RM plc

ANNUAL REPORT AND ACCOUNTS 2006

WHERE TECHNOLOGY AND EDUCATION MEET

OUR COMPANY

THE RM GROUP IS A LEADING PROVIDER OF EDUCATIONAL PRODUCTS AND SERVICES TO SCHOOLS, COLLEGES AND 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 THE EDUCATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) ARENA.

OUR VALUES

CUSTOMER SUCCESS
HIGH STANDARDS
INNOVATION AND IMPROVEMENT
OPENNESS
RESPECT FOR OTHERS
ENJOYING OURSELVES

CREATING OPPORTUNITIES TO LEARN AND GROW

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.

AT THE FOREFRONT OF EDUCATION

TIM PEARSON TALKS ABOUT WHY ENGAGEMENT WITH EDUCATION IS ESSENTIAL TO RM'S SUCCESS

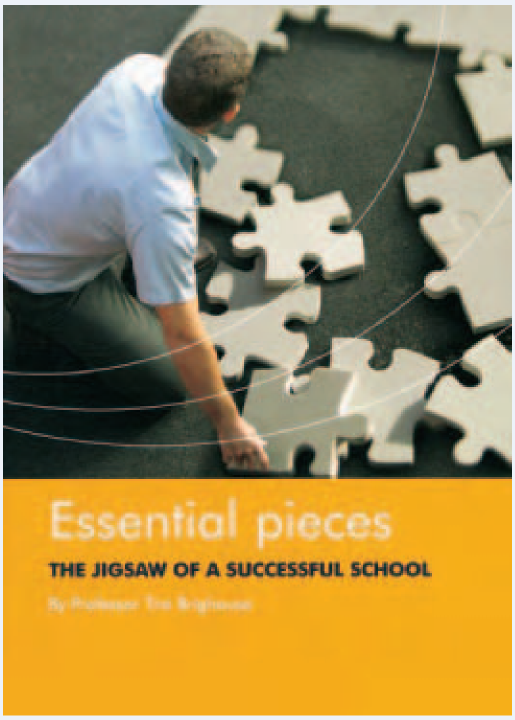
AT THE FOREFRONT OF EDUCATION...

In his booklet *The Jigsaw of a Successful School*, Professor Tim Brighouse (one of RM's Non-Executive Directors and one of the UK's leading educational thinkers) identifies 15 characteristics of a successful school. We asked Tim to write the booklet following a keynote address he gave at our annual series of Educational Seminars; we felt his wisdom should be shared as widely as possible. The booklet makes fascinating reading – whether or not you're directly involved in education – and it has now been distributed to over 1,200 education leaders.

Top of Tim's list of characteristics is, "We share values, a vision of the future and we enjoy telling stories". It's a characteristic that applies as much to a successful business as it does to a successful school and, at RM, we too aim to share values and a vision of the future. Our vision is about helping teachers to teach and learners to learn; our values are about being a moral and useful organisation.

Too soft-centred for a business? I don't think so. Focusing on educational success means that we're offering something our customers genuinely want and the kind of people who can help us achieve educational success will share our customers' values. An example: in the South Yorkshire eLearning Programme, RM's educational specialists came up with a way of helping pupils gain a European Computer Driving Licence, helping provide the ICT qualifications required by the project and building ICT skills in South Yorkshire.

TIM PEARSON CEO




1 We share values, a vision of the future, and we enjoy telling stories.
2 Our language makes the school.
3 The school is a beautiful place.
4 We try to do things right in our school.
5 In our school we sing from the same song sheet.
6 Our teaching, learning and assessment.
7 We develop all our staff.
8 We listen and involve our pupils.
9 Are we data rich and information poor?
10 We understand and welcome change, because change is learning and that's our business.
11 We practise learning walks.
12 We are fussy about appointments.
13 We value and involve our parents and the community.
14 We make our school personal. Every child and adult matters here.
15 We communicate, collaborate and are creative.

AT THE FOREFRONT OF EDUCATION... CONTINUED

HELPING TEACHERS TO TEACH AND LEARNERS TO LEARN

While education standards are probably higher than they've ever been, policymakers, education managers and classroom teachers remain committed to improving them further. It's a moral duty – as Tim Brighouse would say, you can't have a free society without educated people – but it's pragmatic as well. Economic success in the 21st Century will require a highly educated workforce that is comfortable with technology.

ICT already has a well-established role in the classroom, providing engaging and motivating learning experiences. A high proportion of school classrooms now have interactive whiteboards, all schools have computers and Internet access, and teachers are increasingly comfortable with technology. It's an area where the UK has been extremely influential, and we're proud of the part we've played.

Where technology has had relatively little impact so far though, is in the processes that underpin education. Over the next 10 years the education 'back-office' will experience the same degree of change as commerce and industry has seen over the last 20 years. On-screen examination and testing will become routine; teachers will communicate and collaborate online; and technology will be used to provide more effective and personalised learning for pupils. All of these are areas where RM has a presence, providing products and services at the leading edge of educational innovation.

Education will also have to embrace the technologies that are becoming part of young people's day-to-day lives. Things like social networking and blogging will find a role in education. As noted education thinker Stephen Heppell said recently, "Whatever kids come to school with in their pockets, we mustn't expect them to power-down to get on with their learning." We're getting involved here as well with products like Softease Podium, which we believe is the world's first dedicated education podcast environment.

Technology has the potential to transform teaching and learning, but only when it's applied with a real understanding of education.

ENGAGING WITH EDUCATION

The final piece in Tim Brighouse's *Jigsaw of a Successful School* is "We communicate, collaborate and are creative". Again, it's a characteristic that applies equally to a successful business. Engaging directly in the education service is important for RM. As we take more responsibility for educational delivery – and in many of the large projects we work on, part of our payment is for educational outcomes – we need an ever-deeper understanding of education issues. This is why we encourage staff to participate as governors in schools, and why we've instituted a 'Listening to Schools' programme, where senior managers spend time with school leaders understanding their challenges and their requirements.

Our role is to provide products and services that can help teachers and education managers transform the education service. This is only possible if we work with educators to understand how that transformation can happen. RM is fortunate to have Tim Brighouse as part of its Board. Along with Sir Mike Tomlinson (former Chief Inspector of Schools), he constantly reminds us about what our customers think, not only of our products and services, but also of how we work with them.

The Jigsaw of a Successful School can be downloaded at www.rm.com

A STRONG BUSINESS WITH SCOPE FOR GROWTH

ROB SIRS EXPLAINS WHAT IT TAKES TO BE AN INNOVATION WINNER

WINNING AT INNOVATION…

A BUSINESS WITH A STRONG CENTRE

RM has been market leader in the provision of ICT to individual schools for the last decade. Many of our product and service innovations have defined the way schools use ICT. RM's PC networking products, for instance, set the market standard through the provision of a complete bundled solution, comprising hardware, software, training and support. Our Internet service, IFL (Internet For Learning™), introduced filtering and online safety controls to the classroom.

With the large majority of education spending decisions in the UK delegated to head teachers, working with individual schools continues to be the centre of our business. More than half of the schools in the UK placed an order with RM during 2006, and a quarter of schools have bought something from us every year for the past five years.

GROWTH IN ADJACENT AREAS

Over the past five years, there has been an increasing trend for Local Authority education departments to implement large and sophisticated education projects, serving groups of schools working together. RM leads the way here as well, with a portfolio of ground-breaking, high-value, multi-year projects.

This experience positions us well for the Department for Education and Skill's Building Schools for the Future (BSF) initiative, which will rebuild or refurbish all of England's secondary schools. Under BSF, groups of schools working together will procure multi-year managed ICT service contracts, an approach that is well matched to RM's key competitive strengths. So far, only a very small number of BSF contracts have been signed. However, over the next ten years, as the programme rolls forward, it will become a major factor in the secondary school ICT marketplace.

Our track record of designing and delivering educational solutions is important in winning projects, but so is our understanding of the risks and rewards involved in large education projects. Bidding for education projects is expensive and it's important that we have a well-developed bidding process that allows us to use our resources efficiently and effectively.

AN INCREASING PRESENCE IN RELATED MARKETS

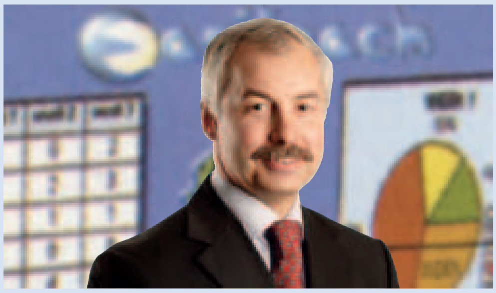
RM focuses solely on the education market, but our scope is wider than providing ICT software, systems and services to education establishments. We have also identified three related areas of growth:

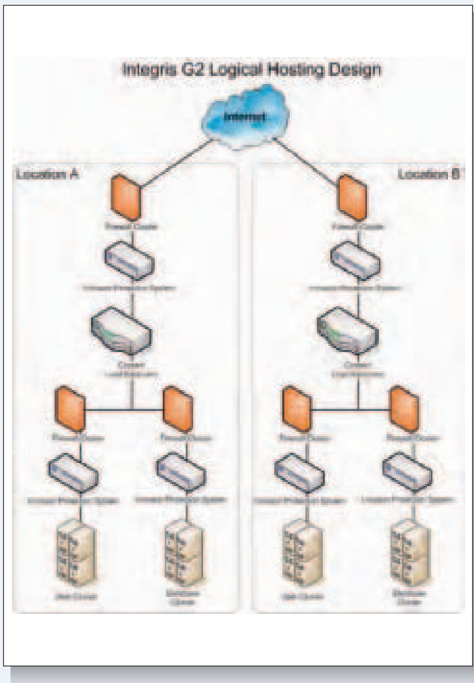
- Education management systems: sophisticated software systems designed to support educational establishments and government education departments in managing their day-to-day operations.
- Education resources: classroom resources, including educational software, designed to help teachers deliver motivational and educationally effective teaching and learning experiences.
- Assessment and data: process management, outsourcing and data provision to support education management and assessment.

HIGH STANDARDS OF CUSTOMER SUCCESS

Wherever we operate, our aim is to offer the best products and services available in the marketplace. Customer satisfaction is our most important non-financial measure and we have a strong commitment to helping our customers achieve educational success.

ROB SIRS Chief Operating Officer





WINNING AT INNOVATION… CONTINUED

BUILDING OUR COMPETITIVE STRENGTHS

All of our chosen business areas resonate with – and reinforce – the Group's key competitive strengths: education focus, technical capability and relative scale. Our heritage of delivering educationally-focused innovation is something that's particularly important to the future of the business.

FIRST RATE TECHNICAL SKILLS

In 2006, the Corporate Research Foundation identified RM as one of the Top IT Employers in the UK, scoring us particularly highly on innovation. We invest in developing the skills of our technical people, both in the UK and in India. We employ over 500 technical staff and our wide-ranging activities have allowed us to develop a unique range of technical expertise and experience:

- 'Thin-client' database applications – products such as Integris^{G2} (our education management software suite) are pioneering examples of 'thin-client' applications, using Web-based front end clients to access securely hosted data.
- Web-centric development – RM has well-developed expertise in J2EE, .Net and other Web-centric development tools.
- Web-hosting – RM hosts, on behalf of clients, over 1,400 Web servers in more than 20 locations across the UK.
- Interactive design – 3T Productions, an RM Group company, specialises in developing interactive products for education users and has worked for leading international educational publishers, government departments & agencies and the BBC.
- Information security – RM's Group-wide Information Security Committee scrutinises all aspects of our development activities relating to the collection, storage and management of sensitive data; RM ESI, our Indian software development facility, has received ISO 27001 certification for information security.
- Integration and managed delivery – our experience managing thousands of desktop computers on behalf of individual schools and groups of schools provides us with a high level of integration and managed service expertise.

GLOW

In September 2005, RM was selected to develop and deliver Glow – the Scottish Schools Digital Network National Intranet. Glow will provide a secure intranet, with communication, collaboration and workflow capabilities, for all 800,000 learners and teachers in Scotland. As far as we know, there's no other educational ICT project with this ambition being delivered anywhere in the world. When it's complete, it will be one of the largest implementations of Microsoft® SharePoint Portal Server technology undertaken.

Making Glow work reliably for users who want access to it, at any time, from any place where there's an Internet connection, is an enormous technological challenge. RM competed with some of the world's leading technology companies to win Glow. Our success is testament to the very high level of technical skills, to which the Group has access.

Glow is a ground-breaking project, which will provide Scotland with an education intranet we believe to be unrivalled anywhere in the world. It will also provide RM with education knowledge, technical skills and intellectual property to contribute to further projects.

MAKING RM A GREAT PLACE TO WORK

MIKE GREIG ON HOW COMMUNITY ENGAGEMENT AND ENVIRONMENTAL AWARENESS BRINGS SOMETHING BACK INTO THE BUSINESS

A GREAT PLACE TO WORK…

Our aim is to be a great place to work. Quite simply, we believe that satisfied and motivated people are our best guarantee of delivering success for customers and shareholders. Being a great place to work means supporting our people's broader aspirations, as well as offering strong leadership and fulfilling professional challenges.

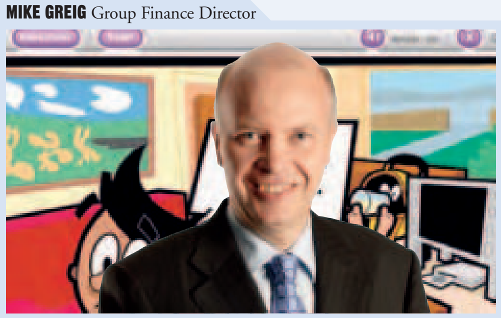
Communication is a key part of our approach. A programme of annual company briefings ensures that everyone has the opportunity to hear directly from senior management about the direction of the business, its successes and the challenges we face. We listen to the people who work here as well. In 2006, the majority of our people responded to our annual company survey, with over two-thirds of them saying they were confident that action would be taken on issues raised (this compares to less than half in comparable companies).

In 2006, we set – and exceeded – a target to increase employee satisfaction, with our annual company survey showing an overall employee satisfaction rating of 73.2% (up from 72.0% in 2005). It's an achievement we're proud of – and we've set an even higher target for 2007.

AN ORGANISATION WITH VALUES AT ITS HEART

Our values – which are set out on the opening page of this Report – are central to the way we run the business. Senior managers and Directors are evaluated by their peers to determine the extent that they 'live' the values, and living the values is a competence we seek to develop in all of our people.

MIKE GREIG Group Finance Director



THE RM FOUNDATION COMMITTEE

We believe that it is important to give something back to the communities of which we are a part. The RM Foundation Committee, which is a focus for our community activities, aims to support organisations that are local to our various offices and where our people can make a real difference.

In the year ahead, we will continue our relationship with Volunteer Reading Help, as well as working with ten charities, each of which focuses on children's issues. These charities were selected through a Group-wide ballot, allowing individual offices to identify locally-based causes which they feel passionate about.

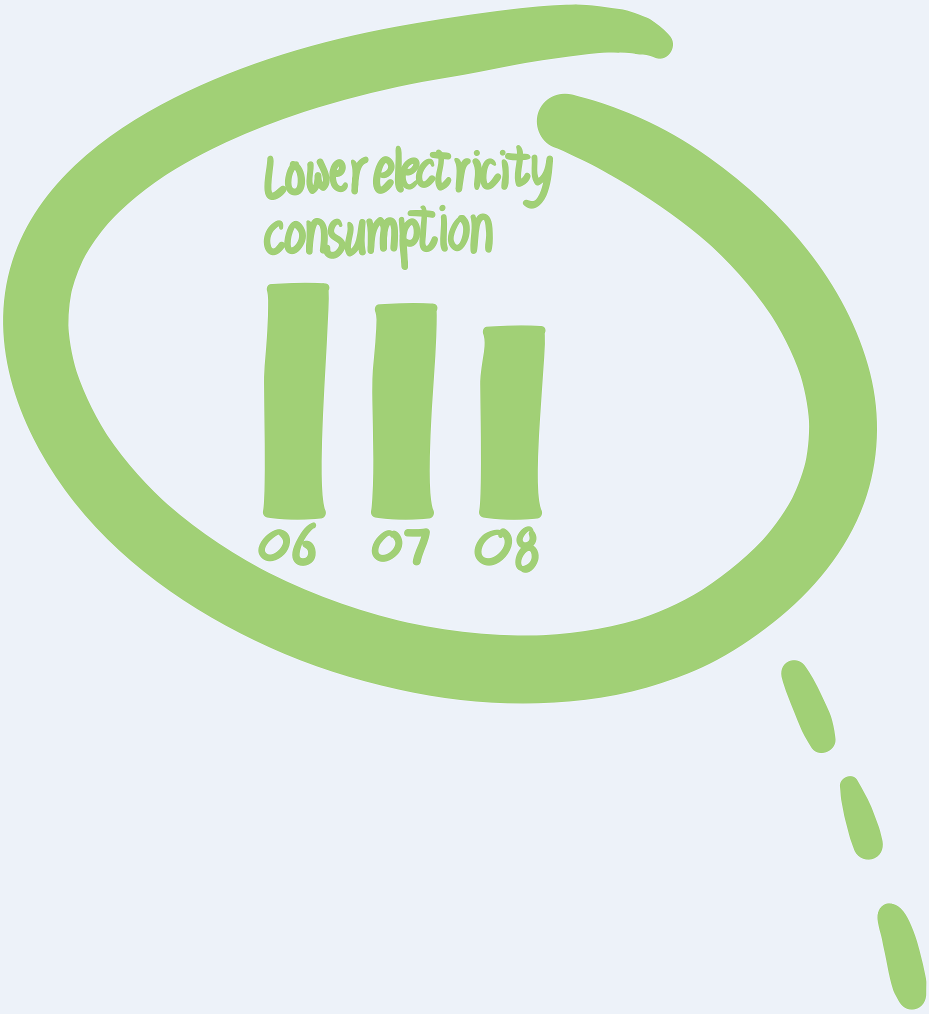
All of our people are encouraged to volunteer half a day each year (in business time) to support our chosen charities, and RM will add 33% to any money staff raise for them.

The RM Foundation Committee continues to have an active partnership with Digital Links International, a charity that recycles used computers and puts them to use in developing countries. In 2006, we embarked on a project to reuse a further 2,500 computers, which were previously in use in the Scottish Borders, to deliver educational benefits in schools in Africa.

INCREASING OUR EDUCATION KNOWLEDGE

Education understanding is one of RM's key competitive strengths. Many of our staff have worked in educational environments prior to joining RM and we hold regular lectures designed to help all of our people enhance their educational understanding.

73.2%



A GREAT PLACE TO WORK… CONTINUED

Staff are strongly encouraged to serve as school governors. It's something that benefits both RM and the community, providing committed expertise for local schools and developing 'real-world' knowledge in our staff. In 2006, we worked closely with the School Governors' One Stop Shop to identify opportunities for our staff to join governing bodies, exceeding the target we set for new governors.

