	3 years
Expected dividends	2.4%	2.4%	3.2%	3.2%

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Comparator company volatility is assessed using annualised, daily historic TSR growth assessed over a period prior to the date of grant that corresponds to the performance period of three years. The Company correlation uses historic pairwise correlations of the companies over a three year period. The fair value of the TSR element is based on a large number of stochastic projections of Company and comparator TSR.

In March 2003 the Company established the RM plc Share Trust to hedge the future obligations of the Group in respect of shares awarded under the RM plc Co-Investment Plan. The trustees periodically purchase shares on the open market using funds provided by the Group. These shares are used to hedge the estimated liability but until vesting represent own shares held – see note 23.

**c) Deferred bonus plan**

The Group has in place a deferred bonus plan for the remuneration of Executive Directors. Under the plan 40% of their annual cash bonus will be deferred in ordinary shares for a period of three years and vest at the expiry of the same period. Any unvested shares will lapse immediately if the Executive Director ceases to be an employee of the Group in circumstances where they would not be considered to be a 'good leaver' under the rules of the plan.

## 29 Share-based payments continued

Details of deferred bonus grants outstanding during the year are as follows:

	Number of bonus shares	Market price on grant £
Outstanding at 1 October 2005	–	–
Granted during the period in relation to 2005	72,655	1.62
Outstanding at 1 October 2006	72,655	–
Granted during the period in relation to 2006	72,120	1.82
<b>Outstanding at 30 September 2007</b>	<b>144,775</b>	<b>–</b>

The number of shares outstanding at 30 September 2007 had a weighted average contractual life of 1.7 years (2006: 2.2 years).

In the year to 30 September 2007 awards were granted under the deferred bonus plan on 5 January 2007 (2006: 28 November 2005). The estimated fair value of the grant is £1.97 per bonus share (2006: £1.47 per share). This fair value is determined using a Black-Scholes model and charged to income evenly over the vesting period adjusted for expected survivorship. Inputs to the model are as follows:

	5 January 2007	28 November 2005
Share price at grant	£2.12	£1.55
Exercise price	Nil	Nil
Expected life	3 years	3 years
Risk free rate	5.1%	4.3%
Expected dividends	2.4%	3.0%

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

In order to hedge the Group's liability to provide shares in the Company under the deferred bonus plans the trustees periodically purchase shares on the open market using funds provided by the Group. These shares are used to hedge the estimated liability but until vesting represent own shares held – see note 23.

### d) Staff share schemes

The RM plc 2002 Staff Share Scheme annually grants shares in RM plc to almost all employees. The shares vest to the employees after a minimum of three years, but normally after five years. The scheme is an HMRC approved employee share scheme constituted under a trust deed and was introduced to replace the RML Staff Share Scheme.

In the year to 30 September 2007 staff shares were granted on 23 March 2007 (2006: 24 March 2006). The fair value of the shares granted is equal to the market value of £2.14 per share (2006: £2.09 per share). The expected life used in the model has been set at three years being the minimum vesting period.

**29 Share-based payments** continued

At grant the Trustees of the scheme purchase shares on the open market and hold these in trust on behalf of the employees. The schemes hold the following shares in RM plc:

	Number of shares	Weighted average cost £000
RM plc 2002 Staff Share Scheme	255,350	373
RML Staff Share Scheme	1,361	(1)
At 1 October 2005	256,711	372
Purchased	67,207	139
Vested	(7,612)	(10)
RM plc 2002 Staff Share Scheme	316,306	501
RML Staff Share Scheme	1,361	1
At 1 October 2006	317,667	502
Purchased	69,825	150
Vested	(10,368)	(19)
RM plc 2002 Staff Share Scheme	375,763	633
RML Staff Share Scheme	1,361	1
<b>At 30 September 2007</b>	<b>377,124</b>	<b>634</b>

These shares are held for the benefit of staff and are therefore not consolidated into the Group or Company balance sheets.

