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# Four things that really matter to us...

RM plc
Annual report and accounts 2007



RM®

# 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

100% focused on education

Government departments and agencies

Local authorities

Schools, colleges, universities

## 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<br>Sentinel |
| Assessment and data services | Process management and outsourcing of educational testing and examinations, education data analysis services | RM Education<br>Forvus<br>SERAP |
| Education management systems | Software to support management and administration of schools and local authority education departments | School Management Solutions<br>CAZ Software<br>RM Asia Pacific |
| Education resources | Curriculum-focused products that make classroom learning fun, motivational and effective | RM Education<br>RM Education Software Inc<br>3T Productions<br>TTS<br>DACTA<br>MES<br>SpaceKraft<br>Softease |

# Providing superb educational products and services

# 1

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

# 2

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 | **£270.9m** | £262 3m |
| Profit before tax (before amortisation of acquisition related intangible assets and exceptional pension credit) | **£15.5m** | £14.6m |
| Profit before tax | **£18.4m** | £14 5m |
| Diluted EPS (before amortisation of acquisition related intangible assets and exceptional pension credit) | **12.3p** | 11 5p |
| Diluted EPS | **14.5p** | 11 5p |
| Dividend per share (proposed and paid) | **5.49p** | 5 17p |
| Net funds less deferred consideration | **£27.4m** | £28.5m |
| Committed revenues | **£330.0m** | £240 0m |
| Customer satisfaction (on a scale of zero to ten) | **7.64** | 7.41 |
| Employee satisfaction | **74.6%** | 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 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

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.

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[G2], 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

**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

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

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 Coutu 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 $CO_2$ 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 | = |

# Business review
# Risk

> 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)

# Business review
# Finance

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** | **Gross profit** | | Revenue | Gross profit | |
| | **£m** | **£m** | **%** | £m | £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 |
| Total | **270 9** | **73 5** | **27 2** | 262 3 | 71 1 | 27 1 |

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

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 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 ISTEL 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)

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 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

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

**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

**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 Brighouse, 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

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

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 |
|---|---|---|---|---|
| **Executive** | | | | |
| T R Pearson | 8/9 | – | – | – |
| M D Greig | 9/9 | – | – | – |
| R A Sirs | 8/9 | – | – | – |
| **Non-Executive** | | | | |
| 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

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 |
|---|---|---|
| **Base salary** | To attract and retain | Role and contribution |
| **Pension and benefits** | Competitive fixed benefits to provide security and protection, and to retain | Role |
| **Annual bonus**<br>• 100% of salary maximum (of which 40% paid in shares and deferred for three years) | Provide upside potential to motivate and to reward achievement of short-term business plan<br><br>Deferral supports retention and shareholder alignment | 50% on EPS<br>20% on customer satisfaction<br>20% on market indicators<br>10% on personal objectives |
| **Long-term incentives**<br>• Maximum investment of 33% of base salary per year<br>• Maximum 3 for 1 match | 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)<br>EPS<br>Share price movement |
| **Shareholding requirement**<br>• 100% of salary | 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***

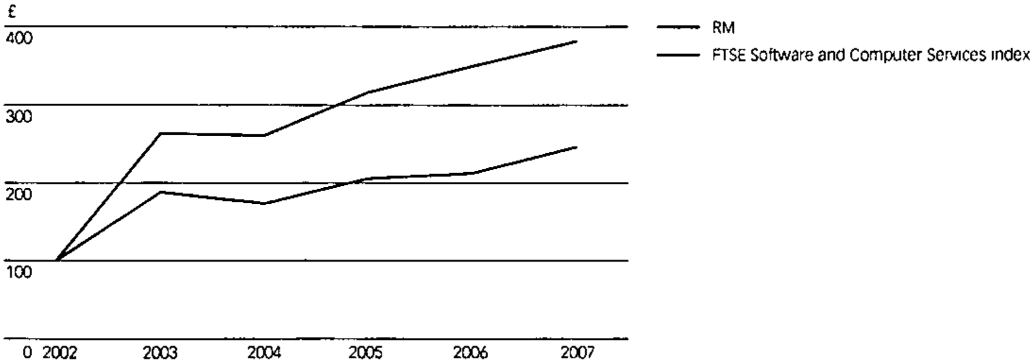
Following a review of Executive Director's remuneration during 2004, the Remuneration Committee decided that share options would not be granted to Executive Directors (this is kept under review by the Remuneration Committee in light of evolving market practice) The Remuneration Committee believes, however, 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 Brighouse | 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 |
|---|---|---|---|---|---|
| **Executive** | | | | | |
| T R Pearson | **276** | **13** | **192** | **481** | 370 |
| M D Greig* | **168** | **14** | **127** | **309** | 265 |
| R A Sirs | **189** | **12** | **143** | **344** | 307 |
| **Non-Executive** | | | | | |
| 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 Brighouse | **33** | **–** | **–** | **33** | 27 |
| M J Tomlinson | **34** | **–** | **–** | **34** | 28 |
| | **896** | **60** | **462** | **1,418** | 1,176 |