GREEN RM

RM's commitment to reducing environmental impact is driven by the people who work here. In 2005, responding to a clear desire from staff to reduce the impact our business has on the environment, we set up Green RM. Green RM is a group of committed employees who have been given the freedom – and the responsibility – to make RM a more environmentally-friendly company.

MAKING ENVIRONMENTAL AWARENESS PART OF EVERYDAY BUSINESS

RM, as a software and computer services business, has a low environmental impact. Nonetheless, during the year we've taken steps to reduce it still further.

Throughout our Abingdon headquarters we've introduced desktop recycling, with recycling facilities adjacent to every work area. This allows us to recycle paper, card, glass and cans. As a consequence, we estimate that we sent 26 tonnes less waste to landfill in 2006.

Across the Group we aim to use recycled paper for our documents and in our photocopiers and printers, as well as actively encouraging staff to reduce the amount of paper they use. We've also switched to Green Energy (energy sourced from our electricity supplier's renewable generation capacity), which we estimate will reduce carbon dioxide emissions by over 2,000 tonnes per annum.

ECOQUIET® – THE LOW-POWER, LOW-HEAT, LOW-NOISE PC

Ten million people go to school every day in term time and a school's biggest consumer of energy is often its ICT equipment. So, creating a PC with lower power requirements could significantly reduce schools' energy consumption. RM's innovative ecoquiet PCs consume up to one-third less energy than typical PCs and, because they generate less heat and noise, make for a much better working environment.

A SUSTAINABLE BUSINESS

Reducing environmental impact has become part of business-as-usual for RM, with 82% of our staff saying they work for an organisation that is environmentally aware. For 2007, we've set two further Group objectives linked to environmental impact: we intend to reduce our energy consumption; and we want to increase the number of ecoquiet computers we provide to our customers.

This Annual Report is printed on 100% recycled paper, by a CarbonNeutral printer.

CarbonNeutral® publication

HIGHLIGHTS

PROFIT BEFORE TAX UP TO

£14.5M

DIVIDEND PER SHARE UP TO

5.17P

OPERATIONAL HIGHLIGHTS

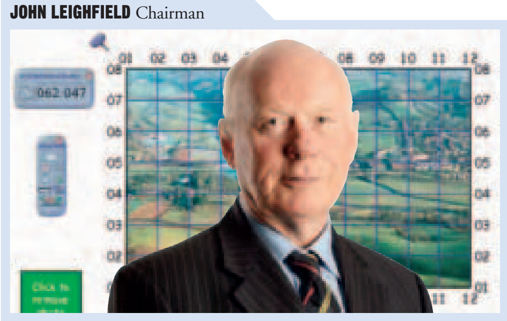
- FURTHER IMPROVEMENTS TO THE BUSINESS MODEL
- FURTHER INCREASE IN PROFIT MARGIN – EVEN AFTER INCREASED INVESTMENT IN BSF
- FOUR BSF PROJECT WINS
- THIRD YEAR OF INCREASE IN CUSTOMER SATISFACTION SCORE
- INCREASE IN EMPLOYEE SATISFACTION

FOUR AREAS OF GROWTH

- INFRASTRUCTURE AND SYSTEMS
- ASSESSMENT AND DATA SERVICES
- EDUCATION MANAGEMENT SYSTEMS
- EDUCATION RESOURCES AND SOFTWARE

CHAIRMAN'S STATEMENT

JOHN LEIGHFIELD Chairman



Year to 30 September	2006	2005*
Revenue	**£262.3m**	£262.7m
Profit before tax	**£14.5m**	£11.5m
Profit before tax (before amortisation of acquisition related intangible assets and goodwill impairment**)	**£14.6m**	£14.0m
Diluted EPS	**11.5p**	8.7p
Dividend per share (proposed and paid)	**5.17p**	4.85p
Net cash inflow from operating activities	**£24.2m**	£14.1m
Net funds less deferred consideration	**£28.5m**	£18.2m

*Restated under IFRS

**Amortisation of acquisition related intangible assets in 2006 was £0.1m (2005: nil); goodwill impairment in 2006 was nil (2005: £2.5m)

In 2006, the work we have done over the last five years to make RM a more resilient business has shown real benefits. Despite challenging market conditions, we have grown profit and continued our investment in the Group's long-term future. We have also clearly identified further areas for growth and aligned our business structure behind them.

RESULTS

A thorough analysis of the results for the year is given elsewhere in this Report in the Business review. In summary: profit before tax (before amortisation of acquisition related intangibles and goodwill impairment) increased to £14.6m (2005: £14.0m); and customer satisfaction, our key non-financial measure, increased further to 7.41 (2005: 7.21). Altogether, this was a very good achievement, all the more so given the difficult market background.

Reflecting the continued progress the Group has made, we are proposing a further increase in dividend, bringing the full-year dividend per share to 5.17p (2005: 4.85p).

PAST, PRESENT AND FUTURE

Five years ago, when Tim Pearson became CEO, RM was a business highly dependent on supplying commodity PC hardware and with a need to improve customer service. Today, we are a more resilient and diverse business, active in a number of linked education markets, with a deserved reputation for offering high levels of customer satisfaction. Under Tim's leadership we have made great progress, though he would say there is still much more we can do to help teachers to teach and learners to learn.

2007 will mark the 30th anniversary of our first sale of a microcomputer to a Local Education Authority. Education is in RM's blood; it has always been our focus and we have pioneered many new ways of bringing technology into classrooms and lecture halls.

For much of our history we have supplied products and services which, whilst useful, have really been supportive to the process of teaching and learning; they have improved some aspects of it, but they have not fundamentally changed it. Things are changing. In recent times ICT has begun to find its way into the heart of education and is being used to transform the processes that underpin teaching and learning.

This is a development with which we are very comfortable. Indeed, it is an approach we have pioneered with projects such as Glow (the Scottish Schools Digital Network National Intranet) and our e-Assessment activities. Policy makers are increasingly exploiting the potential of technology to transform education and are developing a range of initiatives which use ICT to improve the way the education service operates.

PEOPLE

Last year I commented that our people told us, through our annual staff survey, that they believe that RM is a good place to work. I am enormously proud that this year's survey shows that overall staff satisfaction has further increased, from an already high base. RM owes its success to loyal and creative people who choose to work here; their contribution is fundamental to our success and, on behalf of the Board, I thank them.

Of course, there remains room for improvement (our staff told us that too), and the management team is committed to improving those areas where our people said we could do better.

LOOKING AHEAD

In the year ahead our priorities are:

- 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.
- Helping our customers achieve educational success.

RM is already the leading supplier of educational ICT infrastructure and systems to individual schools. With our emerging position in the Building Schools for the Future market and the clearly identified focus areas described in the Business review, the Board believes we are better placed than ever to benefit from the growing use of ICT in our schools, colleges, universities and government education departments.

The trend towards using ICT to transform education – and judging the success of ICT by educational measures – is good for RM. We have always seen our role as improving education and our success depends on our customers' success, which is something that they measure in terms of educational outcomes.

JOHN LEIGHFIELD
24 November 2006

BUSINESS REVIEW: RM'S BUSINESS

HELPING TEACHERS TO TEACH AND LEARNERS TO LEARN

RM provides innovative products and services for education establishments. Focusing at the point where education and technology meet, we aim to develop new products, processes and technology, which improve both educational delivery and educational management.

WHAT WE DO

RM is a group of companies, each specialising in a particular area of education. Our activities cluster around four points:

- Systems and infrastructure – reliable & cost-effective 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 exams; data analysis services for teachers and education managers.
- 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 – subject-focused products, designed to make classroom learning fun, motivational and effective.

Each of these activities reinforces the others, allowing RM to provide combinations of products and services, which together meet a particular educational need.

OUR CUSTOMERS

RM works with customers across the education community, from small individual primary schools to national government education departments.

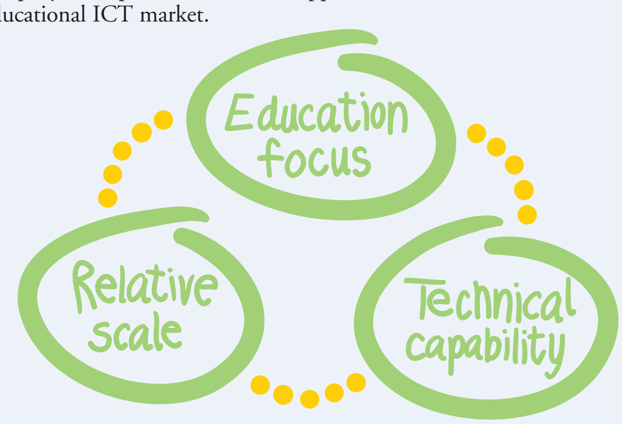
In the UK, education budgets are largely delegated to educational establishments, so much of the Group's business is done with individual schools and colleges. A large majority of UK schools use RM products and services, with over half of them placing an order with RM in 2006.

Increasingly, groups of educational establishments working together or government educational departments are choosing to implement larger and sophisticated projects. RM is playing an important role here as well. Over the last five years, RM has built up a successful track record of delivering large and complex education projects. This track record positions the Group well for success in the Building Schools for the Future programme, which is renewing and re-equipping secondary schools across England.

Most of the Group's revenues come from the UK, though RM does have expanding operations in Australia and the USA. In Australia, our focus is on education management systems, where we are the market leader. In the USA, we sell selected educational software products, which are well-suited to use in American schools.

RM'S STRATEGY – BUILDING SUSTAINABLE COMPETITIVE ADVANTAGE

RM has a clearly identified set of competitive advantages: technical capability, educational focus and relative scale. Our differentiation is that, in combination, these competitive advantages make RM uniquely well-qualified to address opportunities available in the educational ICT market.



These three competitive advantages underpin all that RM does and the Group has a range of activities in place designed to build and reinforce them:

- Technical expertise: RM is an active recruiter of technical graduates and provides in-depth training for its technical staff. The Group actively seeks to engage in projects that will interest 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 staff are encouraged to learn more about education and to engage with local schools.
- Scale: As the educational market develops, RM's scale becomes more important; the Group actively seeks large education project opportunities.

A MARKET WITH CLEAR OPPORTUNITIES

	Then	Now	Soon
Proportion of teachers routinely using ICT for day-to-day tasks	None	Some	All
Proportion of lessons delivered with ICT	Few	Some	Most
Use of ICT for communication between educational stakeholders	None	Little	Lots
Pupils' ICT expectations	Low	High	Higher

The use of ICT in education continues to expand year by year, driven by the expectations of both pupils and educators. Initially seen primarily as a tool to improve the delivery of education in the classroom, ICT is increasingly being used to improve and strengthen the processes that underpin education. School administration, examinations and testing, and the provision of data to inform educational decision making, all now depend on sophisticated ICT systems.

Policy makers and educationalists recognise the importance of ICT and continue to prioritise ICT budgets. Research by BESA (the British Education Suppliers Association) shows that total individual schools' ICT spend has risen every year for the last decade, and predicts that it will continue to rise; whilst central government is actively investing in ICT-based programmes that support the entire educational community.

CUSTOMER SUCCESS

RM operates in a very specific market area and it's clear what customers want from our products and services; they're looking for ways of improving educational outcomes for their pupils and students. The most effective way of ensuring continued success for RM is by delivering success – in educational terms – for those customers.

We have a robust – and externally reviewed – system for measuring customer satisfaction. Our customer satisfaction score is our most important non-financial measure and it has improved year-on-year every year since we started measuring it in 2002. All staff in the organisation have some element of their remuneration linked to customer satisfaction.

We are also building a customer success culture, with performance indicators for our products and services that are directly linked to educational outcomes. In many of our education projects, some element of our payment is directly linked to these performance indicators. We see measuring our success in our customers' terms as an important differentiator for RM.

BUSINESS REVIEW: OPERATIONS

We're reporting a solid set of results for 2006; particularly so against the market conditions we identified a year ago. We've also made good progress in developing the business.

STRONG PERFORMANCE IN 2006

We achieved our planned level of profit growth in 2006, even after increasing our long-term investment in the Building Schools for the Future (BSF) initiative. Profit before tax and amortisation of acquisition related intangible assets was £14.6m. This represents an increase of 4.3% over 2005's profit before tax and goodwill impairment of £14.0m. After acquisition related intangible amortisation of £0.1m in 2006 and goodwill impairment of £2.5m in 2005, profit before tax as shown in the income statement increased by 26.2% to £14.5m (2005: £11.5m).

Operating costs (excluding amortisation of acquisition related intangible assets and goodwill impairment) reduced to £58.3m (2005: £61.2m). This decrease was achieved even after expensing an additional £2.0m of BSF bid costs (2006: £3.8m; 2005: £1.8m) and reflects a rapid response to the first quarter's tough market conditions and strong cost management.

The Group's focus remains on achieving profit growth, rather than increased revenue. Total Group revenue was almost identical to last year's at £262.3m (2005: £262.7m). Increased revenue from education projects and education resources offset revenue reductions in hardware and in educational software.

Our very strong cash performance continued. Net cash inflow from operating activities was £24.2m (2005: £14.1m). At 30 September 2006, cash and cash equivalents stood at £30.1m (2005: £22.9m).

We are proposing a 6.6% increase in the final dividend per share to 4.05p (2005: 3.80p). Subject to approval at the AGM, this will be paid on 2 February 2007 to shareholders on the register on 5 January 2007, making the full-year dividend per share 5.17p (2005: 4.85p).

RM's externally reviewed customer satisfaction score increased further to 7.41 (2005: 7.21). The Group's annual staff survey showed an increase in the overall employee satisfaction score for the year to 73.2% (2005: 72.0%).

BUSINESS REVIEW: OPERATIONS

MAKING PROGRESS ACROSS THE GROUP

Improvements in the Group's business model have allowed us to make very good progress, despite challenging conditions in our individual schools ICT business.

A year ago we reported that head teachers in England were facing pressures, both on their time and on their schools' budgets, as a result of the introduction of new pay arrangements for teachers. These pressures impacted RM through the first half of the year. Our individual schools business was also affected by a decline in the amount of money schools spent on educational software as a result of the decreasing effectiveness of Electronic Learning Credits (eLCs – government funding intended for purchasing education software), which were meant to provide support for UK industry in the face of the BBC's entry into the market.

These revenue declines were offset by strong performance in other areas of the Group's operations. Our portfolio of education projects has grown in number, revenue and profit, and our education resources business, centred on TTS, made excellent progress during the year.

FOUR CLEAR GROWTH AREAS

During the year, we have sharpened the focus of the business, identifying four clear areas of activity:

- Systems and infrastructure.
- Assessment and data services.
- Education management systems.
- Education resources and software.

SYSTEMS AND INFRASTRUCTURE: INDIVIDUAL SCHOOLS

RM Community Connect® is the most widely used whole-school networking solution in UK schools. Most secondary and primary schools now have well-developed network installations and the previously described budget pressures have contributed a modest decrease in network sales. Looking ahead, we will introduce upgrades to RM Community Connect in 2007, which support both Microsoft® Windows® Vista™ and 'thin-client' computing.

Our differentiated PC strategy continues to work well. We increased the proportion of PCs sold from the RM One and RM Mobile One ranges, which allowed us to increase average selling prices during 2006. During the year we also introduced ecoquiet, a low-energy, low-noise, low-heat PC, which fits very well with the DfES' Sustainable Schools Strategy and the BSF programme.

SYSTEMS AND INFRASTRUCTURE: EDUCATION PROJECTS AND BSF

Our education projects portfolio has progressed well, contributing to educational success for our customers and delivering high levels of technical innovation. Of particular note this year are SYeLP (the South Yorkshire eLearning Programme) and Glow.

SYeLP, a very ambitious economic regeneration programme, will reach conclusion during FY2007. With the explicit aim of improving ICT skills in the South Yorkshire region, SYeLP is very much an education project, rather than a managed infrastructure service. The RM team involved has shown great tenacity and educational understanding and our partnership with the four local authorities has beaten its target of achieving 18,000 new ICT qualifications, something which will genuinely improve life chances.

Glow is another groundbreaking education project. When complete, it will provide a secure, personalised education intranet for all learners, teachers, parents and carers in Scotland. Early stage functionality was demonstrated at the Scottish Learning Festival in Glasgow in September and the service is in pilot trials with Local Authorities. We know of no other project of this ambition and scale being undertaken anywhere in the world and it positions RM as a leader in the emerging market area of education enterprise solutions and learning platforms.

The BSF programme has started more slowly than we anticipated. However, in those projects that have identified their preferred suppliers, our progress has been in line with our targets. During the year we were awarded the first BSF contract, a £6.4m project in Solihull, and were preferred bidder for Stoke-on-Trent City Council's BSF project. Since the close of the financial year we have been appointed preferred bidder for a further two BSF contracts: Leeds City Council and Knowsley Metropolitan Borough Council.

We reached the final shortlist on the large majority of BSF projects that we have bid for during the year, and have been awarded the contract or appointed preferred bidder in four out of twelve projects. As the BSF programme rolls out over the next 10 to 15 years, it will have a significant impact on the educational ICT market in English secondary schools. The consortium nature of many BSF procurements means that decisions over ICT will not always be made entirely on the basis of the quality of the ICT supplier. However, our progress so far – and our unrivalled track record in delivering complex, educationally-focused ICT projects – gives us confidence to continue investing in what is a major opportunity for RM.

ASSESSMENT AND DATA

Our assessment and data business is developing well.

The innovative on-screen Key Stage 3 ICT test we are developing on behalf of the QCA was used by approximately half of the UK's secondary schools this year. This test received an eGovernment Excellence award in the UK eGovernment National Awards, and is widely viewed as a pathfinder for on-screen testing. We have also worked with a number of other examination boards to pilot on-screen tests, including developing a science GCSE test with AQA.

Our large scale e-Marking pilots with Cambridge Assessment went well over the summer and we have also provided e-Marking services for other examination boards. With SCORIS, our e-Marking software system, we have developed a strong capability in this area. In the future, we anticipate that e-Marking will develop into a long-term contracted services business.

The combination of RM's large project experience, and our Forvus subsidiary's specialist data analysis skills, means that the Group is well positioned to respond to the growing requirement for sophisticated, data-based school management tools. An RM-led consortium was awarded the £16m English National Pupil Database – Achievement and Attainment Tables contract in January 2006. We are also delivering the RAISEonline searchable database of English school performance data for Ofsted.

EDUCATION MANAGEMENT SYSTEMS

The launch in 2006 of Integris[G2], a Web-delivered school management system, gives RM a technical lead over competing solutions. Integris uses a hosted database model centred on Local Authorities, which means that individual schools are no longer required to maintain their own local database. We believe there would be significant savings to the UK education service if all schools adopted this approach.

Education management systems is also an international business for RM. The acquisition of CAZ Software for £1.7m in July 2006 consolidates our position – and provides scale – in the Australian school management software market. The combination of our existing RM Asia Pacific business with CAZ Software, makes us the clear market leader in Australia and provides opportunities for further growth in the Pacific Rim.

