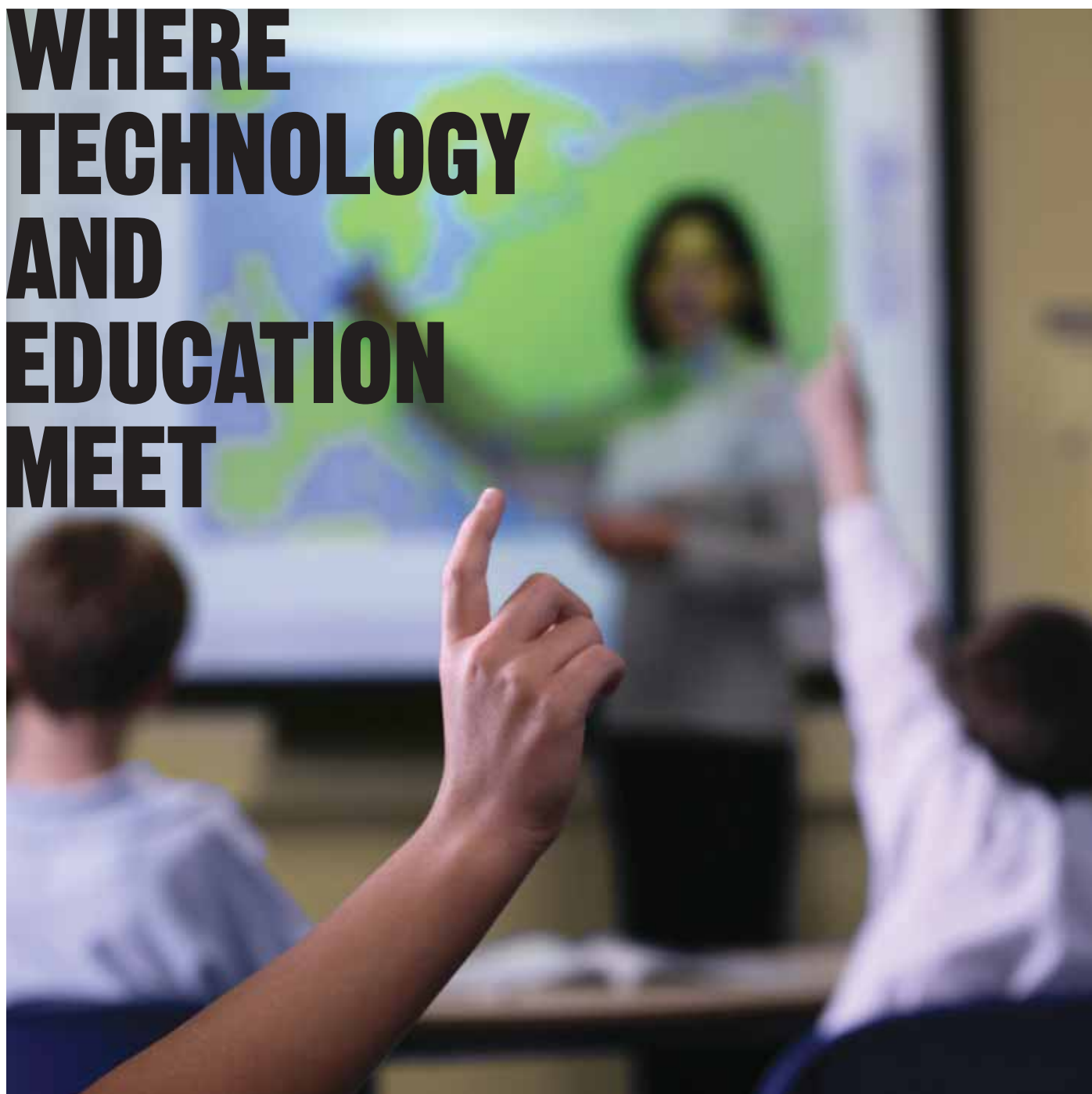


ONE VISION MARKET PASSION



RM plc
ANNUAL REPORT
AND ACCOUNTS 2005

**WHERE
TECHNOLOGY
AND
EDUCATION
MEET**



ONE 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 AND AGENCIES. RECOGNISED AS A LEADING INNOVATOR IN THE EDUCATIONAL INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) ARENA, RM WORKS CLOSELY WITH EDUCATIONALISTS TO USE NEW PRODUCTS, PROCESSES AND TECHNOLOGY TO IMPROVE TEACHING AND LEARNING.

MANY VALUES

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

02 A PASSION FOR EDUCATION

Professor Tim Brighouse and Sir Mike Tomlinson talk with Tim Pearson about the importance of education and RM's role in the educational community.

04 CLEAR ABOUT OUR STRATEGY

Technical capability and relative scale, combined with unrivalled education focus, mean that RM is uniquely well positioned to address the opportunities presented by the educational ICT market.

06 INNOVATION AND IMPROVEMENT

Innovation is at the heart of products and services that are improving the way in which education is delivered.

10 NOT JUST A DAY JOB

Engaging with the wider community and working to improve RM's environmental performance brings something extra back into the organisation.

12 FINANCIAL AND OPERATIONAL HIGHLIGHTS

13 CHAIRMAN'S STATEMENT

14 CEO'S OPERATING REVIEW

18 FINANCIAL REVIEW

21 CORPORATE GOVERNANCE REPORT

23 AUDIT COMMITTEE REPORT

26 BOARD OF DIRECTORS

28 DIRECTORS' REPORT

32 REMUNERATION REPORT

44 INDEPENDENT AUDITORS' REPORT

45 CONSOLIDATED PROFIT AND LOSS ACCOUNT

46 CONSOLIDATED BALANCE SHEET

47 COMPANY BALANCE SHEET

48 CONSOLIDATED CASH FLOW STATEMENT

48 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

49 NOTES TO THE FINANCIAL STATEMENTS

70 FIVE-YEAR SUMMARY

IBC SHAREHOLDER INFORMATION

ONE 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.**

A PASSION FOR EDUCATION

Professor Tim Brighouse and Sir Mike Tomlinson are two of the UK's most respected educationalists, with careers stretching from the classroom to the highest levels of government policy-making. They're also members of RM's Board. Here, they talk with Tim Pearson, RM's CEO, about the importance of education and RM's role in the broader educational community.

TIM PEARSON

Mike, I've heard you say that ICT is one of the greatest forces acting on education in the 21st century. That's going a bit too far isn't it?

MIKE TOMLINSON

I don't think so. ICT can take learning out of the classroom and into learners' lives. It takes the world's knowledge out of the library and puts it into the hands of anyone with a computer. Over the next twenty or thirty years learning is going to change out of all recognition compared with what we experienced at school.

TIM BRIGHOUSE

We're at a point similar to the introduction of the printed word. Then teachers needed to move from an oral tradition to a written tradition. Now they're moving from print to digital technologies and RM is at the forefront of making sure every teacher is digitally housed.

TIM PEARSON

It's easy to see ICT as just a classroom delivery technology because that's where it's come from. There's much more to it than that isn't there?

TIM BRIGHOUSE

You should view it as the learning, teaching and managerial technology. Digital technologies touch all of those areas and one of RM's roles is to ensure that teachers are liberated by those digital technologies not enslaved by them.

TIM PEARSON

We're beginning to see what happens when you apply technology outside of classroom delivery. That's why I see the Building Schools for the Future initiative as so important. It's the opportunity to rethink the way a school works with technology as a fundamental part of it.