*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 | **Less than RPI + 5 2% = Nil** | Less than RPI + 2 9% = Nil | Less than RPI + 5 0% = Nil |
| 3-year average | **RPI + 5 2% = 0 5 for 1 match** | RPI + 5 2% = 0 5 for 1 match | RPI + 5 0% = 0 5 for 1 match |
| annual EPS growth | **RPI +8 5% = 1 5 for 1 match** | RPI +8 5% = 1 5 for 1 match | RPI +12 0% = 1 5 for 1 match |
| (50% of grant) | **(sliding scale)** | (sliding scale) | (sliding scale) |
| Relative TSR | **Versus FTSE S&CS** | Versus FTSE S&CS | Versus FTSE S&CS |
| condition | **Median = 0 5 for 1 match** | Median = 0 5 for 1 match | Median = 0 5 for 1 match |
| (50% of grant) | **Upper quartile = 1 5 for 1 match** | Upper quartile = 1 5 for 1 match | Upper quartile = 1 5 for 1 match |
| | **(sliding scale)** | (sliding scale) | (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 |
|---|---|---|---|---|---|---|---|
| **T R Pearson** | | | | | | | |
| 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 |
| **M D Greig** | | | | | | | |
| 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 |
| **R A Sirs** | | | | | | | |
| 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) |
|---|---|---|
| **November 2001 and March 2002** | 3 year growth EPS | |
| | RPI + 3% | 25 |
| | RPI + 22% | 100 |
| **June 2002** | 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 |
| **December 2002** | 3 year growth EPS | |
| | RPI + 3% | 25 |
| | RPI + 22% | 100 |
| **December 2003** | 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) |
|---|---|---|
| **December 2004** | 3 year growth EPS | |
| | RPI + 5% | 100 |
| **November 2005** | 3 year growth EPS | |
| | RPI + 5% | 100 |
| **December 2006** | 3 year growth EPS | |
| | RPI + 5% | 100 |
| **June 2007** | 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 |
|---|---|---|---|---|---|---|---|---|
| **T R Pearson** | | | | | | | | |
| ***Options with an exercise price equal to or above £1 915*** | | | | | | | | |
| 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 |
| **M D Greig** | | | | | | | | |
| ***Options with an exercise price equal to or above £1 915*** | | | | | | | | |
| 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 |
| **R A Sirs** | | | | | | | | |
| ***Options with an exercise price equal to or above £1 915*** | | | | | | | | |
| 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 Brighouse | **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. 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** 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), 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 | 270,910 | | 270,910 | 262,310 |
| Cost of sales | | (197,376) | | (197,376) | (191,177) |
| **Gross profit** | | 73,534 | | 73,534 | 71,133 |
| Selling and distribution costs | | (33,979) | | (33,979) | (33,166) |
| Research and development expenses | | (14,886) | | (14,886) | (14,918) |
| Administrative expenses | | (11,174) | | (11,174) | (10,193) |
| Amortisation of acquisition related intangible assets | | | (580) | (580) | (53) |
| Exceptional pension credit | 30 | | 3,500 | 3,500 | – |
| | | (60,039) | 2,920 | (57,119) | (58,330) |
| **Profit from operations** | 5 | 13,495 | 2,920 | 16,415 | 12,803 |
| Investment income | 7 | 2,047 | | 2,047 | 1,876 |
| Finance costs | 8 | (27) | | (27) | (135) |
| **Profit before tax** | | 15,515 | 2,920 | 18,435 | 14,544 |
| Tax | 9 | (4,153) | (877) | (5,030) | (4,055) |
| **Profit for the period attributable to equity holders of the parent** | | 11,362 | 2,043 | 13,405 | 10,489 |
| **Earnings per ordinary share** | 10 | | | | |
| Basic | | 12 4p | 2 2p | 14 6p | 11 6p |
| Diluted | | 12 3p | 2 2p | 14 5p | 11 5p |
| **Paid and proposed dividends per share** | 11 | | | | |
| Interim | | | | 1 19p | 1 12p |
| Final | | | | 4 30p | 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 | | 194 | (48) |
| Actuarial gains/(losses) on defined benefit pension scheme | 30 | 7,565 | (3,914) |
| Tax on items taken directly to equity | 9 | (2,096) | 1,287 |
| **Net income/(loss) recognised directly in equity** | | 5,663 | (2,675) |
| **Profit for the year** | | 13,405 | 10,489 |
| **Total recognised income and expense for the year attributable to equity holders of the parent** | | 19,068 | 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 |
|---|---|---|---|
| **Non-current assets** | | | |
| 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 |