BUSINESS REVIEW: OPERATIONS

EDUCATION RESOURCES

TTS, the Group's specialist education resources business, continues to expand. The range of products available from TTS has widened with the acquisition of Music Education Supplies Ltd (MES), a specialist music education supplier, and the introduction of a special educational needs catalogue under the brand SpecialDirect.com. We have strengthened TTS' systems and infrastructure, as we indicated we would at the time of its acquisition. TTS Shopping, a new Web presence developed in conjunction with the Group's central IS team, has increased the value of online orders significantly. Since the close of the financial year, we have also purchased a new 45,000 square foot distribution centre in Nottinghamshire, which provides scope for further growth.

Education software in the UK has fared less well; sales fell year-on-year, reflecting more general problems in this market – in particular the decreasing effectiveness of eLCs. We have also now begun to see the impact of the BBC jam service. This service is being developed under an approval from the Department of Culture, Media and Sport, which explicitly states it must be 'distinctive and complementary' from commercial products; it is unclear so far that BBC jam meets this condition. Our research and development investment in this business area has decreased. We are only choosing to invest further where there is a clear market need which is not threatened by the BBC's activities.

CUSTOMER SUCCESS

There is no better way of securing the future of the business than making sure today's customers are highly satisfied with the level of service they receive. Since Tim Pearson took over as CEO of RM in 2002, improving the satisfaction levels of those customers who choose to work with us has been a major focus for the management team. Our first step was to introduce an externally reviewed customer satisfaction score and we're pleased that, in each year since, we have seen that score increase. In 2006, we have widened our focus to include customer success; that is, helping our customers achieve success measured in their own terms.

We're proud that RM's current customers are pleased to work with us. However, schools with less recent experience of the Group have tended to take a less positive view, perhaps because they are not aware of how RM has changed in recent years. Our increasing customer satisfaction score suggests that when we work with schools, we get things right for them. A priority for the year ahead is achieving this reputation with all potential customers.

A PLACE WHERE PEOPLE WANT TO COME TO WORK

We aim to make RM a place where people want to come to work. We run an annual staff survey which, in 2006, received an 87% response rate and a high proportion of staff are confident that action will be taken as a result of their feedback. The main focus area arising from this year's survey is training and development; we intend to make further investment in this area.

All of our people are able to – and expected to – make a contribution to delivering success for our customers, and all full-time employees in the Group have some of their remuneration linked both to customer satisfaction and profitability. This way we hope to align the interests of staff and all of our stakeholders and provide an opportunity to benefit from the business' success.

It is important that all of our people have a clear understanding of RM's strategy and objectives and of what part they play in achieving them. For 2007, our Group-wide objectives are centred around people, process innovation, customer success, financial strength, environmental improvement and strategic development.

PROSPECTS

The Government places great importance on education and the Chancellor's 2006 Budget speech suggested that this is likely to continue. Priorities include: the renewal of the school estate, with primary as well as secondary schools scheduled for redevelopment over the next decade; environmental and sustainability issues; moving towards a more modern, ICT-based assessment system; and addressing the equality of ICT provision across all pupils.

Compared with five years ago, longer-term projects mean that RM's business has improved visibility. However, we remain a seasonal business, with more than half of our revenue and an even greater proportion of profits arising in the second half of the year; as a consequence, it is difficult to make any meaningful comment on performance for 2007 at this time.

The market environment that characterised the second half of 2006 looks set to continue in the current year. We are continuing to invest in the longer-term opportunity of BSF and bid costs in 2007 are likely to be at a similar level to 2006. In 2007 we anticipate some further benefit from education projects.

Looking further ahead, our recent BSF wins reinforce our confidence that RM will be a major ICT provider to this initiative. We have sharpened the focus of the Group on the growth opportunities available in the wider education marketplace. Our combination of education focus, technical capability and scale, make us uniquely well-suited for providing products and services that help teachers to teach and learners to learn. We look forward to providing even higher levels of service, to the benefit of all of our stakeholders during 2007.

RISK STATEMENT

Like any business, RM is exposed to risk as an inherent part of creating value for shareholders. The Group has put in place processes designed 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 manage them.

EDUCATION POLICY RISK

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). Following the Gershon Review, the current 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 Building Schools for the Future (BSF) initiative might result in a fundamental shift in the way secondary schools procure products and services. 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 RISK

RM operates in a highly competitive market. The Group's reputation might be damaged by major project or product failure, by poor marketing or by poor business execution. 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. Educational practices may change – this might result in RM's products no longer meeting customer requirements. 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.

The BBC Digital Curriculum, which launched during 2006, might have an adverse impact on the Group's ability to sell educational software products to UK schools. There is also a significant risk that the BBC does not meet the condition set by the Department of Culture, Media and Sport that the Digital Curriculum should be distinctive from and complementary to commercially provided products.

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. It seeks to mitigate the risks from the BBC activity by limiting new investment in the areas of educational content that will be affected.

Bidding for BSF contracts is a large investment and these bids have an element of risk that is not specifically in the Group's control; specifically the Group may invest a large amount preparing and bidding for the ICT element of a BSF contract and yet not be successful, despite clearly having the best ICT solution – this is a product of the consortium nature of this activity.

TECHNOLOGY RISK

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.

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.

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.

RM has made and may make further acquisitions – whilst these acquisitions reduce RM's exposure to any single product or market area, they might not make an acceptable financial contribution to the Group.

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 has strong internal management control processes in place, including detailed reporting to the Board, which are designed to manage the risk associated with this complexity and the internal audit function carries out reviews of subsidiaries to ensure that the Group has appropriate controls and management structures in place as it grows.

FINANCIAL RISK

The Group 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. In respect of foreign exchange risk, the Group enters into US dollar denominated hedging contracts with approved banking organisations that mitigate the transactional dollar exposure and 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 also 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 RISK

The Group 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.

BUSINESS REVIEW: FINANCE

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

This is the first set of accounts that RM has presented under IFRS.

The table below is provided for illustrative purposes to summarise the impact of the transition to IFRS from UK Generally Accepted Accounting Practice (GAAP). UK GAAP is as adopted in the 2005 financial statements; it has not been updated for subsequent changes in UK GAAP.

Year to 30 September	2006 unaudited £000	2005 £000
IFRS PROFIT BEFORE TAX	**14,544**	11,528
Amortisation of acquisition related intangible assets	**53**	–
Goodwill impairment	–	2,469
IFRS PROFIT BEFORE TAX before amortisation of acquisition related intangible assets and goodwill impairment	**14,597**	13,997
Pensions	**(1,233)***	(1,260)
Research & development	–	–
Share based payments	**(104)**	(14)
Holiday pay accrual	**30**	122
Foreign exchange hedging investments	**14**	–
2005 UK GAAP PROFIT BEFORE TAX AND GOODWILL CHARGES	**13,304**	12,845
Goodwill charges		(7,386)
2005 UK GAAP PROFIT BEFORE TAX		5,459

Note: had the Group reported under UK GAAP in 2006 it would have recorded pensions and share based payment adjustments similar to those shown under IFRS

*The 2006 pensions impact is calculated as the difference between the IFRS charge and an estimated SSAP 24 charge

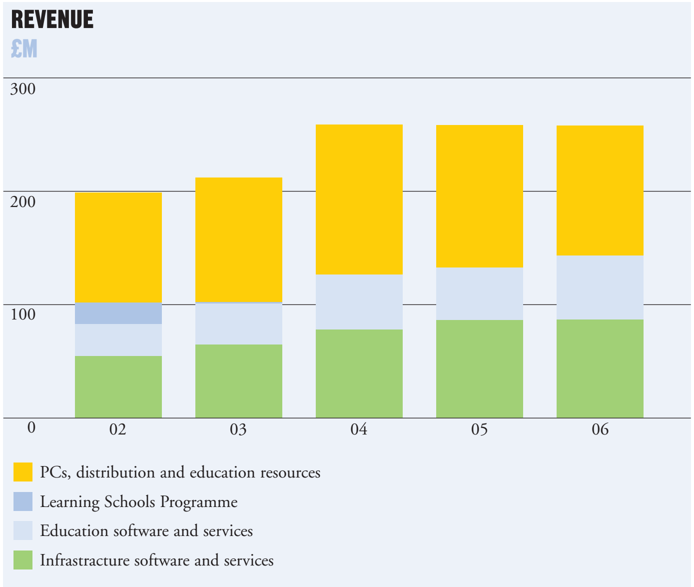
The table shows that for both 2005 and 2006 IFRS profit before tax (before amortisation of acquisition related intangible assets and goodwill impairment) under IFRS is over £1m greater than under 2005 UK GAAP.

The largest contribution to this is the reduction in pension charge under IFRS. There were no research and development projects in either year which met the criteria for capitalisation, so no research and development costs were capitalised.

RM is unusual in that the adoption of IFRS2, share based payments, led to an increase in profits. The principal reason for this is that the costs of the Group's co-investment plan were already charged to the profit and loss account under UK GAAP. The total charge for share based payments was £0.8m in 2006 under IFRS.

REVENUE AND PROFITS

Revenue for the year was £262.3m. This is almost identical to last year's £262.7m and masks substantial progress in improving the Group's business mix. The chart below shows the growth in infrastructure software and services and education software and services over the last five years. The most significant contributor to this growth is the increase in revenue from large, long-term contracts.



The Group operates in one primary segment: the supply of products and services to education. However, the table below, showing additional revenue and gross profit information by business activity, is provided to aid investors in understanding the business.

REVENUE AND GROSS PROFIT BY BUSINESS ACTIVITY

	2006 Revenue £m	2006 Gross profit £m	2006 Gross profit %	2005 Restated under IFRS Revenue £m	2005 Restated under IFRS Gross profit £m	2005 Restated under IFRS Gross profit %
Infrastructure software and services	**88.1**	**26.7**	**30.3**	87.6	25.3	28.9
Education software and services	**57.7**	**23.7**	**41.1**	47.5	28.2	59.4
PC, distribution and education resources	**116.5**	**20.7**	**17.8**	127.6	20.8	16.3
TOTAL	**262.3**	**71.1**	**27.1**	262.7	74.3	28.3

The major change from 2005 is in education software and services, where revenue increased by £10.2m but gross profit declined by £4.5m. This is principally due to revenue from the Glow project which, reflecting the early stage of the project, was included at zero margin in accordance with the Group's accounting policies. There was also a significant reduction in higher margin curriculum software revenues as a result of the decreasing effectiveness of eLCs, as described earlier in this Review. The decline in the education software and services gross profit percentage from 59.4% to 41.1% in turn explains the decline of 1.2pp in the overall gross profit percentage to 27.1%.

PC, distribution and education resources revenues were £116.5m, with increased revenue from TTS and decreased revenues from hardware. PC hardware now represents less than 30% of the Group's total revenues, and interactive whiteboard revenues have reduced following the ending of a government scheme. The gross profit improvement to 17.8%, achieved against a challenging hardware market, reflects the increased contribution from education resources and the success of the Group's differentiated PC hardware products.

OPERATING COSTS

	2006 £m	2005 Restated under IFRS £m
Selling and distribution	**33.2**	33.9
Research and development	**14.9**	16.7
Administration	**10.2**	10.6
OPERATING COSTS before amortisation of acquisition related intangible assets and goodwill impairment	**58.3**	61.2
Amortisation of acquisition related intangible assets	**0.1**	–
Goodwill impairment	**–**	2.5
TOTAL	**58.4**	63.7

A year ago, with individual schools facing significant budget issues, the Group's expenditure plans were revised downwards from the original budget. Operating costs (excluding amortisation of acquisition related intangible assets) reduced to £58.3m (£2.9m below the previous year's figure excluding goodwill charges).

Expenditure on bidding for BSF contracts increased by £2.0m to £3.8m (2005: £1.8m). Despite this increase, total selling and distribution costs decreased by £0.7m to £33.2m (2005: £33.9m), reflecting reductions in sales and marketing expenditure in our individual schools and further and higher education businesses, and in bidding for non-BSF projects. Further increases in Web-based sales helped contribute to more cost effective selling and distribution.

Research and development charged to the income statement reduced by £1.8m to £14.9m in response to market conditions, particularly in the area of educational software. The Group also continued R&D activities related to projects including, in particular, the Glow project. As they are project related, the costs of these developments are included in cost of sales.

The amortisation of acquisition related intangible assets in the year arose from the acquisitions of CAZ Software and MES. IFRS requires that separately identifiable intangible assets be capitalised and then amortised. Many investment analysts believe that profit before such amortisation charges gives a better guide to business performance; accordingly we have provided figures for profit before tax and operating costs excluding these charges in addition to reporting profit before tax.

Investment income of £1.9m (2005: £1.4m) includes £0.9m of income from the sale of finance lease debt arising from the provision of leases to customers (2005: £0.7m). This element is included within cash flows from operating activities in the consolidated cash flow statement.

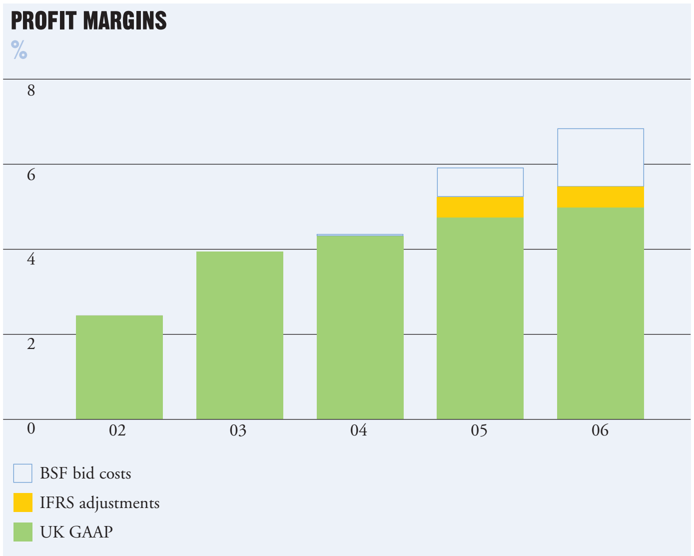
The finance cost has fallen because the interest on the pension scheme liability has been outweighed by higher than expected asset returns.

PROFIT MARGINS

The graph below shows profit before tax (before amortisation of acquisition related intangible assets, goodwill charges and 2002's exceptional item) as a percentage of revenue. This has risen to 5.6% in 2006 from 2.5% in 2002.

Of the increase of 0.7pp from the 4.9% that was originally reported under UK GAAP in 2005, 0.4pp relates to the transition to IFRS and 0.3pp to underlying improvement.

The graph also illustrates the impact of bidding for BSF contracts. In 2006 this cost was 1.4% of revenue. The three recent BSF contract wins will not contribute to profit before 2008 and consequently BSF will remain an investment in 2007.



BUSINESS REVIEW: FINANCE

CASH FLOW

The Group continued its record of excellent cash generation in 2006. This reflects the continuing focus on turning profits into cash, together with excellent working capital management.

Net cash flow from operating activities was excellent at £24.2m, an increase of £10.1m over 2005 (£14.1m). The majority of the improvement arose from movements in working capital of £8.3m. Operating cash flow, before movements in working capital, was £25.3m (2005: £24.1m).

Cash and cash equivalents increased by £7.2m to £30.1m (2005: £22.9m). Net funds less deferred consideration increased by £10.3m to £28.5m (2005: £18.2m).

	30 Sep 2006 £m	30 Sep 2005 £m
Cash and cash equivalents	**30.1**	22.9
Issued loan notes	**(0.9)**	(1.1)
Net funds	**29.2**	21.8
Issuable loan notes	**–**	(1.2)
Deferred cash consideration	**(0.7)**	(2.4)
Net funds less deferred consideration	**28.5**	18.2

During the year the deferred contingent consideration relating to the 2003 acquisition of Forvus was finalised at £0.7m. This resulted in a £1.7m reduction in deferred consideration and a corresponding reduction in goodwill.

The Group's core business remains seasonal, as a result of peak demand from schools over the summer months. As a consequence of strong cash generation, average cash balances across the year were £18.4m in 2006 up from £8.0m in 2005, and the minimum cash balance was £7.3m in 2006 compared to £nil in 2005.

BALANCE SHEET

Capital expenditure on property, plant and equipment was £8.9m, £3.5m of which related to the Glow project, £1.6m to PFI contracts and £3.8m to other capital expenditure. Depreciation was £9.1m and, after taking into account disposals and the transfer of the TTS building to assets held for resale (£1.1m), property, plant and equipment decreased by £2.1m to £22.5m (2005: £24.6m).

Other intangible assets increased by £1.7m due to the acquisition of software assets (£0.8m), and assets arising on acquisition (£1.4m).

Within working capital; inventories decreased by £1.1m to £10.8m reflecting effective stock control, trade and other receivables decreased by £2.8m to £51.4m as a result of a reduction in long-term contract balances and trade and other payables increased by £1.6m to £78.9m.

The IAS19 pension scheme deficit of £18.7m and related deferred tax asset of £5.6m are included in retirement benefit obligation and deferred tax assets respectively. The net deficit is £13.1m (2005: £11.1m). Further details about the Group's pension scheme deficit are given in the Pensions section.

TAX

The Group measures its tax rate as a percentage of profit before amortisation of acquisition related intangible assets and goodwill impairment. On this basis, the Group's tax rate in 2006 was 27.8% compared with 27.1% in 2005. These rates are below the standard UK corporation tax rate as the Group benefits from enhanced tax deductions on qualifying research and development projects.

IFRS fundamentally changes the calculation of deferred tax. In addition, some elements of tax previously accounted for in profit and loss account are now included in the Statement of Recognised Income and Expense (SORIE). In particular, IFRS requires any tax deduction on share schemes in excess of that relating to the standard IFRS2 income statement charge to be passed through the SORIE.

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 create 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

The triennial valuation of the Group's defined benefit pension scheme, which has been closed to new members for four years, showed a deficit of £12.7m as at 31 May 2006. This is only slightly improved on the previous valuation (31 May 2003: £12.9m) because the effect of deficit recovery payments was offset by other changes, in particular improved longevity assumptions. The Group has adopted the latest available mortality tables, PA92 medium cohort for both the triennial and the IAS19 valuations. The triennial valuation produced a smaller deficit than the IAS19 deficit of £18.7m which is included on the balance sheet. This is principally as a result of the different approaches and rates used to discount the liabilities of the scheme.