ICT COULD BE USED TO PROCESS

50

MILLION EXAM SCRIPTS EACH YEAR



From left to right: Sir Mike Tomlinson, Tim Pearson and Professor Tim Brighouse

MIKE TOMLINSON

Take assessment, it was clear to me when I was looking at the assessment system for the government that there was a role for computers in delivering tests and providing learners with a record of achievement. Just as important though was the potential for ICT to contribute behind the scenes – it makes no sense to shuffle 50 million physical pieces of paper around each summer.

TIM PEARSON

Our work with the Qualifications and Curriculum Authority developing an ICT test for thirteen-year-olds has been interesting. The computerised test delivery gets most of the attention but behind that is some very sophisticated workflow technology – it's education process outsourcing really.

MIKE TOMLINSON

It's hard to see how you could consider doing assessment now without using ICT. Simple things like distributing papers, collecting together marks, communicating among schools, exam boards and examiners – they should all be automated.

TIM BRIGHOUSE

And there are other processes that can also benefit. If you look at what RM is doing in Scotland with the Scottish Schools Digital Network (SSDN) project, you begin to see what happens when the digital technologies stretch to everyone in education – teachers, pupils, parents and administrators.

TIM PEARSON

With the push for increased parental involvement in education, it's pretty clear that the Web has a role to play.

MIKE TOMLINSON

The SSDN project really points the way for education services

looking to ICT to drive change. Education leaders across the world are looking for ways to engage more effectively with learners and looking for ways to improve life chances – and that's the true purpose of education: to identify and nurture the talents of every young person. RM will continue to be successful if it delivers success for educationalists – in their terms.

TIM BRIGHOUSE

It's a moral purpose. If you don't have educated people, they can't be free. Obviously RM has a duty to serve its shareholders, but for me it also has a moral purpose.

MIKE TOMLINSON

You need great products but you need passion as well. What's important – really important – is that we need to be seen to be on the educationalist's side; we need to share their determination to help young people achieve more than they would otherwise have done.

TIM BRIGHOUSE

If RM demonstrates that it can contribute to educational outcomes, then I think that we will be respected hugely for the advances which we are making in teaching and learning and we will find a ready demand for what we do.

TIM PEARSON

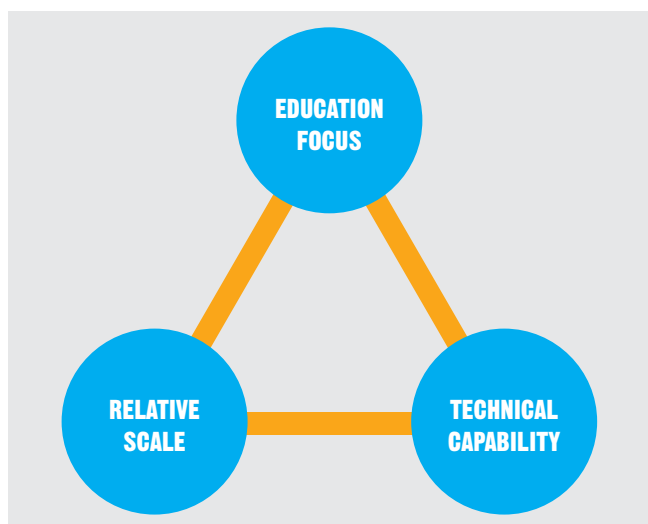
I think that our commercial success flows directly from our customers' success – you can't have one without the other. RM won't be a successful business in the long term unless it provides products and services that contribute to the success of the education system; products that educationalists can't – or won't – do without. This passion for customer success is an extension of the customer satisfaction drive I put in place when I took over as CEO and it's something I've started reinforcing in the culture of our business.

CLEAR ABOUT OUR STRATEGY

RM's market position is based on clear competitive advantages. Tim Pearson, RM's CEO, sets out how technical capability and relative scale, combined with unrivalled education focus, mean that RM is uniquely well positioned to address the opportunities available in the educational ICT market.

A CLEAR SET OF COMPETITIVE ADVANTAGES

Our customers have very particular requirements from an ICT supplier. Clearly, they expect a high level of technical capability and the financial strength required to take on increasingly large and complex projects. Crucially though, they also look for a supplier that can offer educational understanding and empathy. RM works hard to ensure that we lead the market across all three areas: they're our key competitive advantages.



A COMMITMENT TO CUSTOMER SUCCESS

We believe that the best way of ensuring RM's continued business success is to deliver educational success for our customers. We constantly measure – and seek to improve – customer satisfaction, but we aim to go beyond this. Ultimately, we want our products and services to be so valuable that our customers wouldn't want to work without them.

With an unrivalled track record of providing innovative products and services that deliver measurable improvements in educational outcomes, we're contributing to the success of teachers and learners across the UK. What's more, we're prepared to commit to it, by signing up to performance-based contracts where payment is dependent on those educational outcomes.

RESPONDING TO CHANGING EDUCATIONAL NEEDS

We recognise that educational policy-makers are looking to technology to transform teaching and learning. The aim must be for technology to move beyond simply being accepted as useful, but incidental, in the classroom, to the point where it becomes a fundamental and essential part of the education process.

CHANGING EDUCATIONAL LANDSCAPE

	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

Our commitment to innovation and improvement, combined with our education focus, means that we're not just responding to educational needs, we're helping to transform the educational landscape.

A COMPLETE OFFER

We provide our customers with a broad – and complete – range of services. It's a strategic decision we've made which means that we can provide all of the ICT that an educational establishment needs – from hardware and network infrastructure, through learning content, to educational consultancy.

For many of our customers we are their sole ICT partner – they look to us to make technology make sense in the educational environment. For large education projects, we have the capability to conceive, design and deliver sophisticated new ICT-based approaches to education.

FOCUSING ON THE BSF OPPORTUNITY

The BSF (Building Schools for the Future) initiative, a 15-year, £45-billion programme which will rebuild or refurbish every English secondary school, is the single biggest driver of change in our market. It will change the way in which education services are specified and procured and we see it as a major catalyst for the development of educational ICT.

We're working with a wide range of stakeholders to ensure that schools of the future are underpinned by the best ICT.

PARTNERING FOR OPPORTUNITY

Transforming teaching and learning will require the engagement of a wide range of stakeholders – including BSF

OUR CUSTOMERS LOOK TO US TO MAKE TECHNOLOGY MAKE SENSE IN THE EDUCATIONAL ENVIRONMENT

building contractors and ICT providers, as well as policy-makers, teachers and learners.

RM is well-versed in working in partnership with all kinds of organisations. Our strategic education projects typically involve RM pulling together the efforts of a range of suppliers; our BSF activity will see us engage with building contractors and support services companies; and all of our products and services are conceived, developed and improved in collaboration with our customers.



Information and communications technology is part of the fabric of the school of the future

INNOVATION AND IMPROVEMENT

Innovation and improvement – they're identified as part of RM's set of core values and are at the heart of everything we do. It's innovation with a purpose though, our products are improving the way in which education is delivered in the classroom and the way teachers organise their working life.



A TRADITION OF INNOVATION WITH A PURPOSE

Innovation is deeply embedded in our culture. RM was formed in the 1970s with a clear purpose – exploiting the then new technology of microprocessors to improve education. And as one of the top ten investors in research and development in the UK software and computer services sector (DTI 2004 R&D Scoreboard), we retain a clear commitment to technological invention.

Customer-focussed investment makes RM an international leader in applying information and communications technology (ICT) to the specific needs of education. From the first microcomputers in classrooms, through the educational use of the Internet, to today's large-scale education enterprise systems, we have pioneered educational ICT.