**Performance conditions – estimation uncertainty**

Assigning a fair value charge to share-based payments requires estimation of the number of instruments which are likely to vest and, for non-market based performance conditions, continuing reassessment of these estimates.

**30 Retirement benefit schemes****Defined contribution schemes**

The Group operates or contributes to a number of defined contribution schemes for the benefit of qualifying employees in its subsidiary companies. The assets of these schemes are held separately from those of the Group. The total cost charged to income of £2.2m (2006: £2.0m) represents contributions payable to these schemes by the Group at rates specified in employment contracts. As at 30 September 2007 £0.2m (2006: £0.2m) due in respect of the current reporting period had not been paid over to the schemes.

**Defined benefit scheme**

The Group operates one defined benefit pension scheme, the Research Machines plc 1988 Pension Scheme. The scheme provides benefit to qualifying employees and former employees of RM Education plc, 3T Productions Limited and Softease Limited, but was closed to new members with effect from 1 January 2003. Under the scheme employees are entitled to retirement benefits of 1/60th of final salary for each qualifying year on attainment of retirement age of 60 or 65 years and additional benefits based on the value of individual accounts. No other post-retirement benefits are provided. The scheme is a funded scheme.

The assets of the scheme are held separately from those of the Group in a trustee-administered fund.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out for statutory funding purposes at 31 May 2006 by a qualified independent actuary. The valuation of plan assets was updated to 30 September 2007 and liabilities rolled forward to this date under IAS 19. The present value of the defined benefit obligation and the related current service cost was measured using the projected unit credit method.

The triennial valuation for statutory funding purposes showed a deficit of £12.7m as at 31 May 2006 (31 May 2003: £12.9m). The cost of future provision was revised to 21.4% for Normal Retirement Age 60 (2003: 20.4%) and 15.3% for Normal Retirement Age 65 (2003: 13.1%).



### 30 Retirement benefit schemes continued

As described in the report and accounts for the year ended 30 September 2006 and the Group's interim report and accounts for the period ended 31 March 2007, the Group conducted a consultation exercise with active members of the Group's defined benefit pension scheme. Following conclusion of the exercise in January 2007, members voted for the introduction of a 5% cap on pensionable salary inflation which has been implemented from February 2007. The impact of this is a reduction of £3.5m in the pension scheme deficit, which has been reflected as an exceptional credit in the income statement, in line with IAS 19 Employee Benefits. The roll forward includes the impact of the pensionable salary inflation cap.

Additionally, the Group paid a special pension contribution of £2.0m into the pension scheme in March 2007 and has paid an additional special pension contribution of £1.5m after the balance sheet date in October 2007. The £1.5m has not been recorded against the scheme deficit at 30 September 2007. These cash payments were in addition to the Group's current service contributions and £1.7m per annum deficit catch up payments agreed with the scheme's trustees in 2006.

Following the above actions and updating to reflect current market conditions, the deficit on the scheme has fallen by £15.4m to £3.3m with the related deferred tax asset also falling.

#### IAS 19 valuation

Key assumptions used:

	2007 %	2006 %
Rate of increase in salaries	<b>3.70</b>	3.80
Rate of increase of pensions in payment	<b>3.30</b>	2.70
Rate of increase of pensions in deferment	<b>3.30</b>	2.70
Discount rate	<b>5.80</b>	5.05
Inflation assumption	<b>3.30</b>	2.70

Mortality assumptions continue to be based on the PA92 medium cohort tables which give average life expectancies as follows:

	2007		2006	
	Male	Female	Male	Female
Pensioner member age 65 (current life expectancy)	<b>21.8</b>	<b>24.7</b>	21.8	24.7
Non-pensioner member age 45 (life expectancy at 65)	<b>23.0</b>	<b>25.8</b>	23.0	25.8

Defined benefit pension scheme (credit)/charges recognised in income are as follows:

	2007 £000	2006 £000
Current service cost	<b>3,668</b>	2,358
Exceptional pension credit	<b>(3,500)</b>	–
Cost recognised within operating profit	<b>168</b>	2,358
Interest cost	<b>4,258</b>	3,744
Expected return on scheme assets	<b>(4,558)</b>	(3,645)
(Income)/cost recognised within finance (income)/cost	<b>(300)</b>	99
	<b>(132)</b>	2,457

The increased current service cost reflects the introduction of the salary sacrifice scheme in 2006. This has the impact of increasing the Group's cost of providing the defined benefit pension but is offset by lower salary costs and National Insurance savings.

Amounts recognised directly in equity in respect of the defined benefit pension scheme are as follows:

	2007 £000	2006 £000
Actuarial gains and losses	<b>7,565</b>	(2,101)
Experience gains and losses	–	(1,813)
	<b>7,565</b>	(3,914)

The actual return on scheme assets was £6.1m (2006: £6.6m).

**30 Retirement benefit schemes** continued

The amount included within the balance sheet arising from the Group's obligations in respect of its defined benefit scheme, and the expected rate of return on scheme assets are as follows:

	2007		2006	
	%	£000	%	£000
Equities	<b>7.40</b>	<b>54,974</b>	6.90	47,241
Bonds	<b>4.90</b>	<b>24,698</b>	4.40	19,634
Total fair value of scheme assets		<b>79,672</b>		66,875
Present value of defined benefit obligations		<b>(82,941)</b>		(85,582)
Deficit in scheme and liability recognised in balance sheet		<b>(3,269)</b>		(18,707)
Related deferred tax asset		<b>915</b>		5,612
Net pension deficit		<b>(2,354)</b>		(13,095)

The expected return on scheme assets is based upon the expected out-performance of equities over government bonds over the long-term. The bond rate is based on the addition of a risk loading to the long-term risk free rate of return.

Movements in fair value of defined benefit obligations were as follows:

	2007 £000	2006 £000
At 1 October	<b>85,582</b>	72,420
Current service costs	<b>3,668</b>	2,358
Interest cost	<b>4,258</b>	3,744
Exceptional pension credit	<b>(3,500)</b>	–
Contributions from scheme members	<b>71</b>	1,542
Actuarial gains and losses	<b>(6,463)</b>	4,126
Experience gains and losses	–	1,813
Benefits paid	<b>(675)</b>	(421)
At 30 September	<b>82,941</b>	85,582

Movements in fair value of scheme assets were as follows:

	2007 £000	2006 £000
At 1 October	<b>66,875</b>	56,530
Expected return on scheme assets	<b>4,558</b>	3,645
Actuarial gains and losses (actual return less expected return)	<b>1,102</b>	2,025
Contributions from sponsoring companies	<b>7,741</b>	3,554
Contributions from scheme members	<b>71</b>	1,542
Benefits paid	<b>(675)</b>	(421)
At 30 September	<b>79,672</b>	66,875

The history of experience adjustments is as follows:

	2007	2006	2005	2004*	2003*
Difference between expected and actual return on scheme assets:					
– amount (£000)	<b>1,102</b>	2,025	5,900	1,230	2,850
– as a percentage of scheme assets	<b>1%</b>	3%	10%	3%	8%
Experience gains and losses on scheme liabilities:					
– amount (£000)	–	1,813	–	(1,270)	5,300
– as a percentage of scheme liabilities	–	2%	–	2%	10%

\*Amounts disclosed for 2004 and earlier are under UK GAAP Financial Reporting Standard 17 as it is not practical to restate these amounts prior to the date of transition to IFRS.

The amounts of contributions expected to be paid to the scheme during the financial year ending 30 September 2008 are £3.2m in respect of current service, £1.7m in respect of regular deficit catch up payments and the second special pension contribution of £1.5m.