The Group has taken the following actions to address the deficit:

- The £1.3m pa additional annual cash contributions agreed with the scheme Trustees in 2003 will continue.
- The savings from a salary sacrifice scheme for pension contributions implemented in 2006 will be paid into the scheme. The additional annual cash contributions have consequently increased to £1.7m pa.
- The Group will make an exceptional cash contribution of £3.5m during calendar year 2007.
- Active members retiring at 60 are required to compensate the Group for the higher cost of providing this benefit by sacrificing an additional 3.1% of salary.
- Future increases in current service costs will be passed on to members.
- The Group is consulting with active members of the scheme over the introduction of one of the following options:
  a) Introduction of a 5.0% per annum cap on pensionable salary increases. As well as reducing the risk to the Group of future salary increases, this would provide an immediate reduction in liabilities of £3.5m. In compensation the contributions of active members would be reduced by 1.2% or 1.5%, depending on retirement age;

  b) Additional salary sacrifices averaging approximately 5.5% to compensate the Group for the benefit foregone of option A, reflecting that the Group will be required to commit extra resources to funding the deficit.

The combined effect of these actions is anticipated to be a much accelerated closure of the deficit, combined with no increase in the income statement charge and use of some cash resources. The consultation will conclude in January 2007, with changes implemented in February 2007.

ACQUISITIONS

During the year, the Group acquired two companies for a total consideration of £2.7m.

On 7 July 2006, the Group's subsidiary in Australia, RM Asia-Pacific Pty Ltd, acquired CAZ Software, a leading provider of education management software to schools and government education departments in Australia for a total cost of £1.7m.

On 8 August 2006, the Group's subsidiary company, TTS Group Ltd, acquired MES, for a consideration of £1.0m. MES is a specialist supplier of a wide range of musical instruments, books and other music education products to primary schools and nurseries.

SHAREHOLDER RETURN

The mid market share price at the close of business on 30 September 2006 was 180p, an increase of 7.3% over last year end, capitalising the Group at £165m. An interim dividend of 1.12p per share was paid to shareholders in July; the proposed final dividend of 4.05p per share makes a total dividend return of 5.17p per share (2005: 4.85p), an increase of 6.6%. Dividend yield for the year was 2.9% based on the share price at the close of the year. Diluted earnings per share were up to 11.5p (2005: 8.7p).

During the year, the Company purchased for cancellation a total of 40,250 ordinary 2p shares at an average price of 159.9p per share. These shares represent approximately 0.04% of the Company's issued share capital. The Board has approved a share buyback policy and the Company will seek to extend its permission to make market purchases of shares at its next AGM.

CORPORATE GOVERNANCE REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with IFRS and have also elected to prepare financial statements for the Company in accordance with IFRS. Company Law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. 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 IFRS is 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, which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

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

COMPLIANCE WITH THE COMBINED CODE

The Group, has throughout the year, complied with the Combined Code on Corporate Governance July 2003 ('the Code') 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

The Board comprises the Chairman, three Executive Directors and five Non-Executive Directors. Biographies of Board members are provided on pages 30 and 31. Non-Executive Directors are appointed for a fixed term, subject to re-election. The division of responsibilities between the Chairman and Chief Executive Officer has been formally defined.

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. All of the Group's other Non-Executive Directors are considered independent under the terms of the Code. Sherry Coutu is the Senior Non-Executive Director.

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 MEETINGS

There is a formal schedule of eleven 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.

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.

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 carried out.

BOARD COMMITTEES

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

The Audit Committee is chaired by Sir Bryan Carsberg and comprises three independent Non-Executive Directors. It 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

The Remuneration Committee is chaired by Sherry Coutu and comprises four independent Non-Executive Directors. It 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 the RM Share Option 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

The Nominations Committee is chaired by John Leighfield and comprises the Group Chairman and four independent Non-Executive Directors. It meets at least once a year, with more frequent meetings when the Group is actively selecting Directors. The Nominations Committee recommends to the Board candidates for appointment as Directors. During 2006 the Committee met once.

The Transactions Committee is chaired by John Leighfield and comprises the Group Chairman plus any one other independent Non-Executive Director and any one Executive Director. It meets at such times as the Chairman of the Committee requires. The Transactions Committee approves, enters into and executes all deeds and documents and does all things that are necessary to give effect to any 'Substantial Transaction' that has already been approved in principle by the Board.

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.

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 and also meets major shareholders. 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.

The Group was nominated in the Grand Prix for Best Smaller Company Investor Relations category in the 2006 IR Magazine awards.

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

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.

A.J. ROBSON
Company Secretary
24 November 2006

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.

A) COMPOSITION AND QUALIFICATIONS OF THE AUDIT COMMITTEE

The Audit Committee comprises 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 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.

B) SCHEDULE OF MEETINGS

The Audit Committee met four 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.

C) APPOINTMENT OF EXTERNAL AUDITORS

The Audit Committee recommended, and shareholders approved at the Group's Annual General Meeting on the 23 January 2006, 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 Annual General Meeting.

D) 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.

E) 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. This policy limits the amount of non-audit activity undertaken by the external auditors, and requires that any significant activity is approved, in advance, by at least two Audit Committee members.

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 such risks are monitored and managed going forward. 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 terms of reference agreed by the Audit Committee.

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.

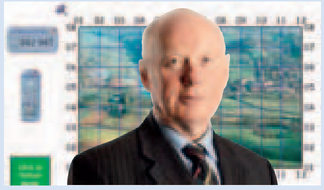
The Audit Committee is satisfied that the Group's risk management and internal control processes provide a high level of confidence that the Executive Committee has identified and addressed the principal risks affecting RM.

A risk statement is included in the Business review on page 21 in this Report.

SIR BRYAN CARSBERG
Chairman, Audit Committee
24 November 2006

BOARD OF DIRECTORS

JOHN LEIGHFIELD CBE

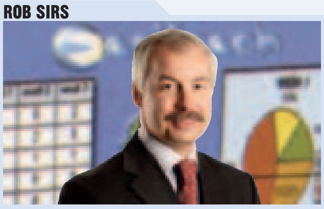


Chairman [N]
John Leighfield (age 68) was appointed Chairman in 1994, having joined RM as a Non-Executive Director in 1993. Until April 1993, he was Executive Chairman of AT&T ISTEL. He is a Non-Executive Director of Getmapping plc. He is Chairman of the Council and Pro-chancellor of Warwick University. In 2006 he was awarded the Mountbatten Medal for outstanding contribution to the promotion of ICT. He is past President of the BCS, the CSSA and of IMIS. He is the immediate Past Master of the Worshipful Company of Information Technologists.

TIM PEARSON

Chief Executive Officer
Tim Pearson (age 46) 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 has attended the Harvard University Business School Advanced Management Program. He is past Chairman of the Internet Service Provider Association.

ROB SIRS



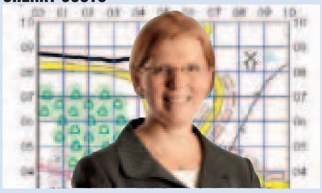
Chief Operating Officer
Rob Sirs (age 45) was appointed to the Board as a Director in March 2004, having been Group Director – Products & Services since 2002. He joined RM in 1990 and has performed a number of senior services, software development and general management roles, including Head of Procurement, PC Division Director and RM Schools Managing Director. He has 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 City Technology College.

MIKE GREIG

Group Finance Director
Mike Greig (age 50), 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 a member of the RM Foundation Committee, which channels the Group's charitable activities. He has attended the Harvard University Business School Program for Management Development.

[A] Audit Committee Member
[R] Remuneration Committee Member
[N] Nominations Committee Member

SHERRY COUTU



Senior Non-Executive Director [A][R][N]

Sherry Coutu (age 42) was appointed to the Board as a Non-Executive Director in 1999. She is one of the UK's leading technology entrepreneur/investors and was CEO and then Chairman of Interactive Investor International plc between 1995 and 2001. She is a member of several private company boards, the Harvard Business School European Advisory Board, a member of Cambridge University Finance Committee, Vice Chairman of the Prince's Trust Technology Leadership Group and a Trustee of NESTA (the National Endowment for Science Technology and the Arts). She holds degrees from the University of British Columbia (BA Hons), The London School of Economics (MSc with distinction) and Harvard Business School (MBA).

JOHN WINDELER

Non-Executive Director [A][R][N]

John Windeler (age 63) was appointed to the Board as a Non-Executive Director in October 2002. He was Chairman of Alliance & Leicester plc and a Non-Executive Director of BMS Associates Ltd. 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

Non-Executive Director [A][R][N]

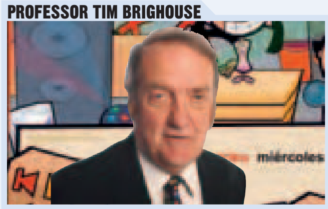
Sir Bryan Carsberg (age 67) was appointed to the Board as a Non-Executive Director in September 2002. He was a Non-Executive Director of Nynex Cablecomms/Cable & Wireless Communications plc from 1996 to 2000. He is a Non-Executive Director of Novae Group plc, a Non-Executive Director of Inmarsat plc, 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.

SIR MIKE TOMLINSON

Non-Executive Director [R]

Sir Mike Tomlinson (age 64) 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 is Chair of The Learning Trust, a not-for-profit body responsible for running the education services for Hackney and also a member of the Governing Body of the University of Hertfordshire.

PROFESSOR TIM BRIGHOUSE



Non-Executive Director [N]

Tim Brighouse (age 66) 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 on the affairs of the Group (RM) and the Company (RM plc) and the financial statements and auditors report for the year ended 30 September 2006. The Directors are also required to present an extended business review, reporting on the development and performance of the Group and the Company during the year and their positions at the end of the year. That requirement is met by the Business review on pages 16 to 25, together with the description of employment policies and the social, environmental and ethical statement given below.

Under Section 234ZA of the Companies Act 1985, 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.

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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.

2. RESULTS AND DIVIDENDS

This is the first full-year that the Group and Company are presenting their financial statements under IFRS. The Group's profit for the year, after taxation, was £10.5m (2005: £7.7m).

The Directors recommend the payment of a final dividend per share of 4.05p bringing the total dividend for the year to 5.17p per share (2005: 4.85p). The final dividend is payable on 2 February 2007 to shareholders on the register on 5 January 2007.

3. RESEARCH AND DEVELOPMENT

The Group undertakes a programme of research and development with the objective of making significant technical advances to enhance the performance of existing product areas, to develop new products related to existing markets, and to enhance access to potential new markets. This activity involves considerable innovation. Expenditure of £14.9m was incurred in 2006 (2005: £16.7m). All research and development costs incurred in 2006 were written off because they did not meet the criteria for capitalisation.

4. DIRECTORS AND THEIR INTERESTS

The names of the current Directors of the Company are given on pages 30 and 31. All of these Directors held office throughout the year.

The interests of the Directors of the Company in the issued share capital of the Company (including interests in share options) are shown in the Remuneration Report.

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.

5. DIRECTORS' ATTENDANCE

In 2006 the Board met formally 11 times. 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	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
EXECUTIVE								
T.R. Pearson	11	11	–	–	–	–	–	–
M.D. Greig	11	11	–	–	–	–	–	–
R.A. Sirs	11	11	–	–	–	–	–	–
NON-EXECUTIVE								
J.P. Leighfield	11	11	–	–	–	–	1	1
S.L. Coutu	11	11	4	4	5	5	1	1
B. Carsberg	11	10	4	4	5	5	1	1
J.R. Windeler	11	11	4	4	5	5	1	1
M.J. Tomlinson	11	11	–	–	5	5	–	–
T.R.P. Brighouse	11	11	–	–	–	–	1	1

6. DIRECTORS PROPOSED FOR REAPPOINTMENT

Three Directors are retiring from office by rotation and are offering themselves for re-election. Tim Brighouse, Mike Tomlinson and Rob Sirs are retiring as, under the Articles of Association, one-third of all Directors are required to do so each year.

The Directors who are proposed for election at the next Annual General Meeting have either a letter of appointment or service contract – details of which can be found within the Remuneration Report. Biographical details for each of these Directors are on pages 30 and 31.

7. ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will take place at 2pm on Monday 22 January 2007 at 140 Milton Park, Abingdon, Oxfordshire, OX14 4RS.

In addition to the routine business of the meeting, there are four special resolutions.

The first special resolution proposes 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 £611,472 (33.33% of the issued share capital as at 24 November 2006). The second special resolution proposes that 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 £91,730 (5.0% of the nominal value of the issued share capital as at 24 November 2006). The Directors have no present intention of allotting further ordinary shares other than in connection with employee share schemes. Both authorities being sought expire on the date of the next Annual General Meeting or, if earlier, 22 April 2008. The third special resolution proposes authorising the Company to make market purchases of up to 10% of its issued share capital. This authority will expire on the date of the next Annual General Meeting or on 22 April 2008, whichever is the earlier. The Company will only exercise this authority where it reasonably believes that repurchasing its shares will increase earnings per share and is in the best interests of shareholders generally. The fourth special resolution proposes to amend the Articles of Association of the Company so as to allow for electronic communication of all notices and documents (excluding share certificates) between the Company and its shareholders.

8. SUBSTANTIAL SHAREHOLDINGS

As at 24 November 2006, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in 3% or more of its issued ordinary share capital:

	Number of shares	Percentage held
Schroder Investment Management	22,043,332	24.03
Legal & General	5,569,866	6.07
Barclays PLC	2,862,969	3.12

9. ACQUISITION OF THE COMPANY'S OWN SHARES

Further to the shareholders' resolution at the Annual General Meeting on 23 January 2006, the Company purchased 40,250 shares (2005: nil) during the year. These were in addition to those purchased to fulfil commitments to employees under share-based payment awards.

At the end of the year, the Directors had authority, under the shareholders' resolution of 23 January 2006, to purchase through the market up to 9,072,970 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 2007 Annual General Meeting or on 23 April 2007, whichever is the earlier. The Directors will be seeking to renew this authority at the next Annual General Meeting.

10. 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.

11. EMPLOYMENT POLICIES

RM has a policy of involving all employees in the success and development of the Group as a whole.

The Board has adopted a set of values and a vision statement that apply to the whole Group. These are widely communicated across the Group and published on www.rm.com (the Group's Web site) and on RMi (a Group-wide corporate intranet). The Group values and vision statement are set out in the opening pages of this Annual Report. 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.

The Group operates an objectives-driven performance management process. 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 a series of annual company briefings. Individual employees' personal objectives are 'cascaded' from the Corporate Objectives. The Group's policy is that all staff should work towards agreed personal development objectives, as well as being set job-related objectives; in 2006, personal development objectives were agreed with 99% of staff. For senior staff, the Group has also identified a set of preferred 'management competences', which are used in employee development and recruitment.

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 and professional development needs. In 2006, 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.

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 briefing, the CEO reviews progress against objectives for the previous year and presents an objectives 'scorecard'.

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.

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, frequent email notices, internal noticeboards and through RMi. All 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.

RM runs an annual staff survey designed to help understand attitudes of staff across the Group. The most recent survey, performed in July 2006, was responded to by 87% of staff and showed an overall employee satisfaction rating of 73.2%. Senior divisional managers use the survey results to inform improvement projects designed to address key issues and address staff concerns.

Employees share in the Group's success through an element of performance-related pay and through the allocation of shares under the RM plc 2002 Staff Share Scheme. 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 employment policies are the responsibility of Sherry Coutu, Senior Non-Executive Board Director.

12. CHARITABLE AND POLITICAL DONATIONS

During the year the Group made various charitable donations totalling £21,000 (2005: £33,000). A further £5,000 was given to locally-based community support projects (2005: £2,000). The Group made no political donations during this year or the previous year.

13. SOCIAL, ENVIRONMENTAL AND ETHICAL MATTERS (SEE) STATEMENT

Customers, particularly in RM's marketplace, increasingly favour companies that take their social, environmental and ethical responsibilities seriously. RM has developed its SEE policy to help ensure that these issues form an integral part of the Company's performance management and decision making processes.

RM's social policies begin with its employees, details of the Group's employment policies are provided in section 11.

RM is committed to engaging with, and supporting, the communities in which it operates. As usual, during 2006, RM made charitable donations to various projects; however, the willingness of our employees to engage in community projects is equally important. RM seeks to identify charities active in the communities where our offices and other facilities are located and to work with them to improve life chances. The RM Foundation Committee, a group of volunteer employees, channels and co-ordinates the Group's charitable activities. All employees are encouraged to devote a small amount of work time each year to support one of RM's chosen charities and the Group will 'top-up' funds raised by employees.

In 2005 the Group established the Green RM team, a group of employees given the specific remit of identifying and acting on opportunities to reduce the Group's environmental impact. Following an audit carried out by the Carbon Trust last year, the Green RM team has introduced a number of energy saving initiatives. The Group has also switched to 'green' energy for its Abingdon headquarters, with an estimated saving of over 2,000 tonnes of carbon dioxide. RM continues to operate a diesel- or 'dual-fuel'-only car fleet and supported Green Transport Week during 2006; staff are encouraged to car share, cycle or use public transport wherever possible.

Green RM has also encouraged environmental awareness in the office environment. All staff are encouraged to minimise their use of paper and printing technology and all paper used in printers and photocopiers is recycled; this is supported by the development of RMi, which allows 'paperless' workflow processes to be used across the business. The Group has also introduced 'desktop recycling' to the office environment, with an estimated reduction in the amount of material sent to landfill of approximately 26 tonnes.

Product design and lifecycle are important as well and the Group is committed to meeting legislation, such as the Waste Electrical and Electronic Equipment (WEEE) Directive. In 2006, RM introduced the ecoquiet PC, an environmentally-friendly computer, which uses up to one-third less energy than a standard computer.

The Group has adopted, as part of its Group Objectives, specific objectives related to the reduction of energy consumption.

RM continues to develop its ethical policies in line with best practice. As well as the obvious issues of conforming with all relevant regulations and legislation, RM is committed to transparency in its operations. It is RM's policy to communicate openly about its business practices and to be accountable for its actions. For example, the Group has a 'no gifts for individuals policy', with all gifts over £10 being donated to charitable causes.

Mike Greig, Group Finance Director, is the main Board Director with responsibility for SEE issues.

14. RELATIONSHIPS WITH OTHER STAKEHOLDERS

The Group has a strong commitment to engaging with other significant stakeholders, particularly educationalists, education policy makers and non-departmental public bodies. This engagement takes the form of direct personal contact, formal surveys and detailed research. The Board is regularly updated on educational policy matters and Board members have significant contact with educational practitioners.

RM staff are encouraged to participate in educational establishments as governors and the Executive Committee has set a corporate objective to increase the number of RM staff who serve as governors during 2006.

The Board has put in place an Education Advisory Council (EAC), chaired by Professor Tim Brighouse and including Sir Mike Tomlinson and RM's co-founders Mike Fischer and Mike O'Regan. The EAC has the specific aim of ensuring the RM Group is kept up to date with educational policy and practice.

15. 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. Payment runs are made on a weekly basis and, wherever possible, are made using the Bankers' Automated Clearing Service (BACS). Trade payable days, which have not been adjusted for the seasonal nature of the business of the Group, for the year ended 30 September 2006 were 37 days (2005: 31 days) based on the ratio of trade payables at the year end to the amounts invoiced by suppliers during the year.