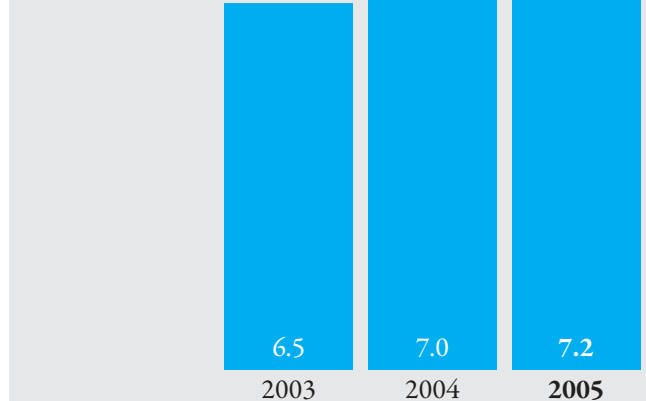
It's got to be technology with a purpose though. Innovation is useful only if it delivers a practical benefit. For us that means improving education. Working closely with teachers and learners we aim to develop products that genuinely meet the needs of teachers and learners.

With products including the innovative RM ONE all-in-one PC and RM Easiteach®, the UK's most widely used interactive whole-class teaching software, RM really is helping teachers to teach and learners to learn.

CUSTOMER SUCCESS

Innovative products alone are not enough. Helping teachers to teach and learners to learn means providing the support that they need to be successful in the classroom. It also means continuously improving that support.

CUSTOMER SATISFACTION

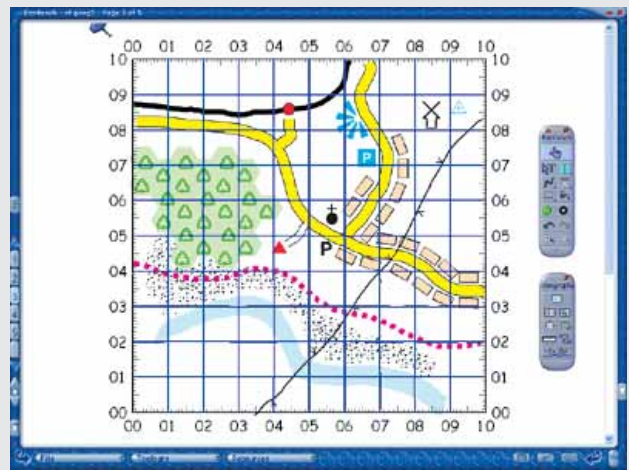


Improving customer satisfaction is part of our culture. We have a sophisticated – and externally audited – customer satisfaction measure; for many staff, this measure has a direct impact on their pay. Last year the score increased from 7.0 to 7.2 and for 2006 the target has been set even higher.

ENGINEERING THE EDUCATION ENTERPRISE

To date, ICT has had its biggest impact directly in the classroom. It's a great learning resource which motivates learners and supports teachers. Increasingly though, ICT is getting more and more ingrained in the process of education itself. And we are developing ICT systems that have broader roles, underpinning the processes of education itself.

Pioneering projects such as We-Learn (in Warwickshire) and the Scottish Schools Digital Network (SSDN), show the way



**RM EASITEACH:
PRESENTATION SOFTWARE FOR WHOLE-CLASS TEACHING**
With the growing use of interactive whiteboards and digital projectors in classrooms, teachers face a big challenge: how to use digital presentation technology in a way which really motivates and engages pupils.

RM's educational designers knew that straightforward presentation software wasn't going to be enough. If teachers were to succeed with interactive whiteboards, they would need software which could respond to the emerging needs of their pupils during the lesson, not just reveal a regimented set of visual aids. RM Easiteach, which allows immediate interaction as well as access to a library of curriculum resources, does just that – and it does it in over 10,000 schools in the UK.

Take a single example: creating a map of the school and school surroundings. RM Easiteach allows you to start with an aerial photograph, then layer on top of it standard map symbols – during the lesson, as a whole-class exercise.

for the future of ICT in education. They go well beyond 'point' products (products that serve a single purpose). It's the beginning of the education enterprise, with ICT supporting school management and communications among teachers, pupils and parents, as well as enhancing classroom delivery.

What will this education enterprise look like?

- Pupils with access to an online learning portfolio which makes their work available anywhere where there's an Internet connection.
- Teachers planning their work using detailed individual diagnostic assessment information.
- Education managers with access to detailed comparative performance data about individual education establishments.
- Parents connected more closely to the school community through online access.

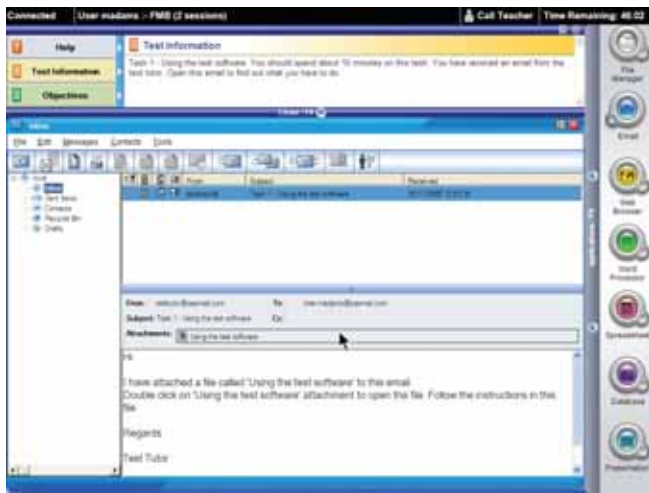
The SSDN project shows the power of the education enterprise. Ahead of anything else in the world, it will provide a single intranet connecting all 800,000 learners and teachers in Scotland. With the SSDN, learners and teachers will benefit from electronic communications and educational workflow, as well as from an enormous range of online teaching and learning resources. It's the most ambitious use of ICT to 're-engineer' education ever undertaken.



THE RM ONE: NOT ALL PCS ARE CREATED EQUAL

When it came to creating a PC that really reflects the requirements of the classroom, RM's design team knew only one approach would work. The team went back to school and designed the product with teachers, pupils and education managers. And with its vandal-proof screen and casing, single box configuration and special security features, the RM ONE clearly demonstrates that customer-focussed innovation creates a better classroom PC.

Taking a growing share of RM's PC shipments, the RM ONE is the most popular PC in school. And its sibling, the RM Mobile ONE, is looking set to carry on the family tradition.



EXAMINATIONS AND ASSESSMENT – ONLINE

If you were inventing the examinations system today, you'd want ICT to be part of its fabric. That's the proposition the RM assessment team started with when it was awarded the contract to produce a revolutionary new way of testing thirteen-year-olds.

Focusing on the curriculum subject of ICT, the test takes place solely on a computer. The learner is presented with a project to complete and some ICT tools with which to complete it. The computer monitors the learner's progress and provides an accurate assessment of their ICT abilities.

This year 45,000 pupils took the test. By 2007, all 600,000 English key stage three pupils will be measured using it. It's been described as one of the most promising new assessment approaches by the international Partnership for 21st Century Skills. It's also being seen by the English Qualifications and Curriculum Authority (QCA) as a pathfinder for how examinations could work in the future.



Primary school children love Bee-Bot

BEE-BOT

Scurrying about the floor, this black and yellow robot bee puts fun into learning – and it is learning; pupils construct strings of instructions that make the Bee-Bot™ follow particular paths. There are even special mats with courses on for Bee-Bot to follow. It develops logical thinking, sequencing and the beginnings of computer programming.