| | | **54,152** | 55,671 |
| **Current assets** | | | |
| Inventories | 16 | **13,701** | 10,815 |
| Trade and other receivables | 18 | **58,803** | 51,361 |
| Cash and cash equivalents | 26 | **29,321** | 30,092 |
| | | **101,825** | 92,268 |
| **Non-current assets held for sale** | | **-** | 1,094 |
| **Total assets** | | **155,977** | 149,033 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **(86,006)** | (78,871) |
| Tax liabilities | 19 | **(1,221)** | (1,416) |
| | | **(87,227)** | (80,287) |
| **Net current assets** | | **14,598** | 11,981 |
| **Non-current liabilities** | | | |
| 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) |
| | | **(10,838)** | (26,471) |
| **Total liabilities** | | **(98,065)** | (106,758) |
| **Net assets** | | **57,912** | 42,275 |
| **Equity attributable to equity holders of the parent** | | | |
| 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 |
| **Total equity** | 24 | **57,912** | 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 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 15 | **55,297** | 42,736 |
| | | **55,297** | 42,736 |
| **Current assets** | | | |
| Trade and other receivables | 18 | **4,812** | 16,841 |
| Cash and cash equivalents | | **11** | 35 |
| | | **4,823** | 16,876 |
| **Total assets** | | **60,120** | 59,612 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **(1,009)** | (2,135) |
| Tax liabilities | 19 | **(90)** | (90) |
| | | **(1,099)** | (2,225) |
| **Net current assets** | | **3,724** | 14,651 |
| **Non-current liabilities** | | | |
| Provisions | 21 | **(1,710)** | – |
| | | **(1,710)** | – |
| **Total liabilities** | | **(2,809)** | (2,225) |
| **Net assets** | | **57,311** | 57,387 |
| **Equity attributable to equity holders of the parent** | | | |
| 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 |
| **Total equity** | 24 | **57,311** | 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** Director  **M D Greig** 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 |
|---|---|---|---|
| **Profit from operations** | | **16,415** | 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)** | - |
| **Operating cash flows before movements in working capital** | | **21,966** | 21,706 |
| (Increase)/decrease in inventories | | **(1,934)** | 1,211 |
| (Increase)/decrease in receivables | | **(6,492)** | 3,035 |
| Increase in payables | | **4,508** | 585 |
| **Cash generated by operations** | | **18,048** | 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) |
| **Net cash inflow from operating activities** | | **13,239** | 24,245 |
| **Investing activities** | | | |
| 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) |
| **Net cash used in investing activities** | | **(8,676)** | (10,460) |
| **Financing activities** | | | |
| 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) |
| **Net cash used in financing activities** | | **(5,396)** | (6,635) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(833)** | 7,150 |
| Cash and cash equivalents at the beginning of year | | **30,092** | 22,942 |
| Effect of foreign exchange rate changes | | **62** | - |
| **Cash and cash equivalents at the end of year** | 26 | **29,321** | 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 |
|---|---|---|
| **(Loss)/profit from operations and operating cash flows before movements in working capital** | **(463)** | 15 |
| Decrease/(increase) in receivables | **2,415** | (4,280) |
| Increase in payables | **86** | 1,727 |
| **Cash used by operations** | **2,038** | (2,538) |
| Dividends received | **3,230** | 8,882 |
| Interest paid | **-** | (31) |
| **Net cash inflow from operating activities** | **5,268** | 6,313 |
| **Investing activities** | | |
| Interest received | **-** | 1 |
| **Net generated by investing activities** | **-** | 1 |
| **Financing activities** | | |
| Dividends paid | **(4,801)** | (4,473) |
| Proceeds from share capital issue, net of share issue costs | **1,281** | 831 |
| Purchase of own shares | **(559)** | (816) |
| Share buy backs | **-** | (65) |
| Repayment of loan notes | **(1,213)** | (1,790) |
| **Net cash used in financing activities** | **(5,292)** | (6,313) |
| **Net (decrease)/increase in cash and cash equivalents** | **(24)** | 1 |
| Cash and cash equivalents at the beginning of year | **35** | 34 |
| **Cash and cash equivalents at the end of year** | **11** | 35 |