By order of the Board

A.J. ROBSON
Company Secretary
24 November 2006

REMUNERATION REPORT

This report sets out the Group's remuneration policy and principles under which our Executive Directors are remunerated. It provides details of remuneration and share interests of all Executive and Non-Executive Directors for the year ended 30 September 2006.

2006 HIGHLIGHTS

RM's share price grew 7.3% during the year closing at 180p per share. The proposed final dividend of 4.05p makes a total dividend return of 5.17p per share (2005: 4.85p), an increase of 6.6%. 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 £328k (55% of the maximum achievable).
- 80% of share options granted in December 2003 will become exercisable as a result of EPS growth.
- The Co-Investment Plan (CIP) provisionally awarded a 1.74 for 1 match (pending further advice) for the shares held by the executives for the criteria set in 2003.

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 two 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.

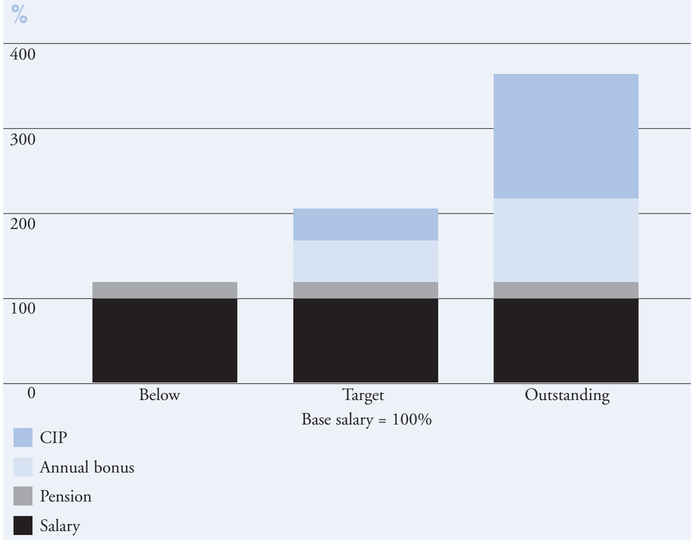
1. REMUNERATION POLICY

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 in the next column shows the way we structure the total remuneration for our 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

STRUCTURE OF TOTAL REMUNERATION FOR EXECUTIVE DIRECTORS



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 valuable additional experience, which then benefits RM. Mike Greig served as a Non-Executive Director and Chair of the Audit Committee of Comino Group plc until February 2006 and was appointed as a Non-Executive Director and Chair of the Audit Committee of CODA plc in July 2006. His remuneration for these positions 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 2007 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 • 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 Deferral supports retention and shareholder alignment	50% on EPS 20% on customer satisfaction 20% on market indicators 10% personal objectives
LONG-TERM INCENTIVES • Maximum investment of 33% of base salary per year • Maximum 3 for 1 match	Provide further upside potential related to long-term goals, and to encourage leadership and strategic actions. Support retention and strong alignment with shareholders	Relative Total Shareholder Return (TSR) EPS Share price movement
SHAREHOLDING REQUIREMENT • 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 or below 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, the salaries of Tim Pearson, Mike Greig and Rob Sirs have been increased this year. This is only the second time in five years that we have increased base salary, following a realignment to a more performance-based reward structure and the increase reflects the fact that the sector as a whole has undergone an adjustment. Prior to this increase, Tim Pearson's salary had only increased by 4% since his appointment in February 2002, due to his insistence that it be held back. External market data supplied by PWC, consultants to the Committee, indicated that as of July 2006, Tim Pearson's salary had fallen 28.2% behind the market median. The Committee believes that the gap between the actual salary and market median should be closed and that this should be done in two steps. The increase awarded halves the gap between actual salary and market median.

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.

REMUNERATION REPORT

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 2007

The performance targets that the Remuneration Committee believes are critical to achieve in 2007 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
Customer retention and acquisition	15
RM Brand	5
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, customer retention and acquisition and RM brand 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 the market indicator 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 2006

In 2006, 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 55% of their salary (of which 40% was deferred into shares). This was based on profit before tax (UK GAAP) achieved of £13.3m which triggered the customer satisfaction and market share targets to be taken into consideration. The Co-Investment Plan (CIP) also matched shares provisionally at 1.74 for 1 – given the strong 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 2007 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 will be two performance conditions for the plan cycle starting in 2007. These will be based on 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+5.2%	Nil	Below median	Nil
RPI+5.2%	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.

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 2001, would have been worth £114.16 at 1 October 2006. An investor, who had invested the same amount in the FTSE Software and Computer Services index, would have seen their investment fall to £86.20 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 2001, 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.

REMUNERATION REPORT

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 2005	2
S.L. Coutu	18 October 1999	28 October 2004	3
B. Carsberg	1 September 2002	1 September 2004	3
J.R. Windeler	1 October 2002	1 October 2005	3
M.J. Tomlinson	2 February 2004	–	3
T.R.P. Brighouse	20 May 2004	–	3

*J.P. Leighfield's appointment has been extended for an additional three years.

4. DIRECTORS' REMUNERATION

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

	2006 £000	2005 £000
Emoluments	**1,176**	1,066
Gains on exercise of share options	**71**	284
Amounts receivable under long-term incentive schemes	**581**	–
	1,828	1,350

Directors' emoluments in respect of the Directors of the Company who served during the year ended 30 September 2006 were as follows:

Name	Salaries and fees £000	Taxable benefits £000	Annual bonuses** £000	2006 Total £000	2005 Total £000
EXECUTIVE					
T.R. Pearson	**226**	**12**	**132**	**370**	362
M.D. Greig*	**161**	**13**	**91**	**265**	251
R.A. Sirs	**190**	**12**	**105**	**307**	256
NON-EXECUTIVE					
J.P. Leighfield	**64**	**21**	–	**85**	77
S.L. Coutu	**32**	–	–	**32**	24
B. Carsberg	**34**	–	–	**34**	24
J.R. Windeler	**28**	–	–	**28**	24
T.R.P. Brighouse	**27**	–	–	**27**	24
M.J. Tomlinson	**28**	–	–	**28**	24
	790	**58**	**328**	**1,176**	1,066

*In addition M.D. Greig received and retained £25,500 (2005: £21,000) in respect of his position as a Non-Executive Director at Comino Group plc and 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.

The current base salary figures of the Executive Directors are:

	£
Tim Pearson	267,000
Mike Greig	178,000
Rob Sirs	201,000

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 2007 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.

	2006 Grant	2005 Grant	2004 Grant
EPS condition 3-year average annual EPS growth (50% of grant)	**Less than RPI + 2.9% = Nil RPI + 5.2% = 0.5 for 1 match RPI + 8.5% = 1.5 for 1 match (sliding scale)**	Less than RPI + 5.0% = Nil RPI + 5.0% = 0.5 for 1 match RPI + 12.0% = 1.5 for 1 match (sliding scale)	Less than RPI + 7.5% = Nil RPI + 7.5% = 0.5 for 1 match RPI + 17.5% = 1.5 for 1 match (sliding scale)
Relative TSR condition (50% of grant)	**Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)**	Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)	Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)

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

B) The Directors' interests in the long-term incentive plan are listed below.

Date of award	Maximum number of matching shares* at 30/09/05	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 30/09/06
T.R. PEARSON							
26/03/03	162,597	107.5p	01/10/02-30/09/05	156,093	28/11/05	155.0p	–
16/12/03	89,040	135.0p	01/10/03-30/09/06	–	–	–	89,040
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
M.D. GREIG							
26/03/03	111,198	107.5p	01/10/02-30/09/05	106,750	28/11/05	155.0p	–
16/12/03	107,607	135.0p	01/10/03-30/09/06	–	–	–	107,607
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
R.A. SIRS							
26/03/03	116,946	107.5p	01/10/02-30/09/05	112,268	28/11/05	155.0p	–
16/12/03	90,000	135.0p	01/10/03-30/09/06	–	–	–	90,000
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

*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 2007. 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 2007.

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 + 5% pa 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 have 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 (no sliding scale)
DECEMBER 2004	3 year growth EPS RPI + 5%	100
NOVEMBER 2005	3 year growth EPS RPI + 5%	100

The total number of options currently outstanding is 5,728,295 which represents 6.25% of RM's current shares in issue.

Growth in EPS compared with 2002 means that the options granted in December 2003 will become 80% exercisable.

B) The Directors' interests in share options are listed below.

At 01/10/05	Granted in year	Exercised in year	Lapsed in year	At 30/09/06	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 £1.80								
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 £1.80								
85,000	Nil	Nil	Nil	85,000	£1.470	–	17/02/00-01/12/06	17/02/07-01/12/13
Options exercised during the year								
99,940	Nil	99,940	Nil	Nil	£0.785	£1.500	04/12/05	04/12/12
M.D. GREIG								
OPTIONS WITH AN EXERCISE PRICE EQUAL TO OR ABOVE £1.80								
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 £1.80								
251,379	Nil	Nil	Nil	251,379	£0.975	–	17/02/00-01/12/06	17/02/07-01/12/13
R.A. SIRS								
OPTIONS WITH AN EXERCISE PRICE EQUAL TO OR ABOVE £1.80								
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 £1.80								
315,090	Nil	Nil	Nil	315,090	£1.030	–	17/02/00-05/03/08	17/02/07-05/03/15

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

The gain on exercise of options for Tim Pearson was £71,000.

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 2006 to 24 November 2006.

The market price of the ordinary shares at 30 September 2006 was 180.00p per share and the range during the year was 153.75p to 212.00p per share.

7. DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors in the ordinary shares of RM plc as at 30 September 2006 or at their date of appointment, if later were:

	30 September 2006	30 September 2005
J.P. Leighfield	**150,000**	148,000
T.R. Pearson	**155,974**	101,701
M.D. Greig	**179,939**	96,058
R.A. Sirs	**172,837**	101,561
S.L. Coutu	**50,816**	44,316
B. Carsberg	**–**	–
J.R. Windeler	**32,000**	29,000
M.J. Tomlinson	**–**	–
T.R.P. Brighouse	**10,000**	6,000

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 (2005: 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.

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)**
7.5%	60	65
10.5%	60	60

Tim Pearson has chosen to pay contributions at the higher rate whilst Mike Greig and Rob Sirs remain 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 46) £000	M.D. Greig (age 50) £000	R.A. Sirs (age 45) £000
Accrued annual pension at 30 September 2006	70	45	48
Director's contributions during the year*	16	8	9
Increase in accrued pension during the year	6	6	13
Increase in accrued pension (net of inflation)	4	5	11
Transfer value of increase (net of inflation and Director's contributions)	46	48	91
Transfer value of accrued pension at 30 September 2006	732	484	429
Transfer value of accrued pension at 30 September 2005	625	399	300
Increase in transfer value (net of Director's contributions)	91	77	120

*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.

Following the introduction of the new pensions tax regime in April 2006 the Committee determined that the Executive Directors should be offered the flexibility to stop accruing pension under the existing plan at a time of their choosing and instead take a cash supplement in lieu of employer contributions into the pension scheme. Tim Pearson has indicated that, since the lifetime allowance introduced with the changes to the tax regime will impact him, he intends to stop accruing benefits under the Research Machines plc 1988 Pension Scheme.

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 22 January 2007.

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 Sherry Coutu (Chair), Sir Bryan Carsberg, John Windeler and Sir Mike Tomlinson, all of whom are independent Non-Executive Directors.

B) SCHEDULE OF MEETINGS
The Remuneration Committee met five times during the year.

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

C) ADVISERS TO THE REMUNERATION COMMITTEE
During 2006, 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 was approved by the Board of Directors on 24 November 2006 and signed on its behalf by:

S.L. COUTU
Chair, Remuneration Committee
24 November 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RM plc

We have audited the Group and individual company financial statements (the "financial statements") of RM plc for the year ended 30 September 2006 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated statement of recognised income and expense and the related notes 1 to 33. 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 for use in the European Union are set out in the statement of Directors' responsibilities, as set out in the Corporate Governance Report.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulations. We report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. We also report to you if 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 also report to you if, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 Directors' Report and the other information contained in the Annual Report including the unaudited part of the Directors' Remuneration Report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 described as having been 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 described as having been audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 30 September 2006 and of its profit for the year then ended;
- the individual Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual company's affairs as at 30 September 2006;
- the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
Reading
24 November 2006

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 2006

	Notes	2006 £000	2005 (restated) £000
Revenue	3	**262,310**	262,707
Cost of sales		**(191,177)**	(188,444)
GROSS PROFIT		**71,133**	74,263
Selling and distribution costs		**(33,166)**	(33,940)
Research and development expenses		**(14,918)**	(16,688)
Administrative expenses		**(10,193)**	(10,551)
Amortisation of acquisition related intangible assets		**(53)**	–
Other expenses		**–**	(2,469)
		(58,330)	(63,648)
PROFIT FROM OPERATIONS	5	**12,803**	10,615
Investment income	7	**1,876**	1,359
Finance costs	8	**(135)**	(446)
PROFIT BEFORE TAX		**14,544**	11,528
Tax	9	**(4,055)**	(3,790)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**10,489**	7,738
EARNINGS PER ORDINARY SHARE:	10		
Basic		**11.6p**	8.7p
Diluted		**11.5p**	8.7p
PAID AND PROPOSED DIVIDENDS PER SHARE:	11		
Interim		**1.12p**	1.05p
Final		**4.05p**	3.80p

All activities relate to continuing operations.

The comparative figures have been restated to reflect the adoption of International Financial Reporting Standards (IFRS). See note 33 for a reconciliation of the consolidated income statement for the year ended 30 September 2005.

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 2006

	Notes	2006 £000	2005 £000
Exchange differences on translation of foreign operations		**(48)**	44
Actuarial gains and losses on defined benefit pension scheme	31	**(3,914)**	(2,300)
Tax on items taken directly to equity	9	**1,287**	1,064
NET LOSS RECOGNISED DIRECTLY IN EQUITY		**(2,675)**	(1,192)
PROFIT FOR THE YEAR		**10,489**	7,738
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**7,814**	6,546

The Company has no other recognised income and expense other than the profit for the year as shown in note 25, consequently a statement of recognised income and expense has not been prepared.

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2006

	Notes	2006 £000	2005 (restated) £000
NON-CURRENT ASSETS			
Goodwill	12	**22,332**	22,221
Other intangible assets	13	**3,462**	1,714
Property, plant and equipment	14	**22,483**	24,643
Deferred tax assets	9	**7,394**	7,108
		55,671	55,686
CURRENT ASSETS			
Inventories	16	**10,815**	11,867
Trade and other receivables	18	**51,361**	54,142
Cash and cash equivalents	27	**30,092**	22,942
		92,268	88,951
NON-CURRENT ASSETS HELD FOR SALE	21	**1,094**	–
TOTAL ASSETS		**149,033**	144,637
CURRENT LIABILITIES			
Trade and other payables	19	**(78,871)**	(77,255)
Tax liabilities	19	**(1,416)**	(1,315)
		(80,287)	(78,570)
NET CURRENT ASSETS		**11,981**	10,381
NON-CURRENT LIABILITIES			
Retirement benefit obligation	31	**(18,707)**	(15,890)
Deferred tax liabilities	9	**(234)**	–
Other payables	19	**(6,793)**	(9,759)
Provisions	22	**(737)**	(2,170)
		(26,471)	(27,819)
TOTAL LIABILITIES		**(106,758)**	(106,389)
NET ASSETS		**42,275**	38,248
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	23	**1,836**	1,815
Share premium account		**23,877**	22,151
Own shares	24	**(954)**	(1,632)
Capital redemption reserve		**94**	94
Translation reserve		**(4)**	44
Retained earnings		**17,426**	15,776
TOTAL EQUITY	25	**42,275**	38,248

The comparative figures have been restated to reflect the adoption of IFRS. See note 33 for reconciliations of the consolidated balance sheet and shareholders' equity at 30 September 2005.

These financial statements were approved and authorised for issue by the Board of Directors on 24 November 2006.

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 2006

	Notes	2006 £000	2005 (restated) £000
NON-CURRENT ASSETS			
Investments	15	**39,676**	41,423
		39,676	41,423
CURRENT ASSETS			
Trade and other receivables	18	**18,630**	14,350
Cash and cash equivalents		**35**	34
		18,665	14,384
TOTAL ASSETS		**58,341**	55,807
CURRENT LIABILITIES			
Trade and other payables	19	**(2,135)**	(2,755)
Tax liabilities	19	**(90)**	(90)
		(2,225)	(2,845)
NET CURRENT ASSETS		**16,440**	11,539
NON-CURRENT LIABILITIES			
Other payables	19	**–**	(2,450)
Provisions	22	**–**	(1,200)
		–	(3,650)
TOTAL LIABILITIES		**(2,225)**	(6,495)
NET ASSETS		**56,116**	49,312
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	23	**1,836**	1,815
Share premium account		**23,877**	22,151
Own shares	24	**(954)**	(1,632)
Capital redemption reserve		**94**	94
Retained earnings		**31,263**	26,884
TOTAL EQUITY	25	**56,116**	49,312

The comparative figures have been restated to reflect the adoption of IFRS. See note 33 for reconciliations of the Company balance sheet and shareholders' equity at 30 September 2005.

These financial statements were approved and authorised for issue by the Board of Directors on 24 November 2006.

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 2006

	Notes	2006 £000	2005 (restated) £000
PROFIT FROM OPERATIONS		**12,803**	10,615
Adjustments for:			
Gain on derivatives		**(14)**	–
Depreciation of property, plant and equipment		**9,071**	7,636
Amortisation of acquisition related intangible assets		**53**	–
Amortisation of other intangible assets		**342**	1,070
Impairment of goodwill		**–**	2,469
Loss/(gain) on disposal of property, plant and equipment		**77**	(259)
Decrease in provisions		**(233)**	(150)
Share-based payment charge		**803**	988
Pension charge		**2,358**	1,730
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		**25,260**	24,099
Decrease in inventories		**1,211**	2,608
Decrease/(increase) in receivables		**3,035**	(1,733)
Increase/(decrease) in payables		**585**	(4,370)
CASH GENERATED BY OPERATIONS		**30,091**	20,604
Tax paid		**(3,110)**	(3,743)
Pension contribution		**(3,554)**	(3,400)
Income on sale of finance lease debt	7	**854**	676
Interest paid		**(36)**	(36)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**24,245**	14,101
INVESTING ACTIVITIES			
Interest received		**784**	392
Proceeds on disposal of property, plant and equipment		**743**	1,084
Purchases of property, plant and equipment		**(8,903)**	(14,859)
Purchases of other intangible assets		**(803)**	(731)
Acquisition of subsidiaries, net of cash acquired		**(2,281)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(10,460)**	(14,114)
FINANCING ACTIVITIES			
Dividends paid		**(4,473)**	(4,127)
Proceeds from share capital issue, net of share issue costs		**831**	766
Repayment of borrowings assumed in acquisitions		**(322)**	–
Purchase of own shares		**(816)**	(569)
Share buy backs		**(65)**	–
Repayment of loan notes		**(1,790)**	(600)
NET CASH USED IN FINANCING ACTIVITIES		**(6,635)**	(4,530)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**7,150**	(4,543)
Cash and cash equivalents at the beginning of year		**22,942**	27,480
Effect of foreign exchange rate changes		**–**	5
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	27	**30,092**	22,942

The comparative figures have been restated to reflect the adoption of IFRS.