It's a joint adventure between RM's technologists and their new colleagues at TTS, the education resources company RM acquired in 2004. The combination of RM's technical knowledge and TTS' product vision has resulted in something that directly meets a curriculum need and is significantly better value than competing products. No wonder then that it was an immediate best-seller.



TOP 10 IN THE WORLD

SUPPORT ONLINE

Teachers can't afford to spend time hanging on a telephone line when they need to be in a classroom. Technical support needs to be available at a time convenient to them, which is why Web-based support is a good fit for educationalists. It allows teachers to register their queries – and pick up the answers – at any time.

Web-based support isn't easy to deliver though. All too often it provides only generic answers or it's hard to find the answer you want at all. RM's support team has worked hard at identifying the common questions, providing straightforward answers and making it easy to find out what you need to know. With a place in the World's Top Ten Best Web Support Sites in 2004 and 2005, the support team has achieved a high standard.



NOT JUST A DAY JOB

Is there more to life than the day job? At RM, we think that there is. When our people engage with the wider community or work to improve the Group's environmental performance, we believe that they bring something extra back into the organisation.



Picture courtesy of Volunteer Reading Help

A GREAT PLACE TO WORK

We're proud of the people who work for RM – and, in our most recent staff survey, 82% of them said that they were proud to work here; that compares with 66% in similar companies.

Whether it's through an extensive programme of sports and social events, involvement with charities and the community or by engaging with environmental issues, we're keen to make RM a great place to work. Crucial to our approach is staff involvement: we encourage our staff to get involved and support their activities wherever we can.

Green RM

As a business, RM has a relatively low environmental impact – there are still ways to improve though. Our annual staff surveys have consistently shown that our staff place a high priority on green issues. We asked a group of committed individuals to take the lead in improving our environmental performance. With an initial focus on transport and the office environment, they're making good progress.

Following an external audit from the Carbon Trust, the committee made recommendations to change the timings on heating and air-conditioning systems in RM's Milton Park offices; these changes have resulted in energy usage being reduced by the equivalent of approximately 60 hours per week. The committee has also encouraged individuals to play their role through green transport policies and has successfully lobbied for the inclusion of environmentally friendly 'dual-fuel' cars on RM's company car list. To keep staff informed and involved, the committee maintains the 'Green RM' Web site, providing details of progress and offering information about paper usage, recycling and energy savings.

Possibly RM's largest environmental impact area is the PC hardware which we supply to our customers. We're working hard on an effective response to waste electrical and electronic equipment legislation; our experience with Digital Links International shows that you can do more with a surplus PC than simply dispose of it in an environmentally friendly way. RM is also investigating the possibility of developing 'green' PCs, which consume less power and create less heat.

THE RM CHARITABLE FOUNDATION

Through the RM Charitable Foundation we support two charities chosen by RM staff: Volunteer Reading Help (VRH), an educational charity, with which we are building a long-term relationship; and a charity of the year, which in 2005 was Marie Curie Cancer Care.

The Foundation serves as a focus for charitable fund-raising, with RM adding 33% to any money raised by staff.

The Foundation also runs a community-support programme. This allows staff to apply for charitable donations to support causes and projects in which they are personally interested in or involved with.

VRH helps disadvantaged children to develop a love of reading and learning. It recruits and trains volunteers to work



with children aged 6–11 who find reading a challenge and need extra support and mentoring.

Marie Curie Cancer Care provides high-quality nursing, totally free, to give terminally ill people the choice of dying at home supported by their family.

SUPPORTING THE COMMUNITY THROUGH BETTER EDUCATIONAL LINKS

Many RM staff serve as local school governors – and for 2006 we've set a target to increase this number. Of course it's giving something to the education community, but it's also giving something to RM. We see it as a great way of making sure that our people understand what it's really like for our customers.

7,000

COMPUTERS NOW IN AFRICAN SCHOOLS

WHAT DO YOU DO WITH 7,000 SURPLUS COMPUTERS?

That was the question which the Dudley Grid for Learning project faced when it reached its mid-term 'refresh' and more than 7,000 computers were replaced with brand-new equipment. The RM project team – and the customer – thought that there was a better solution than sending the surplus hardware to landfill. Now, with the help of the charity Digital Links International, these computers are in use in schools in Africa.



Education is a key factor in breaking the poverty cycle, through our partnership with Digital Links International, RM is proud to play a part in improving the life chances of thousands of children across Africa.

Chief Executive of Digital Links International, David Sogan, says: "RM's staff really got behind this project. More than just providing surplus equipment, RM has engaged with the aims of Digital Links and – through the donation of a wide range of learning software – has made a real contribution to education in Africa."



Picture courtesy of Digital Links International

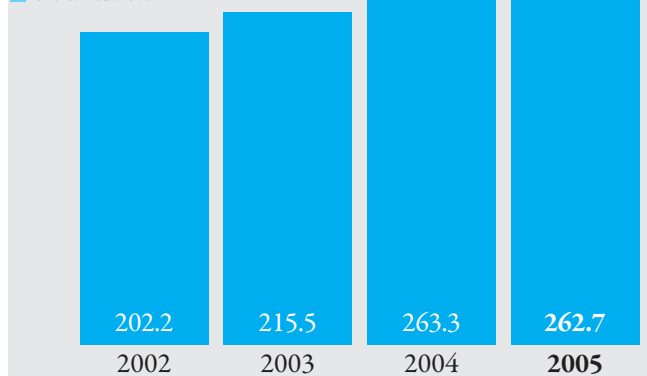
FINANCIAL HIGHLIGHTS

	2005	2004
Turnover	£263m	£263m
Profit before tax (before goodwill charges*) up 11%	£12.8m	£11.6m
Profit before tax (after goodwill charges*)	£5.5m	£7.1m
Diluted EPS (before goodwill charges*) up 12%*	10.5p	9.4p
Net funds (after £10.4m of PFI capex during the year)	£21.8m	£25.8m
Dividend per share up 5%	4.85p	4.6p

TURNOVER

£ MILLION

■ 'one-off' turnover



* Goodwill amortisation and impairment of £7.4 million (2004: £4.5 million); under UK GAAP RM amortises goodwill arising from acquisitions over five years, under IFRS goodwill amortisation will cease and be replaced by annual impairment tests.

OPERATIONAL HIGHLIGHTS

- **11% GROWTH IN PROFIT BEFORE GOODWILL CHARGES*.**
- **ORDER GROWTH: UP 15% ON LAST YEAR.**
- **SUCCESSFUL EDUCATION PROJECT DELIVERY.**
- **CUSTOMER SATISFACTION CONTINUES TO INCREASE.**

CHAIRMAN'S STATEMENT

RM has achieved a lot since Tim Pearson took over as our CEO in 2002. In terms of financial results, revenue has increased and profit before tax (before goodwill and exceptional charges) has more than doubled. Perhaps more importantly for the long-term health of our business, we have achieved year-on-year increases in customer satisfaction and reinvigorated our reputation for innovation.

What we have achieved – in establishing a track record of effective delivery, in increasing customer satisfaction, and in creating unique, educationally valuable intellectual property – means that the Group is very well positioned to respond to the opportunities presented by the educational ICT market. This is a testament to all Tim Pearson has done as CEO and to the dedication and professionalism of the very strong management team he leads.

OPPORTUNITY

Early in its history, RM made the strategic decision to focus its activities at the point where education and technology meet; in particular, on providing products and services that help teachers to teach and learners to learn. We believe that the UK education market now offers more opportunities for growth – and for helping customers achieve their goals – than it has for many years.