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

# Notes to the report and accounts

## 1 General information

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

## 2 Significant accounting policies

**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

## 2 Significant accounting policies continued

### 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

## 2 Significant accounting policies continued

***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

## 2 Significant accounting policies continued

### 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

## 2 Significant accounting policies continued

### 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

## 3 Revenue

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 |
| **Total revenue** | **272,957** | 264,186 |

## 4 Business segments

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 | **8,793** | 9,124 |
| Amortisation of other intangible assets | **1,010** | 342 |
| Amortisation of acquisition related intangible assets | **580** | 53 |
| | **1,590** | 395 |
| Administrative expenses | **11,174** | 10,193 |
| Amortisation of acquisition related intangible assets | **580** | 53 |
| Exceptional pension credit | **(3,500)** | – |
| Total administrative expenses | **8,254** | 10,246 |
| Research and development costs | **14,886** | 14,918 |
| (Profit)/loss on sale of property, plant and equipment | **(657)** | 77 |
| Staff costs (see note 6) | **94,017** | 86,277 |
| Operating lease expenses | **4,274** | 3,416 |
| Foreign exchange gain | **(289)** | (325) |
| Building Schools for the Future bid costs | **3,634** | 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 | **27** | 82 |
| Fees payable to the Company's auditor and its associates for other services | | |
| – the audit of the Company's subsidiaries, pursuant to legislation | **220** | 190 |
| – review of the interim financial statements | **14** | 13 |
| – other services pursuant to legislation | **–** | 2 |
| – tax services | **–** | 27 |
| – further assurance services | **–** | 2 |
| | **261** | 316 |
| Fees payable in respect of the audit of the defined benefit pension scheme | **5** | 5 |
| | **266** | 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 |
| | **2,230** | 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 |
| | **94,017** | 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 |
| | **2,047** | 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 |
| | **27** | 135 |

## 9 Tax

a) Analysis of tax charged in income statement

| | 2007 £000 | 2006 £000 |
|---|---|---|
| **Current taxation** | | |
| 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 |
| **Deferred taxation** | | |
| Temporary differences | **1,076** | 461 |
| Adjustment in respect of prior years | **(397)** | 52 |
| Total deferred tax | **679** | 513 |
| **Total income statement tax charge** | **5,030** | 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 |
| **Effective rate** | **26 8%** | **30 0%** | **27 3%** | 27 8% |

*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) |
| **At 30 September 2007** | **945** | **915** | **907** | **669** | **83** | **(915)** | **2,604** |