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

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006

	2006 £000	2005 £000
PROFIT/(LOSS) FROM OPERATIONS	**15**	(3,911)
Adjustments for:		
Impairment of investments	**–**	3,484
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	**15**	(427)
Increase in receivables	**(4,280)**	(4,376)
Increase in payables	**1,727**	1,566
CASH USED BY OPERATIONS	**(2,538)**	(3,237)
Dividends received	**8,882**	7,730
Interest paid	**(31)**	(12)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**6,313**	4,481
INVESTING ACTIVITIES		
Interest received	**1**	48
NET CASH GENERATED BY INVESTING ACTIVITIES	**1**	48
FINANCING ACTIVITIES		
Dividends paid	**(4,473)**	(4,127)
Proceeds from share capital issue, net of share issue costs	**831**	766
Purchase of own shares	**(816)**	(569)
Share buy backs	**(65)**	–
Repayment of loan notes	**(1,790)**	(600)
NET CASH USED IN FINANCING ACTIVITIES	**(6,313)**	(4,530)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1**	(1)
Cash and cash equivalents at the beginning of year	**34**	35
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**35**	34

The comparative figures reflect the adoption of IFRS.

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.

In common with other European listed companies, RM plc is required to adopt International Financial Reporting Standards (IFRS) for its first consolidated financial statements for periods beginning on or after 1 January 2005. For RM plc this Annual Report, for the year ending 30 September 2006 is the first report under IFRS.

The accounting policies are drawn up in accordance with those International Accounting Standards (IAS) and 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. The disclosures required by IFRS1 First-time Adoption of IFRS concerning the transition from UK GAAP to IFRS are given in note 33.

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:

IFRS7 Financial Instruments: Disclosures

INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS:

IFRIC4 Determining whether an Arrangement contains a Lease
IFRIC8 Scope of IFRS2
IFRIC9 Reassessment of Embedded Derivatives

AMENDMENTS TO EXISTING STANDARDS:

Amendments to IAS1 Presentation of Financial Statements – Capital Disclosures
Amendments to IAS21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

The Directors 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.

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 IFRS3 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 probable which is not before the Group has been appointed sole preferred bidder. Once probability 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	4-10 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.

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.

NOTES TO THE REPORT AND ACCOUNTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially recorded at cost and then for reporting purposes remeasured 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

	2006 £000	2005 £000
Revenue from supply of products and services to education	**262,310**	262,707
Investment income	**1,876**	1,359
TOTAL REVENUE	**264,186**	264,066

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 FOR THE YEAR

Profit is stated after charging/(crediting):

	2006 £000	2005 £000
Depreciation of property, plant and equipment:	**9,124**	7,636
Amortisation of other intangible assets:	**342**	1,070
Amortisation of acquisition related intangible assets:	**53**	–
	395	1,070
Other expense: Goodwill impairment charges	**–**	2,469
Research and development costs	**14,918**	16,688
Loss/(profit) on sale of property, plant and equipment	**77**	(259)
Staff costs (see note 6)	**86,277**	81,672
Minimum lease payments recorded as operating lease expense	**3,416**	3,436
Foreign exchange (gain)/loss	**(325)**	316
Building schools for the future costs	**3,849**	1,819

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 (2005: nil).

Building schools for the future costs represent the pre-preferred bidder expenditure incurred by the Group in bidding for these contracts.

The goodwill impairment charge in 2005 related to the impairment of the goodwill arising on Sentinel of £1.2m and peakschoolhaus £1.3m. No impairment charges arise in the current year – see note 12.

5. PROFIT FOR THE YEAR (CONTINUED)

Auditors' remuneration (including expenses where applicable):

	2006 £000	2005 £000
Services as auditors		
– Statutory audit	**215**	180
– Further assurance services	**72**	13
Tax services		
– Tax compliance	**27**	70
– Tax advisory	**2**	10
Other non-audit services		
– Other accounting advice	**–**	11
Total auditors' remuneration	**316**	284

The auditor's remuneration for audit services to the Company was £10,000 (2005: £9,000). In addition to the amounts shown above, the Auditors received a fee of £5,000 (2005: £4,800) for the audit of the Group pension scheme. A description of the work of the Audit Committee is set out in their 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:

	2006 Number employed	2005 Number employed
Research and development, products and services	**1,580**	1,597
Marketing and sales	**310**	307
Corporate services	**234**	233
	2,124	2,137

Their aggregate remuneration comprised:

	2006 £000	2005 £000
Wages and salaries	**75,024**	72,840
Social security costs	**6,056**	5,715
Other pension costs	**4,394**	2,129
Share-based payment charge – equity settled	**803**	988
	86,277	81,672

There are no staff (2005: nil) employed by the Company.

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

Note 30 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 2006 the accrual stood at £1.1m (2005: £1.0m).

NOTES TO THE REPORT AND ACCOUNTS

7. INVESTMENT INCOME

	2006 £000	2005 £000
Investment income	**1,876**	1,359

Included within Group investment income is £0.9m (2005: £0.7m) representing additional cash flows on sale of finance lease debt – see note 18.

8. FINANCE COSTS

	2006 £000	2005 £000
Interest on bank overdrafts and loans	**5**	24
Interest on loan notes	**31**	12
Other finance costs	**99**	410
	135	446

Other finance costs relate to the interest cost of the Group's defined benefit pension scheme – see note 31.

9. TAX

A) ANALYSIS OF TAX CHARGED IN INCOME STATEMENT

	2006 £000	2005 £000
CURRENT TAXATION		
UK corporation tax at 30% (2005: 30%) based on the profit for the year	**3,448**	3,581
Adjustment in respect of prior years	**94**	(155)
Total current tax	**3,542**	3,426
DEFERRED TAXATION		
Temporary differences	**461**	47
Adjustment in respect of prior years	**52**	317
Total deferred tax	**513**	364
TOTAL INCOME STATEMENT TAX CHARGE	**4,055**	3,790

In addition to the amount charged to the income statement £1,287,000 (2005: £1,064,000) of tax has been credited to equity through the statement of recognised income and expense. The credit comprises a tax credit on the equity component of share-based payments of £113,000 (2005: £374,000) and a tax credit on actuarial gains and losses of £1,174,000 (2005: £690,000).

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

9. TAX (CONTINUED)

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:

	2006 £000	2005 £000
Profit on ordinary activities before tax	**14,544**	11,528
Tax at 30% thereon:	**4,363**	3,458
Effects of:		
– goodwill charges not deductible for tax purposes	**–**	740
– other expenses not deductible for tax purposes	**56**	92
– other temporary timing differences	**125**	(202)
– research and development tax credit	**(625)**	(600)
– effect of overseas (profits)/losses	**(10)**	140
– prior period adjustments	**146**	162
Tax	**4,055**	3,790

The Group's effective tax rate of 27.8% (2005: 27.1%) has been calculated excluding the impact of goodwill charges and acquisition related intangible amortisation from profit before tax in order to provide a more meaningful analysis:

	2006 £000	2005 £000
Profit before tax	**14,544**	11,528
Goodwill charges and amortisation of acquisition related intangible assets	**53**	2,469
PROFIT BEFORE TAX AND GOODWILL CHARGES AND AMORTISATION OF ACQUISITION RELATED INTANGIBLE ASSETS	**14,597**	13,997
Tax charge on profit before goodwill charges and amortisation of acquisition related intangible assets	**4,055**	3,790
EFFECTIVE RATE	**27.8%**	27.1%
Tax credit on other recognised income and expense	**(1,287)**	(1,064)
TAX CHARGE ON TOTAL RECOGNISED INCOME AND EXPENSE	**2,768**	2,726

DEFERRED TAX

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	Acquisition related intangible assets £000	Total £000
At 1 October 2004	536	4,455	814	781	–	6,586
(Credit)/charge to income	(272)	(378)	277	9	–	(364)
Charge to equity	–	690	197	–	–	887
Exchange differences	–	–	–	(1)	–	(1)
At 1 October 2005	264	4,767	1,288	789	–	7,108
(Credit)/charge to income	(106)	(331)	(137)	61	–	(513)
Charge/(credit) to equity	–	1,174	(256)	–	–	918
Acquisition of subsidiaries	–	–	–	–	(353)	(353)
AT 30 SEPTEMBER 2006	**158**	**5,610**	**895**	**850**	**(353)**	**7,160**

9. TAX (CONTINUED)

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:

	2006 £000	2005 £000
Deferred tax assets	**7,394**	7,108
Deferred tax liabilities	**(234)**	–
	7,160	7,108

At the balance sheet date, the Group has unused tax losses of £0.2m (2005: £0.2m) being accumulated losses in the Asia-Pacific operations which are available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

10. EARNINGS PER ORDINARY SHARE

The calculation of the Group basic and diluted earnings per ordinary share is based on the following data:

	2006 Profit after tax £000	2006 Weighted average number of shares '000	2006 Pence per share	2005 Profit after tax £000	2005 Weighted average number of shares '000	2005 Pence per share
Basic earnings per ordinary share	**10,489**	**90,755**	**11.6**	7,738	88,924	8.7
Effect of dilutive potential ordinary shares: share options		**560**	**(0.1)**	–	434	–
Diluted earnings per ordinary share	**10,489**	**91,315**	**11.5**	7,738	89,358	8.7
Effect of amortisation of acquisition related intangible assets and goodwill charges	**53**	**–**	**–**	2,469	–	2.7
Diluted earnings per ordinary share excluding amortisation of acquisition related intangible assets and goodwill charges	**10,542**	**91,315**	**11.5**	10,207	89,358	11.4

Earnings per share figures are also reported before amortisation of acquired intangibles and goodwill charges because this is considered a more consistent measure of underlying performance.

11. DIVIDENDS

Amounts recognised as distributions to equity holders in the year:

	2006 £000	2005 £000
Final dividend for the year ended 30 September 2005 of 3.80p (2004: 3.60p) per share	**3,399**	3,195
Interim dividend for the year ended 30 September 2006 of 1.12p (2005: 1.05p) per share	**1,022**	932
	4,421	4,127

The proposed final dividend was approved by the Board on 24 November 2006 and is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability as at 30 September 2006:

	2006 £000	2005 £000
Proposed final dividend for the year ended 30 September 2006 of 4.05p (2005: 3.80p) per share	**3,688**	3,399

12. GOODWILL

	£000
Cost	
At 1 October 2004	24,737
Other changes	(47)
At 1 October 2005	24,690
Additions (note 26)	1,894
Exchange differences	(36)
Adjustment in deferred consideration (note 19)	(1,747)
AT 30 SEPTEMBER 2006	**24,801**
Accumulated impairment losses	
At 1 October 2004	–
Impairment losses for the year	(2,469)
At 1 October 2005	(2,469)
Impairment losses for the year	–
AT 30 SEPTEMBER 2006	**(2,469)**
Carrying amount	
AT 30 SEPTEMBER 2006	**22,332**
At 30 September 2005	22,221

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:

	2006 £000	2005 £000
Education management systems	**1,244**	–
Assessment and data services	**3,394**	5,141
Education resources	**13,453**	12,839
Infrastructure	**4,241**	4,241
	22,332	22,221

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 five years based on forecast growth rates of the CGU's.

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

13. OTHER INTANGIBLE ASSETS

	Acquisition related intangible assets			Other intangible assets – Purchased and internally developed software assets	
	Customer relationships £000	Brands £000	Software assets £000	£000	Total £000
Cost					
At 1 October 2004	–	–	–	14,829	14,829
Additions	–	–	–	731	731
At 1 October 2005	–	–	–	15,560	15,560
Additions	–	–	–	803	803
Acquired on acquisition of a subsidiary	498	382	175	305	1,360
Exchange differences	–	–	–	(20)	(20)
AT 30 SEPTEMBER 2006	**498**	**382**	**175**	**16,648**	**17,703**
Amortisation					
At 1 October 2004	–	–	–	12,776	12,776
Charge for the year	–	–	–	1,070	1,070
At 1 October 2005	–	–	–	13,846	13,846
Charge for the year	25	19	9	342	395
AT 30 SEPTEMBER 2006	**25**	**19**	**9**	**14,188**	**14,241**
Carrying amount					
AT 30 SEPTEMBER 2006	**473**	**363**	**166**	**2,460**	**3,462**
At 30 September 2005	–	–	–	1,714	1,714

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 2004	957	2,623	7,785	27,886	5,934	45,185
Additions	1	42	857	11,914	2,076	14,890
Exchange differences	–	3	20	36	5	64
Disposals	–	(7)	(1,963)	(12,467)	(1,812)	(16,249)
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 (note 26)	–	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 30 SEPTEMBER 2006	**–**	**2,719**	**6,126**	**32,429**	**6,142**	**47,416**
Accumulated depreciation and impairment						
At 1 October 2004	1	1,076	4,884	18,296	2,779	27,036
Charge for the year	44	139	1,093	4,859	1,477	7,612
Exchange differences	–	1	6	16	1	24
Eliminated on disposals	–	(6)	(1,781)	(12,017)	(1,621)	(15,425)
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 30 SEPTEMBER 2006	**–**	**1,351**	**3,807**	**17,044**	**2,731**	**24,933**
Carrying amount						
AT 30 SEPTEMBER 2006	**–**	**1,368**	**2,319**	**15,385**	**3,411**	**22,483**
At 30 September 2005	913	1,451	2,497	16,215	3,567	24,643

Details of assets held for sale are included in note 21.

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 2006 these were as follows:

	Principal activity	Country of incorporation (and operation)	Proportion of voting rights and shares held %
3T Productions Ltd	Software	England (UK)	100
CAZ Software Pty Ltd*	Software, services and systems	Australia	100
Music Education Supplies Ltd*	Resource supply	England (UK)	100
Research Machines plc	Software, services and systems	England (UK)	100
RM Asia-Pacific Pty Ltd	Software, services and systems	Australia	100
RM Educational Software Inc	Software	USA	100
RM Education Solutions India Pvt Ltd*	Software	India	100
Sentinel Products Ltd	Software, services and systems	England (UK)	100
SIR (UK) Ltd (t/a Forvus Computer Services)	Data analysis and reporting	England (UK)	100
Softease Ltd	Software	England (UK)	100
TTS Group Ltd	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	Loan £000	Total £000
COMPANY			
Cost			
At 1 October 2004	37,829	7,077	44,906
Other movements	1	–	1
At 1 October 2005	37,830	7,077	44,907
Adjustment to deferred consideration (note 19)	(1,747)	–	(1,747)
AT 30 SEPTEMBER 2006	**36,083**	**7,077**	**43,160**
Impairment			
At 1 October 2004	–	–	–
Impairment charge	(3,484)	–	(3,484)
At 1 October 2005 and 30 September 2006	(3,484)	–	(3,484)
Carrying value			
AT 30 SEPTEMBER 2006	**32,599**	**7,077**	**39,676**
At 30 September 2005	34,346	7,077	41,423

The impairment charge in 2005 related to the impairment of peakschoolhaus at £1.6m and Sentinel at £1.9m. There are no impairment charges in the current year.

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

16. INVENTORIES

	2006 £000	2005 £000
GROUP		
Components	**7,981**	8,464
Work in progress	**135**	236
Finished goods	**2,699**	3,167
	10,815	11,867

17. LONG-TERM CONTRACTS

	2006 £000	2005 £000
GROUP		
Contracts in progress at the balance sheet date:		
Contract cost incurred plus recognised profits less recognised losses to date	**165,460**	111,170
Less: progress billings	**(160,013)**	(108,278)
	5,447	2,892
Amounts due from contract customers included in trade and other receivables	**5,490**	6,967
Amounts due to contract customers included in trade and other payables	**(43)**	(4,075)
	5,447	2,892

Total revenue recognised from long-term contracts amounted to £57.1m (2005: £35.9m).

At 30 September 2006, no amounts due from contract customers are due for settlement after more than 12 months (2005: nil).

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	
	2006 £000	2005 £000	2006 £000	2005 £000
CURRENT				
Trade receivables	**41,863**	43,364	**–**	–
Long-term contract balances	**5,490**	6,967	**–**	–
Other receivables	**725**	524	**–**	–
Prepayments and accrued income	**3,283**	3,287	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**18,630**	14,350
	51,361	54,142	**18,630**	14,350

The average credit period taken on sales of goods is 44 days. No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, interest may be charged on the outstanding balance. An allowance has been made for estimated irrecoverable amounts of trade receivables of £0.1m (2005: £0.3m). This allowance has been determined by reference to specific receivable balances and past default experience.

Included within trade receivables are £5.4m (2005: nil) 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 £23,000 (2005: nil) 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 compromise 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.

NOTES TO THE REPORT AND ACCOUNTS

19. OTHER FINANCIAL LIABILITIES

A) TRADE AND OTHER PAYABLES

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
CURRENT				
Trade payables	**20,544**	20,753	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**923**	1,642
Other taxation and social security	**9,682**	8,452	**–**	–
Other payables – deferred consideration	**703**	–	**703**	–
Other payables – other	**1,624**	1,814	**–**	–
Accruals	**24,527**	19,221	**–**	14
Amounts due from long-term contract customers	**43**	4,075	**–**	–
Deferred income	**20,864**	21,841	**–**	–
Loan notes	**884**	1,099	**509**	1,099
	78,871	77,255	**2,135**	2,755
TAX LIABILITIES	**1,416**	1,315	**90**	90
NON-CURRENT				
Employee benefits – other	**60**	–	**–**	–
Other payables – deferred consideration	**–**	2,450	**–**	2,450
Deferred income:				
– due after one year but within two years	**5,334**	4,979	**–**	–
– due after two years but within five years	**1,399**	2,330	**–**	–
	6,793	9,759	**–**	2,450

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

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

Loan notes outstanding include £0.5m in relation to the acquisition of TTS Group Ltd in 2004, £0.2m in relation to this year's acquisition of CAZ Software Pty Ltd and £0.1m in relation to this year's acquisition of Music Education Supplies Ltd. Loan notes are not secured on assets of the Group.

During the year the deferred contingent consideration relating to the 2003 acquisition of Sir (UK) Ltd (trading as Forvus) which was dependent upon performance in the period following acquisition was finalised at £0.7m. This resulted in a £1.7m reduction to deferred consideration, which is now payable within one year and a corresponding reduction in goodwill.

B) NON-CURRENT LIABILITIES – OTHER PAYABLES

At 30 September 2006 the Group had committed borrowing facilities of £10.0m (2005: £13.0m) which expire in February 2007. None (2005: £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 (2005: £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 pay its creditors.

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.