Most obviously, the Building Schools for the Future (BSF) programme is an excellent match for RM's competitive strengths. This 15-year, £45-billion programme will rebuild, or substantially refurbish, every English secondary school; with £5 billion of this spend allocated to information and communications technology (ICT), the programme will have far-reaching effects on the role which technology plays in education.

Several of the education projects which RM is already delivering are widely seen as examples of best practice in education technology; as such, they are helping to shape the ICT requirements of the BSF programme.

In the area of assessment and testing, we are taking a lead in applying 21st-century technology to an activity which has barely changed since the 19th century. The online test delivery and management environment which we are developing with the Qualifications and Curriculum Authority has been identified as one of the most innovative new approaches to assessment in the world, while our work with Cambridge Assessment (formerly

UCLES) will fundamentally improve the way in which the exam board administers high-stakes examinations.

RM is also playing a pioneering role in the area of 'enterprise systems' for education. The Scottish Schools Digital Network (SSDN) project, which we won during the year, demonstrates the rich set of resources that educationalists can expect in the future. SSDN is an ambitious national education intranet, providing online services for all 800,000 learners and teachers across all of Scotland; in time it will extend to parents as well. Delivering this project will place Scotland at the forefront of educational technology and provide RM with unrivalled knowledge and experience.

RESULTS

2005 has been a very successful year for RM. Tim Pearson sets out the full details of the Group's results in his Operating Review. In summary: profit before tax (before goodwill charges) increased by 11% to £12.8 million; profit before tax (after goodwill charges) was £5.5 million.

We are proposing a further increase in dividend, which will bring the full-year dividend per share to 4.85p (2004: 4.6p).

PEOPLE

Our staff believe that RM is a good place to work – they told us so in this year's annual staff survey. They also say that they are proud to work here. On behalf of the Board and the management team I extend my thanks to all of them. RM's strength, and our customers' success, is dependent on the loyal, committed and creative people who choose to work here.

THE FUTURE

The educational ICT landscape continues to evolve. New and powerful ways of using technology to help teachers and learners are emerging and, at RM, we believe that the role of ICT in improving educational standards will grow rapidly.

This developing market presents enormous opportunities – and challenges – for RM. The biggest challenge is to ensure that the products and services which we offer help our customers succeed – on their own terms. If we do this, our business will continue to prosper, to the benefit of all of our stakeholders.

JOHN LEIGHFIELD

Chairman

18 November 2005



John Leighfield – Chairman

CEO'S OPERATING REVIEW

RM has delivered a strong performance in 2005 – particularly so against a background of budget pressures in schools and falling selling prices in the PC hardware market. Financial results for the year show good progress compared with last year and customer satisfaction levels continue to improve.

Looking ahead, the educational landscape is evolving more rapidly than it has for many years: new and innovative uses for educational technology are emerging and RM, through our education project activity, is leading the world in many of these areas. The education market continues to provide opportunities for further growth, which RM is uniquely well positioned to address.

RESULTS

Profit before tax (before goodwill charges) increased by 11% to £12.8 million (2004: £11.6 million). This increase is after £1.8 million of business-development expenditure related to the Building Schools for the Future (BSF) programme. Operating profit margin (before goodwill charges) showed further progress, increasing to 4.4% (2004: 4.0%).

Group turnover was unchanged at £263 million; however, this masks underlying growth in the Group's business: the 'one-off' turnover which we reported last year (£15 million, arising largely from hardware sales related to a specific education project) has been replaced by a combination of long-term project turnover and full-year contributions from the businesses which we acquired during 2004.

Group order intake was 15% higher than in 2004 and significantly exceeded shipments in the year.

Cash management during the year was excellent: at 30 September 2005 net funds stood at £21.8 million (2004: £25.8 million). This is after PFI project capital expenditure in the year of £10.4 million, which is now complete.

After goodwill charges of £7.4 million, profit before tax was £5.5 million (2004: £7.1 million). The Board is proposing an increased final dividend per share of 3.8p (2004: 3.6p), making the total dividend per share for the year 4.85p (2004: 4.6p). Subject to approval at the AGM, the final dividend will be paid on 3 February 2006 to shareholders on the register on 6 January 2006.



Tim Pearson – Chief Executive Officer



INDIVIDUAL SCHOOLS

Individual schools customers continued to contribute the majority of RM's turnover during 2005. The average annual amount spent by RM's primary and secondary school customers increased during the year and more schools are choosing to use our flagship Community Connect 3™ infrastructure product.

Although a strong year overall, the individual schools market is not without challenges, with the last month of our 2005 financial year (which is also the first month of the academic year) being below our expectations. Head teachers in England are experiencing budget pressures, linked to both the workforce remodelling programme and the introduction of teaching and learning responsibility payments for teachers. The education software market was challenging, with evidence that some of the dedicated funding provided by the Department for Education and Skills is 'leaking' out of the market.



EDUCATION PROJECT DELIVERY

We entered 2005 having won several major education projects. These projects represent significant educational transformation for our customers; each of them is providing a high-quality service and all of them serve as reference sites for future bids.

Delivery highlights include:

- QCA: 47,000 pupils taking examinations online, compared with 1,200 in 2004
- Cambridge Assessment: 225,000 exam scripts processed electronically
- Warwickshire LEA: 1,500 teachers using Tablet PC-based teacher toolkits

- Newham LEA: 4,200 laptop computers available for pupils to take home
- Lambeth LEA: Full managed service supporting over 6,000 users
- South Lanarkshire Council: 9,000 computers over 200 sites
- South Yorkshire eLearning Programme: 10,500 new ICT qualifications achieved so far
- Dudley Grid for Learning: 8,000 computers updated in over 100 schools

Education projects made an increased contribution to turnover during the year. Also important is the reputation we are developing for delivering successful outcomes for our customers, which increasingly differentiates us from our competition.

During the year we won two further education projects (Scottish Schools Digital Network and Lambeth PFI) worth, in total, £54.5 million, as well as securing the renewal of our contract with the South West Grid for Learning, which is expected to be worth £10 million per year for up to five years.



SCOTTISH SCHOOLS DIGITAL NETWORK

In September 2005 we were awarded a £37.5 million contract to deliver the Scottish Schools Digital Network National Intranet (SSDN). This was a fiercely contested contract and we won it in competition against some of the world's largest technology companies. RM was successful because we were able to demonstrate an unrivalled combination of technical delivery capability and educational focus.

When the first stage of SSDN is complete, more than 800,000 learners, teachers and educational managers in Scotland will have secure, personalised access to a single intranet. Over time this intranet will be extended to embrace parents as well.

The SSDN project will drive whole new ways of using technology in education, which will both save time for teachers and improve facilities for learners. Functions available will include curriculum-planning and delivery for teachers, innovative educational content for learners and sophisticated management information systems for education managers; as well as collaboration and communication tools (including email, video conferencing and chat) for all users.



A REPUTATION FOR INNOVATION

We see technical capability as one of our key competitive advantages and, during 2005, we have continued to build our reputation for innovation.

The education projects which we are delivering require technical innovation; they also play a key role in developing the Group's intellectual property. Each of these education projects individually has built the knowledge, skills and experience the Group has access to, together they provide us with a rich and deep understanding of designing and delivering technology that makes a genuine contribution to educational outcomes.

Several of our products and services have been recognised for their innovation during 2005. We won four awards at BETT 2005 (the annual educational ICT trade show), two Education Resources Awards at the annual Education Show, and awards at the Nursery World show. These awards cover all aspects of our product range including PC hardware, educational software and general educational resources (produced by the recently acquired TTS subsidiary).