**Defined benefit pension parameters**

The defined benefit pension scheme accounting entries require a number of estimates to be made including the discount rate applied to liabilities, the current and past service costs and appropriate mortality assumptions. The financial position and performance of the scheme are sensitive to these parameters.

### 31 Prior year adjustments

During the year the Company has adopted IFRIC 11 IFRS 2 – Group Treasury Share Transactions. The following reconciliation of the Company balance sheet and explanation are given to enable assessment of the impact.

Where the employee of a subsidiary company benefits from a share-based payment denominated in the shares of RM plc IFRIC 11 considers that RM plc's cost of investment in the subsidiary company has increased. The prior period has been restated to reflect this increased cost of investment.

Under UK GAAP on maturity of share-based plans a recoverable balance was recorded from the relevant subsidiary company. Under IFRS, IFRIC 11 this transaction between equity holders is transacted through equity.

As at 30 September 2006:

	As previously reported £000	Inter-group share-based payment £000	Maturity of share-based payment plans £000	As reported £000
<b>Non-current assets</b>				
Investments	39,676	3,060	–	42,736
	39,676	3,060	–	42,736
<b>Current assets</b>				
Trade and other receivables	18,630	–	(1,789)	16,841
Cash and cash equivalents	35	–	–	35
	18,665	–	(1,789)	16,876
<b>Total assets</b>	58,341	3,060	(1,789)	59,612
<b>Current liabilities</b>				
Trade and other payables	(2,135)	–	–	(2,135)
Tax liabilities	(90)	–	–	(90)
	(2,225)	–	–	(2,225)
<b>Net current assets</b>	16,440	–	(1,789)	14,651
<b>Non-current liabilities</b>				
Other payables	–	–	–	–
Provisions	–	–	–	–
	–	–	–	–
<b>Total liabilities</b>	(2,225)	–	–	(2,225)
<b>Net assets</b>	56,116	3,060	(1,789)	57,387
<b>Equity attributable to equity holders of the parent</b>				
Share capital	1,836	–	–	1,836
Share premium account	23,877	–	–	23,877
Own shares	(954)	–	–	(954)
Capital redemption reserve	94	–	–	94
Retained earnings	31,263	3,060	(1,789)	32,534
<b>Total equity</b>	56,116	3,060	(1,789)	57,387

**32 Related party transactions**

The remuneration of the key management personnel of the Group, recognised in the income statement, is set out below in aggregate. Key management are defined as the Executive Directors of the Company and other persons classified as 'persons discharging management responsibility under the rules of the Financial Services Authority'. Further information about the remuneration of individual directors is provided in the audited part of the Remuneration report.

	<b>2007</b> <b>£000</b>	2006 £000
Short-term employee benefits	<b>2,470</b>	2,191
Post-employment benefits	<b>175</b>	107
Other long-term benefits	<b>435</b>	386
Share-based payment	<b>26</b>	(4)
	<b>3,106</b>	2,680

There were no other significant related party transactions which have not been eliminated on consolidation. Transactions between Group companies are conducted on an arms length basis in compliance with Transfer Pricing regulations.

## Five year summary

£000 (except where otherwise stated)	2003 UK GAAP	2004 UK GAAP	2005 UK GAAP	2005 IFRS	2006 IFRS	2007 IFRS
<b>Revenue</b>	215,494	263,264	262,707	262,707	262,310	<b>270,910</b>
<b>Profit before tax*</b>	8,649	11,573	12,845	13,997	14,597	<b>15,515</b>
<b>Profit after tax</b>	4,675	3,892	2,004	7,738	10,489	<b>13,405</b>
<b>Tax rate**</b>	18%	27%	27%	27%	28%	<b>27%</b>
<b>Diluted earnings per share*</b>	7.9p	9.4p	10.5p	11.4p	11.5p	<b>12.3p</b>
<b>Dividends per share</b>	4.35p	4.60p	4.85p	4.85p	5.17p	<b>5.49p</b>
<b>Balance sheet:</b>						
– capital employed	590	13,121	15,573	15,306	12,183	<b>28,591</b>
– net cash and cash equivalents	40,625	27,480	22,942	22,942	30,092	<b>29,321</b>
– net funds	38,417	25,781	21,843	21,843	29,208	<b>29,075</b>
– total equity	41,215	40,601	38,515	38,248	42,275	<b>57,912</b>
<b>Profit before tax* as a percentage of revenue</b>	4.0%	4.4%	4.9%	5.3%	5.6%	<b>5.7%</b>
<b>Average number of employees</b>	1,545	1,875	2,137	2,137	2,124	<b>2,230</b>