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) |
| | **2,604** | 7,160 |

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

| | 2007 Profit after tax £000 | 2007 Weighted average number of shares 000 | 2007 Pence per share | 2006 Profit after tax £000 | 2006 Weighted average number of shares 000 | 2006 Pence per share |
|---|---|---|---|---|---|---|
| Basic earnings per ordinary share | **13,405** | **91,780** | **14 6** | 10,489 | 90,755 | 11 6 |
| Effect of dilutive potential ordinary shares share options | **–** | **505** | **(0 1)** | – | 560 | (0 1) |
| Diluted earnings per ordinary share | **13,405** | **92,285** | **14 5** | 10,489 | 91,315 | 11 5 |
| Effect of amortisation of acquisition related intangible assets and exceptional pension credit | **(2,043)** | **–** | **(2 2)** | 53 | – | – |
| Diluted earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and exceptional pension credit | **11,362** | **92,285** | **12 3** | 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

| | 2007 Profit after tax £000 | 2007 Weighted average number of shares 000 | 2007 Pence per share | 2006 Profit after tax £000 | 2006 Weighted average number of shares 000 | 2006 Pence per share |
|---|---|---|---|---|---|---|
| Diluted earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and exceptional pension credit | **11,362** | **92,285** | **12 3** | 10,542 | 91,315 | 11 5 |
| Effect of Building Schools for the Future bid costs – see note 5 | **2,544** | **–** | **2 8** | 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 | **13,906** | **92,285** | **15 1** | 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 | **3,688** | 3,399 |
| Interim dividend for the year ended 30 September 2007 of 1 19p (2006 1 12p) per share | **1,113** | 1,022 |
| | **4,801** | 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 |
| **At 30 September 2007** | **27,095** |
| Accumulated impairment losses | |
| At 1 October 2005, 1 October 2006 and 30 September 2007 | (2,469) |
| Carrying amount | |
| **At 30 September 2007** | **24,626** |
| 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 |
| | **24,626** | 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 Customer and supplier relationships £000 | Brands £000 | Intellectual property and database assets £000 | Sub total £000 | Other software assets* £000 | Total £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 | – | – | – | – | – | – |
| **At 30 September 2007** | **2,708** | **477** | **715** | **3,900** | **17,593** | **21,493** |
| 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 |
| **At 30 September 2007** | **407** | **73** | **153** | **633** | **15,198** | **15,831** |
| Carrying amount | | | | | | |
| **At 30 September 2007** | **2,301** | **404** | **562** | **3,267** | **2,395** | **5,662** |
| 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 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| 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) |
| **At 30 September 2007** | **2,670** | **2,746** | **7,372** | **34,826** | **5,867** | **53,481** |
| 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) |
| **At 30 September 2007** | **180** | **1,521** | **4,758** | **22,858** | **3,039** | **32,356** |
| Carrying amount | | | | | | |
| **At 30 September 2007** | **2,490** | **1,225** | **2,614** | **11,968** | **2,828** | **21,125** |
| 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 |
|---|---|---|---|---|
| **Company** | | | | |
| 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 |
| **At 30 September 2007** | **47,606** | **4,098** | **7,077** | **58,781** |
| Impairment | | | | |
| At 1 October 2005, 1 October 2006 and 30 September 2007 | (3,484) | – | – | (3,484) |
| Carrying value | | | | |
| **At 30 September 2007** | **44,122** | **4,098** | **7,077** | **55,297** |
| 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 |
|---|---|---|
| **Group** | | |
| Components | **8,989** | 7,981 |
| Work in progress | **250** | 135 |
| Finished goods | **4,462** | 2 699 |
| | **13,701** | 10,815 |

## 17 Long-term contracts

| | 2007 £000 | 2006 £000 |
|---|---|---|
| **Group** | | |
| Contracts in progress at the balance sheet date | | |
| Contract costs incurred plus recognised profits less recognised losses to date | **196,423** | 165,460 |
| Less progress billings | **(190,344)** | (160,013) |
| | **6,079** | 5,447 |
| Amounts due from contract customers included in trade and other receivables | **6,079** | 5,490 |
| Amounts due to contract customers included in trade and other payables | **–** | (43) |
| | **6,079** | 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 |
| **Current** | | | | |
| Trade receivables | **47,943** | 41,863 | **–** | – |
| Long-term contract balances | **6,079** | 5,490 | **–** | – |
| Other receivables | **432** | 725 | **50** | – |
| Prepayments and accrued income | **4,349** | 3,283 | **–** | – |
| Amounts owed by subsidiary undertakings | **–** | – | **4,762** | 16,841 |
| | **58,803** | 51,361 | **4,812** | 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 2007 £000 | Group 2006 £000 | Company 2007 £000 | Company 2006 £000 |
|---|---|---|---|---|
| **Current** | | | | |
| 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 |
| | **86,006** | 78,871 | **1,009** | 2,135 |
| **Tax liabilities** | **1,221** | 1,416 | **90** | 90 |
| **Non-current** | | | | |
| 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** | – | – | – |
| | **5,182** | 6,793 | – | – |