HARDWARE AND DISTRIBUTION

Our innovative, educationally differentiated PC, the RM ONE, has been extremely well received by schools. Schools value the RM ONE's educational features and robust, space-saving design, demonstrating the benefit of customer-driven innovation – even in commodity product areas. The RM ONE range has now been extended with the RM Mobile ONE, which brings educational benefits to the laptop computer.



Shown with optional primary keyboard

The commodity PC hardware market has continued to be extremely competitive and this year has seen a significant decline in average selling prices. This effect has been most evident in our universities business; however, we believe we have retained our market share here, despite reducing the level of sales and marketing resource deployed.

TTS, the general education resources supplier which we acquired during 2004, has made an excellent first-year contribution to the Group. Working in partnership with RM's hardware division, TTS has begun to develop a highly innovative range of technology products. The first of these – Bee-Bot – has been a sales success and further products will be introduced at BETT 2006.

ONLINE ASSESSMENT

More than 50 million exam scripts circulate around the UK examination system each year, typically in the form of physical pieces of paper. There is a clear opportunity for ICT to improve the effectiveness and efficiency of these processes and it's an area in which we have made good progress.

Our project with the Qualifications and Curriculum Authority to deliver an online Key Stage 3 (13- to 14-year-olds) examination for the curriculum subject of ICT is progressing well. The examination went through volume-testing this summer and will be used next year by a high proportion of all English Key Stage 3 pupils. As well as providing an innovative new way of testing ICT, this project has also created a national ICT infrastructure for delivering, administering and marking tests for other subjects as well.

We are also working with Cambridge Assessment (formerly UCLES) to streamline the process of managing traditional, paper-based exams. DOMS, our Digital Online Marking Software, improves the efficiency and increases the accuracy of marking. Through a sophisticated workflow engine, completed exam scripts are scanned at the earliest possible point, with the distribution, marking and reporting then managed electronically.



These two projects both have wider relevance and we are exploring a range of further business opportunities.

BUILDING SCHOOLS FOR THE FUTURE

BSF is a 15-year programme which is intended to rebuild or substantially refurbish every secondary school in England. Partnerships for Schools (P4S), the agency tasked with driving the programme forward, has indicated that, over the life of the programme, capital investment could reach £45 billion.

Technology will be a fundamental part of the 'school of the future' – indeed, educational ICT is being seen as one of the key drivers of educational transformation. With as much as £5 billion of the investment being focused on educational technology, the BSF programme is an unprecedented opportunity for RM.

The potential benefits go beyond an increase in market size. P4S has provided strong guidance that BSF projects should procure ICT in the form of multi-year, managed services. This would allow us to build even deeper partnerships with our customers, as well as providing greater long-term visibility of revenues. As with any major market change, there are, of course, risks associated with the BSF programme. In particular, the requirement to bid for projects as part of a consortium means that decisions will not be made entirely on the quality of an ICT proposition.

The track record of education-project delivery, which we have built up in recent years, is directly relevant to the kind of business which is likely to be available under BSF. We have made some early progress, being appointed as preferred bidder for a £6.4 million ICT contract with Solihull Local Education Authority.

We have chosen to increase our expenditure on business development related to the BSF programme from the £1.8 million that was spent in 2005 to approximately £4 million in 2006, with the target of securing the position of leading ICT partner to the programme. We view this expenditure as a strategic investment which will yield shareholder benefits over the next three to five years as an increasing number of BSF contracts is awarded.

INTERNATIONAL

The UK leads the world in the deployment of interactive whiteboards in classrooms and RM has responded to the growing use of this kind of technology with the further development of the Easiteach product range. Easiteach – a suite of interactive whole-class teaching software – is equally as useful in international markets as it is in the UK and, during 2005, we have made progress in establishing a customer base for the product range in the USA.

By working in partnership with four of the leading interactive whiteboard suppliers in America, we have established a presence for Easiteach in American schools. Our partners bundle Easiteach Studio – the core of the product range – with the whiteboards which they sell to the US education market. We are establishing a distribution channel to sell 'add-on' modules to those schools which experience the bundled product.



CUSTOMER SATISFACTION

A key part of our strategy is to focus on continual improvement of customer satisfaction levels. In 2006 every permanent staff member in our principal operating subsidiary will have some element of their remuneration linked to customer satisfaction.

We view our externally audited customer satisfaction score as our most important non-financial measure. In 2005 this score increased again, exceeding our target and reaching 7.21 on a scale of 0 to 10 (2004: 7.0), with more than 58% of customers giving us a score of 8, 9 or 10.

The customer satisfaction target has been set higher again for 2006. If we achieve our 2006 target, we will have seen year-on-year increases each year since we first started measuring customer satisfaction in 2003. Independent analysis (by the American Customer Satisfaction Index) of US companies which measure customer satisfaction suggests that very few companies increase their score in two consecutive years.

The quality of service which we deliver for our customers has received external validation during 2005. Support Online, our Web support service, was identified by the Association of Support Professionals as one of the World's Ten Best Web Support Sites for the second consecutive year in 2005. Our telephone support team was a finalist in the Helpdesk Institute's Helpdesk Support Team Excellence Awards.

We are now extending our focus to include customer success as well as customer satisfaction. By this we mean achieving a



position where our customers not only view us as an exemplary supplier, but also consider that the products and services which we supply are an essential tool to improve teaching and learning.

OUR PEOPLE

RM has a growing international presence and we now employ 185 people outside the United Kingdom. In North America and Australia we have regional sales offices and our software development facility in Trivandrum, India is making an increasing contribution to product development.

Employee satisfaction, based on our internal staff survey, increased during the year, with 80% of staff responding that they thought RM was a good organisation to work for (similar companies: 58%). This is a very positive result and I echo John Leighfield's comments in his Chairman's Statement thanking my colleagues everywhere in the Group for their effort, dedication and professionalism.

There are, as ever, areas for improvement, the most obvious this year being staff training. For 2006 we have increased our focus on staff development.

PROSPECTS

The recent education white paper, Higher Standards, Better Schools for All, identifies a central role for ICT in education; this follows on from the publication of the Department for Education and Skills' (DfES) eLearning Strategy earlier this year and the appointment of the first ever Director of Technology to the DfES Board.

RM remains a seasonal business, with more than half of our revenues – and an even greater proportion of profits – occurring in the second half of the year (reflecting the peak in schools' demand, in preparation for the start of the academic year in September). While we have improved the visibility of our revenues, we still have almost two-thirds of the year's business to win and deliver.

As always at this time of our financial year, it is too early in the year to make any meaningful comment on RM's performance in 2006. However, with English head teachers facing budget pressures as a result of the workforce remodelling programme and the introduction of teaching and learning responsibility payments for teachers, the weakness in the market that was evident at the start of the new academic year has continued into the current financial year.

As previously mentioned, we are choosing to increase our investment in business-development expenditure to prepare for the opportunities presented by BSF. We believe that this is in the long-term interests of shareholders; however, it will hold back profit growth in 2006.

In the longer term, RM is very well positioned to deliver innovative ICT products and services that will help teachers to teach and learners to learn.