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS.

\*Before amortisation of acquisition related intangible assets, goodwill charges and 2007 exceptional pension credit.

\*\*Tax rate as a percentage of profit before amortisation of acquisition related intangible assets, goodwill charges and exceptional items.

# Shareholder information

## Financial calendar

<b>Ex-dividend date for 2007 final dividend</b>	2 January 2008
<b>Record date for 2007 final dividend</b>	4 January 2008
<b>Annual General Meeting</b>	21 January 2008
<b>Payment of 2007 final dividend</b>	1 February 2008
<b>Announcement of 2008 interim results</b>	May 2008
<b>Preliminary announcement of 2008 results</b>	November 2008

## Corporate Web site

Information about the Group's activities is available from RM at [www.rm.com](http://www.rm.com)

## Investor information

Information for investors is available at [www.rm.com/investors](http://www.rm.com/investors). Enquiries can be directed to Phil Hemmings, Director of Corporate Affairs, at the Group head office address or at [pheummings@rm.com](mailto:pheummings@rm.com)

## Registrars and shareholding information

Shareholders can access the details of their holdings in RM plc via the Shareholder Services option within the investor section of the corporate Web site at [www.rm.com/investors](http://www.rm.com/investors). Shareholders can also make changes to their address details and dividend mandates online.

All enquiries about individual shareholder matters should be made to the Registrars either via email at [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com) or telephone: 0870 162 3131. To help shareholders, the Capita Web site at [www.capitaregistrars.com](http://www.capitaregistrars.com) contains a shareholders' frequently asked questions section.

## Electronic communication

Following approval of the special resolution at the January 2007 AGM we are able to offer shareholders the ability to receive Company communications via email. By registering your email address, you will receive emails with a web link to information posted on our Web site. This can include our report and accounts, notice of meetings and other information we communicate to our shareholders.

Electronic communication brings numerous benefits including:

- Environmental: helping us reduce our impact on the environment
- Security: your documents cannot be lost in the post or read by others
- Faster notification of information and updates
- Easy access: check your shareholding and account transactions online at any time
- Convenience: change your name, address or dividend mandate details online

To sign-up to receive e-communications, simply go to Capita Registrars' Share Portal at [www.capitaregistrars.com/shareholders](http://www.capitaregistrars.com/shareholders) and follow the instructions.

## Beneficial shareholders with 'information rights'

Please note that beneficial owners of shares who have been nominated by the registered holders of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to Capita Registrars, or to the Company directly.

## Multiple accounts on the shareholder register

If you have received two or more copies of this document, it may be because there is more than one account in your name on the shareholder register. This may be due to either your name or address appearing on each account in a slightly different way. For security reasons, Capita will not amalgamate the accounts without your written consent. If you would like to amalgamate your multiple accounts into one account, please write to Capita Registrars.