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

| | 2007 Floating rate £000 | 2007 Interest free £000 | 2007 Total £000 | 2006 Floating rate £000 | 2006 Interest free £000 | 2006 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 |
| | **23,047** | **6,274** | **29,321** | 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 Nominal value £000 | 2007 Fair value £000 | 2006 Nominal value £000 | 2006 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 |
|---|---|---|---|
| **Group** | | | |
| 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) |
| **At 30 September 2007** | **1,710** | **542** | **2,252** |

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 Number 000 | 2007 £000 | 2006 Number 000 | 2006 £000 |
|---|---|---|---|---|
| | **125,000** | **2,500** | 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 |
| **At 30 September 2007** | **92,660** | **1,854** |

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) |
| **At 30 September 2007** | **575,038** | **998** |

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 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| 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 |
| **At 30 September 2007** | **1,854** | **25,727** | **(998)** | **94** | **190** | **31,045** | **57,912** |

## 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 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| 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 |
| **At 30 September 2007** | **1,854** | **25,727** | **(998)** | **94** | **30,634** | **57,311** |

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 |
|---|---|
| **Caz Software Limited** | |
| Customer relationships | 5 |
| Intellectual property assets | 3 |
| Brand | 3 |
| **Music Education Supplies Limited** | |
| 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)** |
| **Net funds** | 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 | |
| **Outstanding at 30 September 2007** | **5,710,693** | **3 06** | **0 72-7 62** |

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) | |
| **Outstanding at 30 September 2007** | **2,617,953** | |

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 |
| **Outstanding at 30 September 2007** | **144,775** | **–** |

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 |
| **At 30 September 2007** | **377,124** | **634** |

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 | **3 70** | 3 80 |
| Rate of increase of pensions in payment | **3 30** | 2 70 |
| Rate of increase of pensions in deferment | **3 30** | 2 70 |
| Discount rate | **5 80** | 5 05 |
| Inflation assumption | **3 30** | 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) | **21 8** | **24 7** | 21 8 | 24 7 |
| Non-pensioner member age 45 (life expectancy at 65) | **23 0** | **25 8** | 23 0 | 25 8 |

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

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Current service cost | **3,668** | 2,358 |
| Exceptional pension credit | **(3,500)** | – |
| Cost recognised within operating profit | **168** | 2,358 |
| Interest cost | **4,258** | 3,744 |
| Expected return on scheme assets | **(4,558)** | (3,645) |
| (Income)/cost recognised within finance (income)/cost | **(300)** | 99 |
| | **(132)** | 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 | **7,565** | (2,101) |
| Experience gains and losses | **–** | (1,813) |
| | **7,565** | (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 % | 2007 £000 | 2006 % | 2006 £000 |
|---|---|---|---|---|
| Equities | **7 40** | **54,974** | 6 90 | 47,241 |
| Bonds | **4 90** | **24,698** | 4 40 | 19,634 |
| Total fair value of scheme assets | | **79,672** | | 66,875 |
| Present value of defined benefit obligations | | **(82,941)** | | (85,582) |
| Deficit in scheme and liability recognised in balance sheet | | **(3,269)** | | (18,707) |
| Related deferred tax asset | | **915** | | 5,612 |
| Net pension deficit | | **(2,354)** | | (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 | **85,582** | 72,420 |
| Current service costs | **3,668** | 2,358 |
| Interest cost | **4,258** | 3,744 |
| Exceptional pension credit | **(3,500)** | – |
| Contributions from scheme members | **71** | 1,542 |
| Actuarial gains and losses | **(6,463)** | 4,126 |
| Experience gains and losses | **–** | 1,813 |
| Benefits paid | **(675)** | (421) |
| At 30 September | **82,941** | 85,582 |