TIM PEARSON

Chief Executive Officer
18 November 2005

FINANCIAL REVIEW

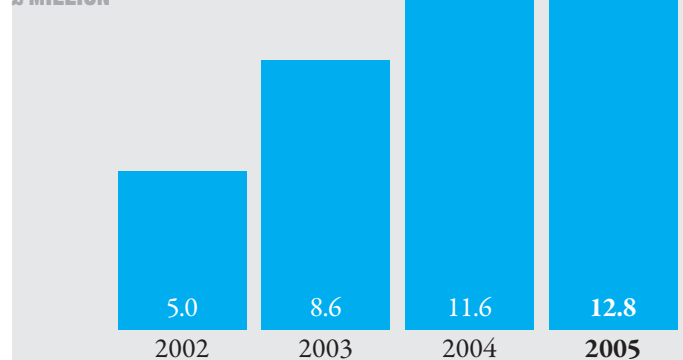
Results in the year to 30 September 2005 show a strong performance from the RM Group. Profit before tax (excluding goodwill charges) increased by 11% to £12.8 million, whilst diluted earnings per share (excluding goodwill charges) grew 12% to 10.5p. Turnover was unchanged at £263 million. The proposed final dividend per share is 3.8p, giving an increased total dividend per share for the year of 4.85p (2004: 4.6p). Net funds at 30 September 2005 were £21.8 million (2004: £25.8 million); a decrease of only £4.0 million despite £10.4 million of capex investment in PFI contracts.

TURNOVER AND PROFITS

PROFIT BEFORE TAX

(before goodwill charges and exceptional items)

£ MILLION



At the Group level, turnover for the year was unchanged at £262.7 million (2004: £263.3 million); however, this position masks significant developments in the Group's underlying business. In 2004 we reported 'one-off' turnover of approximately £15 million arising from the Classroom 2000 project in Northern Ireland. In 2005, this has been replaced, principally by a full year's contribution from TTS and Sentinel (the acquisitions made in 2004) and by an increase in the turnover recognised on long-term education projects. 2005 also saw a decline in the proportion of turnover arising from PC hardware sales, which now accounts for less than one-third of the Group's revenues. This decline was driven by a reduction in average unit selling prices for PCs, an effect that was particularly noticeable in the university sector.

The gross profit percentage increased to 28.1% (2004: 26.0%). This increase is primarily a result of the increasing breadth of activities inside the Group and their differing business models.



Mike Greig – Group Finance Director

This year gross profit percentage has been particularly impacted by the acquisition of TTS, which has higher than Group average gross margins, and by an increase in the contribution made by long-term contracts.

Total operating expenses (excluding goodwill charges) were up £4.2 million at £62.2 million (2004: £58.0 million), with the full year impact of last year's acquisitions accounting for £3.3 million of this increase. Investment in research and development increased by £2.3 million to £16.8 million (2004: £14.5 million) reflecting increased project supported developments. Selling and distribution costs increased by £1.4 million to £34.2 million, mainly as a result of increased business development expenditure relating to the Building Schools for the Future (BSF) contracts (£1.8 million in 2005, compared to £0.1 million last year).

Operating profit (excluding goodwill charges) increased by 10% to £11.5 million. Operating profit margin (before goodwill charges) made further progress increasing to 4.4% (2004: 4.0%).

Net interest receivable increased by 24% to £1.3 million. This includes £0.7 million of income arising from leasing activities (2004: £nil). The provision of lease finance options to customers had previously been outsourced but was brought in-house in 2005 in order to provide greater control and flexibility over our offer to customers. This change has resulted in a change in the way in which income related to leasing is included in the accounts. There was lower interest receivable on the lower average cash balances during the year.

Profit before tax, excluding goodwill charges increased by 11% to £12.8 million.

Goodwill charges increased from £4.5 million to £7.4 million, reflecting additional amortisation of £1.8 million on acquisitions made in 2004 and an impairment charge of £1.1 million made in relation to the closure of peakschoolhaus. Under UK GAAP, RM writes off goodwill arising from acquisitions over five years. Profit on ordinary activities before taxation was £5.5 million (2004: £7.1 million), primarily as a result of this increase in goodwill charges.

CASH FLOW

Cash generation continues to be strong with £17.2 million of operating cash flow generated in the year (2004: £22.4 million). Net capital expenditure was £14.5 million (2004: £9.7 million), comprising additions of £15.6 million, less proceeds from sales of £1.1 million. £10.4 million was invested in the year in the PFI contract asset bases for the mid-contract refresh of the existing Dudley contract and in the new Warwickshire, Newham and Lambeth PFI contracts.

Net funds of £21.8 million comprise cash and investments of £22.9 million, less issued loan notes of £1.1 million. In addition, there is deferred consideration of £3.6 million comprising loan notes of £1.2 million that are issuable in 2007 and included in provisions, and deferred cash consideration of £2.4 million that is payable in December 2006 and included in creditors falling due after more than one year.

The Group's core business is seasonal and average net funds during the year were £8.0 million (2004: £27.2 million), with a minimum for the year of a £1.2 million deficit (2004: surplus £7.1 million). The reduction in average net funds reflects the timing of the 2004 acquisitions, the investment in fixed assets for long-term PFI contracts and an increase in long-term work in progress.

BALANCE SHEET

Tangible fixed assets increased by £6.2 million to £26.4 million, arising from additions at a cost of £15.7 million, net disposals of £0.8 million and depreciation charged of £8.7 million. Intangible fixed assets represent the net book value of goodwill arising on acquisitions and amounts to £17.3 million.

Stocks increased by £1.2 million to £17.7 million, as a result of an increase in long-term contract balances of £3.8 million. Debtors decreased by £2.1 million to £49.5 million, mainly due to reductions in trade debtors and prepayments.

Creditors decreased by £3.2 million to £83.3 million mainly due to reductions in trade creditors and accruals, offset by an increase in payments on account related to a long-term contract.

TAX AND TREASURY

The Group measures the tax rate as a percentage of profit before goodwill charges because goodwill charges are not a tax deductible expense. In 2005 this tax rate was 26.9% compared to 27.3% in 2004. The tax rate continued to be below the standard UK corporation tax rate of 30% because of the benefit of the Group undertaking research and development projects that attract an enhanced tax deduction.

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 Group has continued to account for its defined benefit pension scheme using SSAP 24 'Accounting for pension costs'. The latest triennial actuarial valuation was carried out at 31 May 2003, with another due in May 2006. At 30 September 2005, under FRS 17 'Retirement benefits', the scheme's assets were £56.5 million and its liabilities were £72.4 million; this is a deficit before tax of £15.9 million (2004: £14.9 million), or £11.1 million deficit after tax (2004: £10.4 million). In 2005, the Group has adopted more prudent mortality assumptions – PMA92(-4) and PFA92(-4) – which in summary added an extra year's life expectancy and increased liabilities by £1.4 million. Over the year the yield on 'AA' rated corporate bonds, which is used to discount the scheme's liabilities, has fallen by 0.55% to 5.05% and the assumption for future salary increases has been reduced by 0.4% to 3.8%. The impact of these changes in assumptions is an increase in liabilities of £8.2 million and this more than offset a good investment return on the scheme assets during the year.

The recent introduction of the Pension Protection Fund and the, as yet unclear, mechanisms for calculating future years' payments (which will include the solvency of participating Group companies and the scheme's PPF deficit) might mean significant unplanned costs for the Group. The charge made for 2005, on a different basis from that going forward, was £0.02 million.

The Group continues to closely monitor the position of the pension scheme, taking appropriate and prudent action when it deems necessary.

CHANGES TO THE GROUP

The Group has made no material acquisitions in the financial year ended 30 September 2005, compared with three acquisitions during the preceding year. In April 2005, the Group announced that peakschoolhaus, an Ofsted inspection business, which was acquired in October 2003, was an unsuccessful bidder for regional inspection services. As a consequence this business has been closed and the Group has taken an impairment charge equal to the unamortised goodwill.