## Directors

**J.P. Leighfield** Chairman  
**T.R. Pearson** Chief Executive Officer  
**M.D. Greig** Group Finance Director  
**R.A. Sirs** Chief Operating Officer  
**B. Carsberg** Independent Non-Executive Director  
**J.R. Windeler** Senior Independent Non-Executive Director  
**M.J. Tomlinson** Independent Non-Executive Director  
**T.R.P. Brighouse** Independent Non-Executive Director

## Company Secretary

A.J. Robson

## Group head office and registered office

### RM plc

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## Registered number

RM plc's registered number is 1749877

## Advisers

### Bankers

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Technology and Telecoms Team  
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London E14 5HP

### Auditors

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Abbots House  
Abbey Street  
Reading RG1 3BD

### Registrars

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA

### Stockbrokers

UBS Investment Bank  
1 Finsbury Avenue  
London EC2M 2PP

### Solicitors

Linklaters  
One Silk Street  
London EC2Y 8HQ

# Glossary

**AQA**

Assessment and Qualifications Alliance, one of the three major English examination boards, which are responsible for developing, setting and marking public examinations such as GCSEs and A-levels.

**Becta**

British Educational Communications and Technology Agency, the UK government agency responsible for leading the use of ICT in education.

**BESA**

British Educational Suppliers Association, trade association representing educational suppliers.

**BETT**

An educational ICT conference and exhibition which takes place annually in London.

**BSF**

Building Schools for the Future, a government programme to rebuild or refurbish all secondary schools in England.

**C2K**

Classroom 2000, the public sector body responsible for managing the provision of ICT managed services to schools in Northern Ireland.

**Cambridge Assessment**

One of the three major English examination boards, which is responsible for developing, setting and marking public examinations such as GCSEs and A-levels.

**CfP**

Computers for Pupils, an English government programme to provide access to computing technology for disadvantaged pupils.

**DCSF**

Department for Children, Schools and Families, the UK government department responsible for the education and wellbeing of children and young people.

**General curriculum resources**

A wide range of non-ICT products used by teachers to support teaching and learning.

**HDI**

Help Desk Institute, a professional organisation representing the IT service and support sectors.

**ICT**

Information and Communications Technology, a term used primarily in the public sector to describe computer systems, telecommunications and networking.

**Intellect**

Trade association for UK software and IT companies.

**ISO/IEC 27001:2005**

International standard for information security management.

**Learning platforms**

Information systems that support teaching and learning workflow, and facilitate communications and collaboration between teachers, learners and parents/carers.

**Local authority**

Local government body with, amongst other things, responsibility for education and children's services.

**LTS**

Learning and Teaching Scotland, a non-departmental public body, sponsored by the Scottish Government, responsible for the development and support of education in Scotland.

**Ofsted**

Office for Standards in Education, the body responsible for inspecting and regulating education, children's services and skills.

**On-screen marking**

Distributed systems that allow examiners to use a personal computer to display scanned images of examination and test papers, annotate and mark those scanned images, and return marks electronically.

**On-screen testing**

Distributed systems that allow students to take examinations and tests using a computer.

**Primary school**

School serving pupils aged 4 to 11.

**QCA**

Qualifications and Curriculum Authority, the regulatory body for the curriculum and publicly funded qualifications in England.

**Secondary school**

School serving pupils aged 11 to 18.

**SEN**

Special Educational Needs, children who have learning difficulties or disabilities that make it harder for them to learn or access education than most children of the same age.

**SQA**

Scottish Qualifications Authority, the body responsible for publicly funded qualifications in Scotland.

RM is committed to improving the impact its activities have on the environment.

If you have finished with this report and no longer wish to retain it, please pass it on to other interested readers, return it to RM plc or dispose of it in your recycled paper waste, thank you.



### RM's products

RM's products are protected by a comprehensive portfolio of registered patents or patent applications including the following: European Patents – 1300171.4, 1300172.2, 1303887.2, 100278.1, 02250059.9, 02250058.1, 02250061.5, 90313679.4, 90305354.4, 89310209.5 and GB Patents – 100278.1, 0200321.8, 0220230.7, 0226880.3, 0225796.2, 9017491.3, 8917648.1, 8913600.6, 8911622.2, 8823628.6, 0119923.1, 0415108.0.

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