Movements in fair value of scheme assets were as follows

| | 2007 £000 | 2006 £000 |
|---|---|---|
| At 1 October | **66,875** | 56,530 |
| Expected return on scheme assets | **4,558** | 3,645 |
| Actuarial gains and losses (actual return less expected return) | **1,102** | 2,025 |
| Contributions from sponsoring companies | **7,741** | 3,554 |
| Contributions from scheme members | **71** | 1,542 |
| Benefits paid | **(675)** | (421) |
| At 30 September | **79,672** | 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) | **1,102** | 2,025 | 5,900 | 1,230 | 2,850 |
| – as a percentage of scheme assets | **1%** | 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 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investments | 39,676 | 3,060 | – | 42,736 |
| | 39,676 | 3,060 | – | 42,736 |
| **Current assets** | | | | |
| Trade and other receivables | 18,630 | – | (1,789) | 16,841 |
| Cash and cash equivalents | 35 | – | – | 35 |
| | 18,665 | – | (1,789) | 16,876 |
| **Total assets** | 58,341 | 3,060 | (1,789) | 59,612 |
| **Current liabilities** | | | | |
| Trade and other payables | (2,135) | – | – | (2,135) |
| Tax liabilities | (90) | – | – | (90) |
| | (2,225) | – | – | (2,225) |
| **Net current assets** | 16,440 | – | (1,789) | 14,651 |
| **Non-current liabilities** | | | | |
| Other payables | – | – | – | – |
| Provisions | – | – | – | – |
| | – | – | – | – |
| **Total liabilities** | (2,225) | – | – | (2,225) |
| **Net assets** | 56,116 | 3,060 | (1,789) | 57,387 |
| **Equity attributable to equity holders of the parent** | | | | |
| 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 |
| **Total equity** | 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

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Short-term employee benefits | **2,470** | 2,191 |
| Post-employment benefits | **175** | 107 |
| Other long-term benefits | **435** | 386 |
| Share-based payment | **26** | (4) |
| | **3,106** | 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** |
|---|---|---|---|---|---|---|
| **Revenue** | 215,494 | 263,264 | 262,707 | 262,707 | 262,310 | **270,910** |
| **Profit before tax*** | 8,649 | 11,573 | 12,845 | 13,997 | 14,597 | **15,515** |
| **Profit after tax** | 4,675 | 3,892 | 2,004 | 7,738 | 10,489 | **13,405** |
| **Tax rate**** | 18% | 27% | 27% | 27% | 28% | **27%** |
| **Diluted earnings per share*** | 7 9p | 9 4p | 10 5p | 11 4p | 11 5p | **12 3p** |
| **Dividends per share** | 4 35p | 4 60p | 4 85p | 4 85p | 5 17p | **5 49p** |
| **Balance sheet** | | | | | | |
| **– capital employed** | 590 | 13,121 | 15,573 | 15,306 | 12,183 | **28,591** |
| **– net cash and cash equivalents** | 40,625 | 27,480 | 22,942 | 22,942 | 30,092 | **29,321** |
| **– net funds** | 38,417 | 25,781 | 21,843 | 21,843 | 29,208 | **29,075** |
| **– total equity** | 41,215 | 40,601 | 38,515 | 38,248 | 42,275 | **57,912** |
| **Profit before tax* as a percentage of revenue** | 4 0% | 4 4% | 4 9% | 5 3% | 5 6% | **5 7%** |
| **Average number of employees** | 1,545 | 1,875 | 2,137 | 2,137 | 2,124 | **2,230** |

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

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

## Corporate Web site

Information about the Group's activities is available from RM at www rm com

## Investor information

Information for investors is available at www rm com/investors Enquiries can be directed to Phil Hemmings, Director of Corporate Affairs, at the Group head office address or at phemmings@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 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 or telephone 0870 162 3131 To help shareholders, the Capita Web site at 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 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

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***Registered number***
RM plc's registered number is 1749877

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***Registrars***
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***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

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