	2006 Floating rate £000	2006 Interest free £000	2006 Total £000	2005 Floating rate £000	2005 Interest free £000	2005 Total £000
Sterling	**25,826**	**2,956**	**28,782**	21,145	861	22,006
US dollar	**21**	**286**	**307**	250	46	296
Australian dollar	**302**	**480**	**782**	180	166	346
Euro	**–**	**7**	**7**	–	28	28
Indian rupee	**67**	**147**	**214**	55	211	266
	26,216	**3,876**	**30,092**	21,630	1,312	22,942

20. FINANCIAL INSTRUMENTS (CONTINUED)

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:

	2006 Nominal value £000	2006 Fair value £000	2005 Nominal value £000	2005 Fair value £000
Forward foreign currency exchange contracts	**13,407**	**13,430**	16,639	n/a

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 IAS39 Financial Instruments. Changes in the fair value of currency instruments amounting to £0.1m (2005: £nil) have therefore been credited to income in the year. Commercially effective hedges may continue to lead to income statement volatility in the future.

The Group has elected not to present comparative information in accordance with IAS32 Financial Instruments: Disclosure and Presentation and IAS39 Financial Instruments: Recognition and Measurement. 2005 disclosures are therefore as for UK GAAP.

21. NON-CURRENT ASSETS HELD FOR SALE

The Group's subsidiary TTS Group Ltd is in the process of moving buildings. Its previous offices and warehouse facilities are being actively marketed and it is expected that these premises will be sold in the near future. The building is held at £1.1m representing its net book value prior to being reclassified and this is lower than the estimated fair value.

22. PROVISIONS

	Issuable loan notes £000	Restructuring provision £000	Total £000
GROUP			
At 1 October 2004	1,200	1,120	2,320
Release of provision		(150)	(150)
At 1 October 2005	1,200	970	2,170
Release of provision		(132)	(132)
Utilisation of provision	(1,200)	(101)	(1,301)
AT 30 SEPTEMBER 2006	**–**	**737**	**737**

The above balances are included within non-current liabilities.

	Issuable loan notes £000
COMPANY	
At 1 October 2004	1,200
At 1 October 2005	1,200
Utilisation of provision	(1,200)
AT 30 SEPTEMBER 2006	**–**

The issuable loan notes relate to the acquisition of Sentinel Products Limited and were redeemed in the year.

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.

23. SHARE CAPITAL

Authorised ordinary shares of 2p each:

	2006 Number '000	2006 £000	2005 Number '000	2005 £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 2004	89,701	1,794
Issued on options	1,029	21
At 1 October 2005	90,730	1,815
Repurchased	(40)	–
Issued on options	1,040	21
AT 30 SEPTEMBER 2006	**91,730**	**1,836**

1,040,467 (2005: 1,028,901) ordinary shares of 2p each were allotted in the year, for consideration of £0.8m (2005: £0.8m). These shares have a nominal value of £0.02m (2005: £0.02m).

The Company has the authority to repurchase 9,072,970 shares (2005: 8,970,079) and repurchased 40,250 shares during the year (2005: nil).

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

24. 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 '000	Cost £000
At 1 October 2004	950,000	1,063
Acquired in period	328,814	569
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 30 SEPTEMBER 2006	**648,185**	**954**

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

NOTES TO THE REPORT AND ACCOUNTS

25. 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 2004	1,794	20,349	(1,063)	94		13,470	34,644
Profit for the year						7,738	7,738
Exchange differences on translation of foreign operations					44		44
Actuarial gains and losses on defined benefit scheme						(2,300)	(2,300)
Tax credit on items taken directly to equity						1,064	1,064
Purchase of shares			(569)				(569)
Transfer in respect of issue of shares to employee trusts		1,057				(1,057)	–
Share-based payment transactions						988	988
Dividends paid						(4,127)	(4,127)
Share issues	21	745					766
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 30 SEPTEMBER 2006	**1,836**	**23,877**	**(954)**	**94**	**(4)**	**17,426**	**42,275**

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
COMPANY						
At 1 October 2004	1,794	20,349	(1,063)	94	27,155	48,329
Profit for the year					3,856	3,856
Share issues	21	1,802				1,823
Purchase of shares			(569)			(569)
Dividends paid					(4,127)	(4,127)
At 1 October 2005	1,815	22,151	(1,632)	94	26,884	49,312
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			1,494			1,494
Dividends paid					(4,423)	(4,423)
AT 30 SEPTEMBER 2006	**1,836**	**23,877**	**(954)**	**94**	**31,263**	**56,116**

Own shares held represents the cost of shares in RM plc purchased in the market and held by the Group – see note 24.

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 £8.9m (2005: £3.9m).

26. ACQUISITION OF SUBSIDIARIES

A) CAZ SOFTWARE PTY LTD

On 7 July 2006, the Group acquired 100% of the issued share capital of CAZ Software Pty Ltd (CAZ) for an initial cash consideration of AU$2.6m (£1.1m) and estimated deferred cash consideration of AU$0.3m (£0.1m). CAZ develops, markets, sells and supports school management software. 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:			
Intangible assets	305	662	967
Property, plant and equipment	52		52
Trade and other receivables	176	(25)	151
Trade and other payables	(150)	(346)	(496)
Bank loans	(322)		(322)
Deferred tax liabilities	–	(235)	(235)
Other non-current payables	(60)		(60)
	1	56	57
Goodwill			1,280
Total consideration			1,337
Satisfied by:			
Initial cash consideration			1,060
Estimated deferred cash consideration			129
Directly attributable costs			148
			1,337

	£000
Net cash outflow arising on acquisition:	
Initial cash consideration	1,060
Acquisition costs	148
Borrowings repaid on acquisition	322
	1,530

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.

As part of calculating fair values, the accounting polices of CAZ have been brought in line with those of the Group, principally with regard to revenue recognition.

In addition a fair value adjustment has been recognised representing acquisition related intangible assets. These relate to the valuation of non-contractual customer relationships, brands and software assets purchased – see note 13. Acquisition related intangible assets will be amortised over three years.

CAZ contributed £0.4m to the Group's revenue and £0.1m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

26. ACQUISITION OF SUBSIDIARIES (CONTINUED)

B) MUSIC EDUCATION SUPPLIES LTD

On 8 August 2006, the Group acquired 100% of the issued share capital of Music Education Supplies Ltd (MES), a specialist education resources supplier, for an initial cash consideration of £0.8m and an estimated deferred cash consideration of £0.2m, which will be settled by loan notes payable from 31 March 2008. 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:			
Intangible assets	–	393	393
Property, plant and equipment	6	–	6
Inventories	159	–	159
Trade and other receivables	103	–	103
Cash and cash equivalents	49	–	49
Trade and other payables	(117)	(5)	(122)
Tax liabilities	(38)	–	(38)
Deferred tax liabilities	–	(118)	(118)
	162	270	432
Goodwill			614
Total consideration			1,046
Satisfied by:			
Cash			800
Estimated deferred cash consideration			246
			1,046

	£000
Net cash outflow arising on acquisition:	
Cash consideration	800
Cash and cash equivalents acquired	(49)
	751

The goodwill arising on the acquisition of MES is attributable to the anticipated profit from the distribution of the Group's products in new markets and the anticipated future operating synergies from the combination.

Fair value adjustments primarily relate to acquisition related intangible assets being the MES brand and customer base – see note 13. Acquisition related intangible assets will be amortised over three years.

MES contributed £0.2m to the Group's revenue and £0.04m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisitions of CAZ and MES had been completed on the first day of the financial year, Group revenues for the period would have been £264.8m and Group profit attributable to equity holders of the parent would have been £10.8m.

27. NET FUNDS

	2005 £000	Cash flow £000	Non-cash movements £000	2006 £000
Cash and cash equivalents	22,942	**7,150**	**–**	**30,092**
Loan notes due	(1,099)	**590**	**(375)**	**(884)**
NET FUNDS	21,843	**7,740**	**(375)**	**29,208**
Issuable loan notes	(1,200)	**1,200**	**–**	**–**
Deferred consideration	(2,450)	**–**	**1,747**	**(703)**
	18,193	**8,940**	**1,372**	**28,505**

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain assets under operating leases and is committed to the following payments in the coming year:

	2006 £000	2005 £000
Minimum lease payments under operating leases recognised in income for the year	**3,416**	3,436

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:

	2006 £000	2005 £000
Within one year	**175**	115
In the second to fifth years inclusive	**1,299**	1,955
After five years	**16,973**	18,849

Operating lease payments represent rentals payable by the Group for certain of its office properties. The terms of which are subject to renegotiation on an average term of 13.5 years and rentals are fixed for an average of 6.4 years.

29. CAPITAL COMMITMENTS

The Group has the following capital expenditure commitments, including £2.2m relating to TTS's purchase of a new property:

	2006 £000	2005 £000
Contracted for but not provided for	**6,519**	3,805

NOTES TO THE REPORT AND ACCOUNTS

30. 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 IFRS1 First-time Adoption and IFRS2 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 2004	8,463,101	2.53	0.72-7.62
Granted during the period	454,000	1.54	
Lapsed during the period	(1,451,133)	2.52	
Exercised during the period	(1,028,901)	1.34	
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 30 SEPTEMBER 2006	**5,728,295**	**3.01**	**0.72-7.62**

The options outstanding at 30 September 2006 had a weighted average contractual life of 4.5 years (2005: 4.6 years).

Included within the above balances are options over 3,673,089 shares (2005: 4,101,245 shares) for which a charge has not been recognised in accordance with IFRS2 as the options were granted on or before 7 November 2002.

In the year to 30 September 2006, options were granted on 30 November 2005 (2005: 10 December 2004). The estimated fair value of the options granted is £0.51 per option (2005: £0.48 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:

	30 November 2005	10 December 2004
Share price at grant	1.59	1.54
Exercise price	1.58	1.54
Expected life	5 years	5 years
Expected volatility	38%	42%
Risk free rate	4.2%	4.5%
Expected dividends	3.1%	3.0%

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.

30. 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 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 2004	1,695,294	
Granted during the period	413,733	1.54
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 30 SEPTEMBER 2006	**2,234,308**	

The weighted average market price at the date of vesting of co-investment matching shares during the year was £1.55. No schemes matured in 2005. The plans outstanding at 30 September 2006 had a weighted average contractual life of 1.8 years.

In the year to 30 September 2006 co-investment rights were granted on 16 December 2005 (2005: 10 December 2004). The fair values are determined using the Black-Scholes model for EPS vesting conditions, giving £1.46 per committed share (2005: £1.41 per committed share) and a Monte Carlo model for TSR vesting conditions, giving £0.41 per committed share (2005: £0.50 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:

	16 December 2005		10 December 2004	
	EPS	TSR	EPS	TSR
Share price at grant	1.54	1.54	1.54	1.54
Exercise price	Nil	Nil	Nil	Nil
Expected life	3 years	3 years	3 years	3 years
Expected volatility	n/a	27%	n/a	36%
Risk free rate	n/a	n/a	n/a	n/a
Expected dividends	3.2%	3.2%	3.0%	3.0%

Expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years, excluding two time periods of exceptional 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.

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 24.

30. SHARE BASED PAYMENTS (CONTINUED)

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.

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

	Number of bonus shares	Market price on grant £
Outstanding at 1 October 2004 and 2005	–	
Granted during the period in relation to 2005	72,655	1.62
OUTSTANDING AT 30 SEPTEMBER 2006	**72,655**	

The number of shares outstanding at 30 September 2006 had a weighted average contractual life of 2.2 years.

In the year to 30 September 2006 awards were granted under the deferred bonus plan on 28 November 2005. The estimated fair value of the grant is £1.47 per bonus 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:

	28 November 2005
Share price at grant	£1.55
Exercise price	Nil
Expected volatility	44%
Expected life	3 years
Risk free rate	4.3%
Expected dividends	3.0%

Expected volatility was determined by calculating the historic volatility of the Company's share price over the previous three years, excluding two time periods of exceptional 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.

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 24.

30. SHARE BASED PAYMENTS (CONTINUED)

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 Inland Revenue 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 2006 staff shares were granted on 24 March 2006 (2005: 18 March 2005). The fair value of the shares granted is equal to the market value of £2.09 per share (2005: £1.83 per share).The expected life used in the model has been set at three years being the minimum vesting period.

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	180,281	232
RML Staff Share Scheme	132,053	99
At 1 October 2004	312,334	331
Purchased	79,436	146
Vested	(136,420)	(104)
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 30 SEPTEMBER 2006	**317,667**	**502**

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.

31. 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 £2.0m (2005: £0.4m) represents contributions payable to these schemes by the Group at rates specified in employment contracts. As at 30 September 2006 £0.2m (2005: £0.1m) 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 Research Machines plc, 3T Productions Ltd and Softease Ltd, 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 2006 and liabilities rolled forward to this date under IAS19. 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%).

Actions taken by the Group in response to the triennial valuation are described in the Business review. The potential impacts of these actions have not been reflected within the results below:

IAS19 VALUATION

Key assumptions used:

	2006 %	2005 %
Rate of increase in salaries	**3.80**	3.80
Rate of increase of pensions in payment	**2.70**	2.70
Rate of increase of pensions in deferment	**2.70**	2.70
Discount rate	**5.05**	5.05
Inflation assumption	**2.70**	2.70

Mortality assumptions have been updated to the PA92 medium cohort tables (2005: PMA92 and PFA92 mortality tables for pensioners and the same tables with an age adjustment of four years for non-pensioners). The impact of this change was to increase the deficit by £4.3m which in terms of weighted average life expectancy in years is as follows:

	2006		2005	
	Male	**Female**	Male	Female
Pensioner member age 65 (current life expectancy)	**21.8**	**24.7**	16.9	19.9
Non-pensioner member age 45 (life expectancy at 65)	**23.0**	**25.8**	20.3	23.3

Defined benefit pension scheme charges recognised in income are as follows:

	2006 £000	2005 £000
Current service cost, recognised within operating profit	**2,358**	1,730
Interest cost	**3,744**	3,320
Expected return on scheme assets	**(3,645)**	(2,910)
Cost recognised within finance cost	**99**	410
	2,457	2,140

31. RETIREMENT BENEFIT SCHEMES (CONTINUED)

The increased current service cost reflects the introduction of the salary sacrifice scheme discussed in the Business review. 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:

	2006 £000	2005 £000
Actuarial gains and losses	**(2,101)**	(2,300)
Experience gains and losses	**(1,813)**	–
	(3,914)	(2,300)

The actual return on scheme assets was £6.6m (2005: £8.8m).

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:

	2006		2005	
	%	**£000**	%	£000
Equities	**6.90**	**47,241**	6.80	42,330
Bonds	**4.40**	**19,634**	4.30	14,200
Total fair value of scheme assets		**66,875**		56,530
Present value of defined benefit obligations		**(85,582)**		(72,420)
Deficit in scheme and liability recognised in balance sheet		**(18,707)**		(15,890)
Related deferred tax asset		**5,612**		4,767
Net pension deficit		**(13,095)**		(11,123)

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:

	2006 £000	2005 £000
At 1 October	**72,420**	57,500
Current service costs	**2,358**	1,730
Interest cost	**3,744**	3,320
Contributions from scheme members	**1,542**	1,914
Actuarial gains and losses	**4,126**	8,200
Experience gains and losses	**1,813**	–
Benefits paid	**(421)**	(244)
At 30 September	**85,582**	72,420

MOVEMENTS IN FAIR VALUE OF SCHEME ASSETS WERE AS FOLLOWS:

	2006 £000	2005 £000
At 1 October	**56,530**	42,650
Expected return on scheme assets	**3,645**	2,910
Actuarial gains and losses (actual return less expected return)	**2,025**	5,900
Contributions from sponsoring companies	**3,554**	3,400
Contributions from scheme members	**1,542**	1,914
Benefits paid	**(421)**	(244)
At 30 September	**66,875**	56,530

31. RETIREMENT BENEFIT SCHEMES (CONTINUED)

THE HISTORY OF EXPERIENCE ADJUSTMENTS IS AS FOLLOWS:

	2006	2005	2004*	2003*	2002*
Difference between expected and actual return on scheme assets:					
– amount (£000)	**2,025**	5,900	1,230	2,850	(7,600)
– as a percentage of scheme assets	**3%**	10%	3%	8%	30%
Experience gains and losses on scheme liabilities:					
– amount (£000)	**1,813**	–	(1,270)	5,300	650
– as a percentage of scheme liabilities	**2%**	–	2%	10%	2%

*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 2007 are currently uncertain owing to the ongoing consultation exercise outlined in the Business review.

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.

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.

	2006 £000	2005 £000
Short-term employee benefits	**2,191**	1,961
Post-employment benefits	**107**	77
Other long-term benefits	**386**	492
Share-based payment	**(4)**	60
	2,680	2,590

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.

33. EXPLANATION OF TRANSITION TO IFRS

The year ending 30 September 2006 is the first year for which the Group is presenting its financial statements under IFRS. The last financial statements under UK GAAP were for the year ended 30 September 2005. A restatement under IFRS of the accounts for the year ended 30 September 2005 was published in December 2005 and the date of transition to IFRS was 1 October 2004. The following information is presented below relating to the transition:

i) Explanation of impact of transition to IFRS and adoption choices

ii) Reconciliations
   a) Consolidated and Company profit for the year ended 30 September 2005
   b) Consolidated and Company balance sheets and shareholders' equity at 1 October 2004 and 30 September 2005

The reconciliations have been provided to enable comparison of the published 30 September 2006 figures with those published in the corresponding period of the previous financial year.

I) EXPLANATION OF IMPACT OF TRANSITION TO IFRS AND ADOPTION CHOICES

The rules for the first time adoption of IFRS are set out in IFRS 1 First-time Adoption of International Financial Reporting Standards. In accordance with this standard the accounting policies of the Group have been applied retrospectively in determining the opening balance sheet under IFRS. IFRS1 allows a number of exemptions to assist with the transition to IFRS. Where exemptions have been taken by the Group they are noted below.

BUSINESS COMBINATIONS

The Group has taken advantage of the IFRS1 option to apply IFRS3 Business Combinations only prospectively from the date of transition to IFRS. The alternative was to restate all previous business combinations. As a result all prior business combination accounting is retained without change at the transition date. The net amount of goodwill under UK GAAP at 1 October 2004 is adopted as the opening balance for goodwill at that date and amortisation previously charged under UK GAAP post-transition is removed for IFRS restatements.

SHARE-BASED PAYMENT

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 IFRS2.

Thereafter, equity instruments granted to employees, including share options, co-investment plan, staff share scheme and deferred bonus result in fair value based charges to the income statement. The charge is dependent upon share price at grant, performance conditions, quantity of shares/options granted, historic share price volatility, leavers and exercise experience. Under UK GAAP share options were not expensed, as the options were issued with an exercise price equal to the market value at grant. Under UK GAAP a charge was made for the co-investment plan, deferred bonus and staff share schemes based on the intrinsic value at grant.

EMPLOYEE BENEFITS – DEFINED BENEFIT PENSION

The Group has elected to recognise all cumulative actuarial gains and losses from employee benefit schemes at the date of transition. For subsequent periods IAS19 Employee Benefits permits a number of options for the recognition of actuarial gains and losses. The Group's chosen policy is to adopt the 16 December 2004 amendment to IAS19 and recognise any variations in full immediately in the statement of recognised income and expense.

The balance sheet reflects the pension scheme's surplus or deficit at the balance sheet date. The employers' portion of current and past service cost is charged to operating profit with the interest cost, net of expected return on scheme assets included within finance costs. Actuarial gains and losses are fully recognised in equity through the statement of recognised income and expense. Under UK GAAP regular pension cost was charged to operating profit at a substantially level percentage of current and future payrolls with variations being charged over the average remaining working lives of employees. The net amount of pension scheme assets and liabilities was not carried on the balance sheet under UK GAAP.

EMPLOYEE BENEFITS – HOLIDAY PAY

A liability is recorded for employees' entitlement to paid holiday not taken at the balance sheet date. No equivalent liability was held under UK GAAP.

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

GOODWILL

Goodwill is carried at its book value at the transition date of 1 October 2004 less any amounts provided subsequently for impairment. Goodwill is not amortised but reviewed at least annually for impairment.

Under UK GAAP, goodwill was carried at cost less accumulated amortisation and provisions for impairment. Amortisation was provided at rates to write off the cost of goodwill over five years.

As reported in the Group's December 2005 presentation on the transition to IFRS, in the year ended 30 September 2005 the goodwill relating to the acquisition of Sentinel Products Ltd was impaired by £1.2m (Company: £1.9m). This impairment followed a review of the carrying value of goodwill compared to the present value of cash flows expected to arise from the business. The value is similar in magnitude to the UK GAAP amortisation charge for the year ended 30 September 2005.

DIVIDENDS

Dividends are not accrued until shareholders' rights to the payment are established. Under UK GAAP dividends were treated as an adjusting post balance sheet event and recorded in the result for the period.

TAXATION

Deferred tax is provided on temporary differences that are expected to be recovered, using a balance sheet liability method. Under UK GAAP deferred tax was provided using a profit and loss based method.

INTANGIBLE ASSETS

Where the Group has capitalised expenditure on self-developed software applications which are used within the Group these have been reclassified as intangible assets. Under UK GAAP these assets were held within tangible fixed assets.

Research and development expenditure must be capitalised when it meets certain criteria, as outlined in the Accounting Policies. During the periods reported the Group has reviewed its research and development expenditure against these criteria and no material expenditure has met the capitalisation criteria. Consequently there is no capitalised research and development expenditure.

LONG-TERM CONTRACT BALANCES

Long-term contract balances have been reclassified as trade and other receivables. Under UK GAAP these assets had been held within inventory as long-term contract balances.

CASH FLOW

Under IAS7 Cash Flow Statements, the definition of cash is extended to "cash and cash equivalents" which includes short-term deposits. The presentation of the cash flow statement has therefore changed to include these cash equivalents. Other than this disclosure there is no impact on reported cash flows as a result of the transition to IFRS.

FINANCIAL INSTRUMENTS

The Group has elected to apply IAS39 Financial Instruments: Recognition and Measurement and IAS32 Financial Instruments: Disclosure and Presentation from 1 October 2005. After this date, where hedge accounting cannot be applied under IAS39, changes in the market value of financial instruments will be taken to the income statement. No transitional adjustments were required to the 2004 or 2005 UK GAAP financial statements due to the chosen adoption date of IAS32 and IAS39.

CUMULATIVE TRANSLATION DIFFERENCES

The Group has deemed the cumulative translation differences for foreign operations to be zero at the date of transition. Any gains and losses on subsequent disposals of foreign operations will exclude translation differences arising prior to the transition date.

Detailed analysis of the full-year reconciling items was presented on 15 December 2005 and can be found on the Group's Web site: www.rm.com/investors

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

II) RECONCILIATION STATEMENTS

RECONCILIATION OF CONSOLIDATED GROUP PROFIT FOR THE YEAR ENDED 30 SEPTEMBER 2005

	UK GAAP £000	Share-based payment £000	Defined benefit pension £000	Holiday pay £000	Goodwill £000	Impact of IFRS transition £000	IFRS £000
Revenue	262,707						262,707
Cost of sales	(188,999)	(47)	648	(46)		555	(188,444)
GROSS PROFIT	**73,708**	**(47)**	**648**	**(46)**	–	**555**	**74,263**
Selling and distribution costs	(34,224)	(14)	322	(24)		284	(33,940)
Research and development expenses	(16,812)	(6)	140	(10)		124	(16,688)
Administrative expenses before goodwill charges	(11,150)	81	560	(42)		599	(10,551)
Goodwill charges	(7,386)				4,917	4,917	(2,469)
OPERATING EXPENSES	**(69,572)**	**61**	**1,022**	**(76)**	**4,917**	**5,924**	**(63,648)**
Profit from operations before goodwill charges	11,522	14	1,670	(122)		1,562	13,084
Goodwill charges	(7,386)				4,917	4,917	(2,469)
PROFIT FROM OPERATIONS	**4,136**	**14**	**1,670**	**(122)**	**4,917**	**6,479**	**10,615**
Investment income	1,359						1,359
Finance costs	(36)		(410)			(410)	(446)
Profit before tax before goodwill charges	12,845	14	1,260	(122)		1,152	13,997
Goodwill charges	(7,386)				4,917	4,917	(2,469)
PROFIT BEFORE TAX	**5,459**	**14**	**1,260**	**(122)**	**4,917**	**6,069**	**11,528**
Tax	(3,455)	6	(378)	37		(335)	(3,790)
PROFIT FOR THE PERIOD	**2,004**	**20**	**882**	**(85)**	**4,917**	**5,734**	**7,738**
BASIC EPS	**2.3p**	0.0p	1.0p	(0.1)p	5.5p	**6.6p**	**8.7p**
DILUTED EPS	**2.2p**	0.0p	1.0p	(0.1)p	5.5p	**6.6p**	**8.7p**

RECONCILIATION OF COMPANY PROFIT FOR THE YEAR ENDED 30 SEPTEMBER 2005

	UK GAAP £000	Dividends receivable £000	Impairment of investment £000	Impact of IFRS transition £000	IFRS £000
LOSS FROM OPERATIONS	**(2,010)**	–	**(1,901)**	**(1,901)**	**(3,911)**
Investment income	8,429	(650)		(650)	7,779
Finance costs	(12)				(12)
PROFIT FOR THE PERIOD	**6,407**	**(650)**	**(1,901)**	**(2,551)**	**3,856**

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

RECONCILIATION OF CONSOLIDATED BALANCE SHEET AND SHAREHOLDERS' EQUITY AT 1 OCTOBER 2004 (IFRS TRANSITION DATE)

	UK GAAP £000	Share-based payment £000	Dividends £000	Defined benefit pension £000	Holiday pay £000	Other £000	Impact of IFRS transition £000	IFRS £000
NON-CURRENT ASSETS								
Goodwill	24,737							24,737
Other intangible assets	–					1,882	1,882	1,882
Property plant and equipment	20,202					(1,882)	(1,882)	18,320
Deferred tax assets	1,310	549		4,455	272		5,276	6,586
	46,249	**549**	**–**	**4,455**	**272**	**–**	**5,276**	**51,525**
CURRENT ASSETS								
Inventories	16,492					(2,017)	(2,017)	14,475
Trade and other receivables	50,228					1,775	1,775	52,003
Cash and cash equivalents	27,480							27,480
	94,200					**(242)**	**(242)**	**93,958**
TOTAL ASSETS	**140,449**	**549**	**–**	**4,455**	**272**	**(242)**	**5,034**	**145,483**
CURRENT LIABILITIES								
Trade and other payables	(84,663)	1,328	3,195		(906)	242	3,859	(80,804)
Tax liabilities	(1,779)							(1,779)
	(86,442)	**1,328**	**3,195**	**–**	**(906)**	**242**	**3,859**	**(82,583)**
NET CURRENT ASSETS	**7,758**	**1,328**	**3,195**	**–**	**(906)**	**–**	**3,617**	**11,375**
NON-CURRENT LIABILITIES								
Retirement benefit obligation	–			(14,850)			(14,850)	(14,850)
Other payables due after one year	(11,086)							(11,086)
Provisions	(2,320)							(2,320)
	(13,406)	**–**	**–**	**(14,850)**	**–**	**–**	**(14,850)**	**(28,256)**
TOTAL LIABILITIES	**(99,848)**	**1,328**	**3,195**	**(14,850)**	**(906)**	**242**	**(10,991)**	**(110,839)**
NET ASSETS	**40,601**	**1,877**	**3,195**	**(10,395)**	**(634)**	**–**	**(5,957)**	**34,644**
EQUITY								
Called up equity share capital	1,794							1,794
Share premium account	20,349							20,349
Own shares	(1,010)	(53)					(53)	(1,063)
Capital redemption reserve	94							94
Hedging and translation reserve	–							–
Accumulated profit	19,374	1,930	3,195	(10,395)	(634)		(5,904)	13,470
	40,601	**1,877**	**3,195**	**(10,395)**	**(634)**	**–**	**(5,957)**	**34,644**

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

RECONCILIATION OF COMPANY BALANCE SHEET AND SHAREHOLDERS' EQUITY AT 1 OCTOBER 2004 (IFRS TRANSITION DATE)

	UK GAAP £000	Dividends payable £000	Dividends receivable £000	Impact of IFRS transition £000	IFRS £000
NON-CURRENT ASSETS					
Investment in subsidiaries	44,906				44,906
	44,906				**44,906**
CURRENT ASSETS					
Trade and other receivables	14,274		(4,300)	(4,300)	9,974
Cash and cash equivalents	35				35
	14,309	**–**	**(4,300)**	**(4,300)**	**10,009**
TOTAL ASSETS	**59,215**	**–**	**(4,300)**	**(4,300)**	**54,915**
CURRENT LIABILITIES					
Trade and other payables	(5,569)	3,195		3,195	(2,374)
	(5,569)	**3,195**	**–**	**3,195**	**(2,374)**
NET CURRENT ASSETS	**8,740**	**3,195**	**(4,300)**	**(1,105)**	**7,635**
NON-CURRENT LIABILITIES					
Other payables due after one year	(3,012)				(3,012)
Provisions	(1,200)				(1,200)
	(4,212)	**–**	**–**	**–**	**(4,212)**
TOTAL LIABILITIES	**(9,781)**	**3,195**	**–**	**3,195**	**(6,586)**
NET ASSETS	**49,434**	**3,195**	**(4,300)**	**(1,105)**	**48,329**
EQUITY					
Called up equity share capital	1,794				1,794
Share premium account	20,349				20,349
Own shares	(1,063)				(1,063)
Capital redemption reserve	94				94
Hedging and translation reserve	–				–
Accumulated profit	28,260	3,195	(4,300)	(1,105)	27,155
	49,434	**3,195**	**(4,300)**	**(1,105)**	**48,329**

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

RECONCILIATION OF CONSOLIDATED BALANCE SHEET AND SHAREHOLDERS' EQUITY AT 30 SEPTEMBER 2005

	UK GAAP £000	Share-based payment £000	Dividends £000	Defined benefit pension £000	Holiday pay £000	Goodwill £000	Other £000	Impact of IFRS transition £000	IFRS £000
NON-CURRENT ASSETS									
Goodwill	17,304					4,917		4,917	22,221
Other intangible assets	–						1,714	1,714	1,714
Property plant and equipment	26,357						(1,714)	(1,714)	24,643
Deferred tax assets	1,105	928		4,767	308			6,003	7,108
	44,766	**928**	**–**	**4,767**	**308**	**4,917**	**–**	**10,920**	**55,686**
CURRENT ASSETS									
Inventories	17,658						(5,791)	(5,791)	11,867
Trade and other receivables	48,351						5,791	5,791	54,142
Cash and cash equivalents	22,942								22,942
	88,951	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**88,951**
TOTAL ASSETS	**133,717**	**928**	**–**	**4,767**	**308**	**4,917**	**–**	**10,920**	**144,637**
CURRENT LIABILITIES									
Trade and other payables	(81,958)	2,331	3,399		(1,027)			4,703	(77,255)
Tax liabilities	(1,315)								(1,315)
	(83,273)	**2,331**	**3,399**	**–**	**(1,027)**	**–**	**–**	**4,703**	**(78,570)**
NET CURRENT ASSETS	**5,678**	**2,331**	**3,399**	**–**	**(1,027)**	**–**	**–**	**4,703**	**10,381**
NON-CURRENT LIABILITIES									
Retirement benefit obligation	–			(15,890)				(15,890)	(15,890)
Other payables due after one year	(9,759)								(9,759)
Provisions	(2,170)								(2,170)
	(11,929)	**–**	**–**	**(15,890)**	**–**	**–**	**–**	**(15,890)**	**(27,819)**
TOTAL LIABILITIES	**(95,202)**	**2,331**	**3,399**	**(15,890)**	**(1,027)**	**–**	**–**	**(11,187)**	**(106,389)**
NET ASSETS	**38,515**	**3,259**	**3,399**	**(11,123)**	**(719)**	**4,917**	**–**	**(267)**	**38,248**
EQUITY									
Called up equity share capital	1,815								1,815
Share premium account	22,151								22,151
Own shares	(1,386)	(246)						(246)	(1,632)
Capital redemption reserve	94								94
Hedging and translation reserve	–						44	44	44
Accumulated profit	15,841	3,505	3,399	(11,123)	(719)	4,917	(44)	(65)	15,776
TOTAL EQUITY	**38,515**	**3,259**	**3,399**	**(11,123)**	**(719)**	**4,917**	**–**	**(267)**	**38,248**

33. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

RECONCILIATION OF COMPANY BALANCE SHEET AND SHAREHOLDERS' EQUITY AT 30 SEPTEMBER 2005

	UK GAAP £000	Dividends payable £000	Dividends receivable £000	Impairment of investment £000	Impact of IFRS transition £000	IFRS £000
NON-CURRENT ASSETS						
Investment in subsidiaries	43,324			(1,901)	(1,901)	41,423
	43,324	**–**	**–**	**(1,901)**	**(1,901)**	**41,423**
CURRENT ASSETS						
Trade and other receivables	19,300		(4,950)		(4,950)	14,350
Cash and cash equivalents	34					34
	19,334	**–**	**(4,950)**	**–**	**(4,950)**	**14,384**
TOTAL ASSETS	**62,658**	**–**	**(4,950)**	**(1,901)**	**(6,851)**	**55,807**
CURRENT LIABILITIES						
Trade and other payables	(6,244)	3,399			3,399	(2,845)
	(6,244)	**3,399**	**–**	**–**	**3,399**	**(2,845)**
NET CURRENT ASSETS	**13,090**	**3,399**	**(4,950)**	**–**	**(1,551)**	**11,539**
NON-CURRENT LIABILITIES						
Other payables due after one year	(2,450)					(2,450)
Provisions	(1,200)					(1,200)
	(3,650)	**–**	**–**	**–**	**–**	**(3,650)**
TOTAL LIABILITIES	**(9,894)**	**3,399**	**–**	**–**	**3,399**	**(6,495)**
NET ASSETS	**52,764**	**3,399**	**(4,950)**	**(1,901)**	**(3,452)**	**49,312**
EQUITY						
Called up equity share capital	1,815					1,815
Share premium account	22,151					22,151
Own shares	(1,632)					(1,632)
Capital redemption reserve	94					94
Hedging and translation reserve	–					–
Accumulated profit	30,336	3,399	(4,950)	(1,901)	(3,452)	26,884
TOTAL EQUITY	**52,764**	**3,399**	**(4,950)**	**(1,901)**	**(3,452)**	**49,312**

FIVE YEAR SUMMARY

£000 (except where otherwise stated)	2002 UK GAAP	2003 UK GAAP	2004 UK GAAP	2005 UK GAAP	2005 IFRS	**2006 IFRS**
REVENUE	202,158	215,494	263,264	262,707	262,707	**262,310**
PROFIT BEFORE TAX*	5,042	8,649	11,573	12,845	13,997	**14,597**
PROFIT/(LOSS) AFTER TAX	(4,819)	4,675	3,892	2,004	7,738	**10,489**
TAX RATE**	28%	18%	27%	27%	27%	**28%**
DILUTED EARNINGS PER SHARE*	3.8p	7.9p	9.4p	10.5p	11.4p	**11.5p**
DIVIDENDS PER SHARE	4.15p	4.35p	4.60p	4.85p	4.85p	**5.17p**
BALANCE SHEET:						
– CAPITAL EMPLOYED	1,934	590	13,121	15,573	15,306	**12,183**
– NET CASH AND CASH EQUIVALENTS	39,125	40,625	27,480	22,942	22,942	**30,092**
– NET FUNDS	32,663	38,417	25,781	21,843	21,843	**29,208**
– TOTAL EQUITY	41,059	41,215	40,601	38,515	38,248	**42,275**
PROFIT BEFORE TAX* AS A PERCENTAGE OF REVENUE	2.5%	4.0%	4.4%	4.9%	5.3%	**5.6%**
AVERAGE NUMBER OF EMPLOYEES	1,590	1,545	1,875	2,137	2,137	**2,124**

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. The principal differences between UK GAAP and IFRS are explained in note 33 to the financial statements which provides an explanation of the transition to IFRS.

*Before amortisation of acquisition related intangible assets, goodwill charges and exceptional items. Exceptional items comprise: 2002: £9.0m exceptional administrative expenses related to restructuring and intangible asset impairment.

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

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

EX-DIVIDEND DATE FOR 2006 FINAL DIVIDEND
3 January 2007

RECORD DATE FOR 2006 FINAL DIVIDEND
5 January 2007

ANNUAL GENERAL MEETING
22 January 2007

PAYMENT OF 2006 FINAL DIVIDEND
2 February 2007

ANNOUNCEMENT OF 2007 INTERIM RESULTS
May 2007

PRELIMINARY ANNOUNCEMENT OF 2007 RESULTS
November 2007

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 3100. To help shareholders, the Capita Web site at www.capitaregistrars.com contains a shareholders' frequently asked questions section.

ELECTRONIC COMMUNICATION

Conditional upon approval of the special resolution at the AGM we hope to be able to offer shareholders the ability to receive company communication 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.

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J.P. LEIGHFIELD Chairman
T.R. PEARSON Chief Executive Officer
M.D. GREIG Group Finance Director
R.A. SIRS Chief Operating Officer
S.L. COUTU Senior Independent Non-Executive Director
B. CARSBERG Independent Non-Executive Director
J.R. WINDELER Independent Non-Executive Director
M.J. TOMLINSON Independent Non-Executive Director
T.R.P. BRIGHOUSE Independent Non-Executive Director

COMPANY SECRETARY

A.J. Robson

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