On 30 September 2005, the Company exercised an option to acquire all the issued share capital in RM Educational Software, Inc to enable further development in the US market. The exercise of the option entailed the payment of \$100 and has not affected the Group's results as RM Educational Software, Inc had been fully consolidated in prior years as a quasi-subsiidiary.

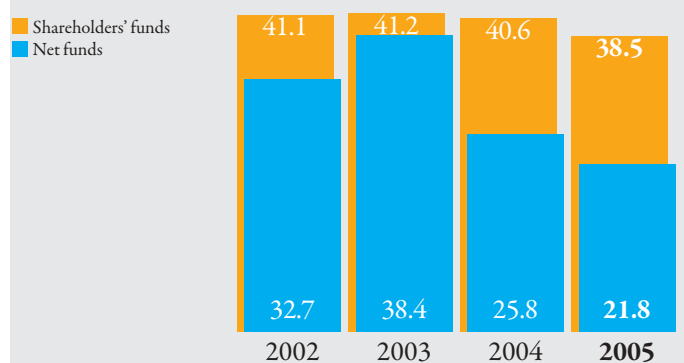
SHAREHOLDER RETURN

The mid-market share price at the close of business on 30 September 2005 was 167.75p, an increase of 17.7% over last year end, capitalising the Group at £152.2 million. An interim dividend of 1.05p per share was paid to shareholders in July; the proposed final dividend of 3.8p makes a total dividend return of 4.85p per share (2004: 4.6p), an increase of 5.4%. Dividend yield for the year was 2.9% based on the share price at the close of the

year. Diluted earnings per share (excluding goodwill charges) were up 11.7% to 10.5p (2004: 9.4p).

The Company did not utilise the authority that it has in place to buy back up to 10% of the issued share capital during the year. It will seek re-approval of this authority at the AGM in January 2006.

SHAREHOLDERS' AND NET FUNDS
£ MILLION

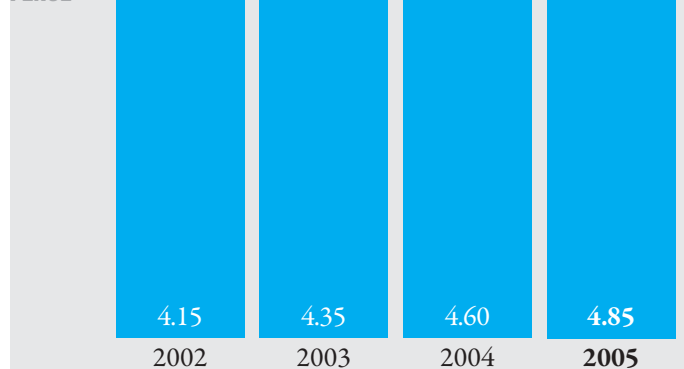


ACCOUNTING POLICIES AND PRESENTATION

Under UK GAAP the Group is required to amortise goodwill arising on acquisitions. It has continued to do this over a five-year period. This is significantly shorter than the period of 20 years referred to in FRS 10. As a result, the profit and loss account bears a significant, non-cash charge for goodwill amortisation; this charge is included in administrative expenses. As noted in this review, the Group also bore an impairment charge on the goodwill arising on peakschoolhaus in the year ended 30 September 2005. To aid understanding of the underlying business performance, operating profit and profit before tax are both shown before this charge on the face of the profit and loss account. For the same reason, an additional EPS measure excluding goodwill charges is also included.

The Group's accounting policies are set out in note 1 to the financial statements. The Directors regularly review these policies and consider them to be appropriate, robust and adequately disclosed.

DIVIDENDS PER SHARE
PENCE



INTERNATIONAL ACCOUNTING STANDARDS

This report for the year ending 30 September 2005 is the last prepared under UK GAAP. In common with all listed companies within the European Union, the next consolidated report and accounts RM will prepare will be in accordance with International Financial Reporting Standards (IFRS). The Group intends to make a transition announcement on the impact of moving to IFRS in December 2005 with a presentation being made available on our Web site at www.rm.com/investors

The following areas are likely to be significantly impacted by the transition:

Goodwill	Annual impairment review of carrying value, no goodwill amortisation (IAS 38).
Share-based payment	Income statement charge at fair value for equity instruments granted to employees (IFRS 2).
Pensions	Assets and liabilities of the defined benefit pension scheme included on the Group balance sheet. Movements reflected in income statement and statement of recognised income and expenditure (IAS 19).
Research and development	Expenditure meeting certain recognition criteria must be capitalised, amortised over its useful life and subjected to annual impairment reviews (IAS 38).
Holiday pay	Liability is recognised for holiday accrued by employees (IAS 19).
Foreign exchange derivatives	Derivatives are fair valued with movements taken to income or deferred until the hedged item affects income (IAS 39).
Dividends	The final dividend is not accrued until approved and is therefore not included within the year end accounts (IAS 10).
Taxation	Deferred tax is provided on temporary differences which are expected to be recovered, including the pension scheme surplus/deficit (IAS 12).

MIKE GREIG

Group Finance Director
18 November 2005

CORPORATE GOVERNANCE REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

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

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 with the following exceptions:

- (Combined Code C.3.4) A formal 'whistle blowing' policy was not adopted by the Group until 1 August 2005, prior to this informal arrangements were in place for staff to raise concerns about possible improprieties.

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 26 and 27. Non-Executive Directors are appointed for a fixed term, subject to re-election. They can serve a maximum of three terms. 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 11 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 annually 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, namely Audit, Remuneration, Nominations and Transactions, all of which, apart from the Transactions Committee, comprise only Non-Executive Directors.

THE AUDIT COMMITTEE

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 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 were made available for inspection at the Group's offices.

THE REMUNERATION COMMITTEE

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 NOMINATIONS COMMITTEE

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 2005 the Committee met once.

THE TRANSACTIONS COMMITTEE

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.

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
18 November 2005

AUDIT COMMITTEE REPORT

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

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

COMPOSITION AND QUALIFICATIONS OF THE AUDIT COMMITTEE

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.

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

SCHEDULE OF MEETINGS

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

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

APPOINTMENT OF EXTERNAL AUDITORS

The Audit Committee recommended, and shareholders approved at the Group's annual general meeting on the 24 January 2005, the 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.

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. A whistle blowing policy was adopted by the Group on 1 August 2005.

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 introduced a requirement on 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.

Following the publication of the 'Internal Control Guidance for Directors on the Combined Code' – the Turnbull guidance – the Board and the Audit Committee have reviewed 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 on 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, 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. In the interests of transparency this statement of risks contains a high level of detail in order to give a more thorough analysis of the principal risks the RM Group is exposed to. These risks can be categorised into seven broad areas:

1. 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.

2. 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 is scheduled to launch in January 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 may 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 risks by maintaining a broad product and service range and by investing to enhance the educational value of its offer. 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.

3. 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.

4. 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 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 regular review of subsidiaries to ensure that the Group has appropriate controls and management structures in place as it grows.

5. FINANCIAL RISK

The Company 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 Company has an exceptionally good record in relation to bad debts because of the good credit standing of most

of its customers. Where the Company deals with customers who are not public bodies and those customers constitute significant business, the Company usually asks third-parties to take the credit risk. In accordance with the recommendations of the Board, no more than two-thirds of the Company's cash may be held with any one bank. The internal audit function regularly considers areas of the Company's business that are vulnerable to fraud by customers, suppliers and employees and makes any appropriate recommendations to avoid any possible fraud. In respect of foreign exchange risk, the Company 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.

6. BUSINESS RECOVERY

The Company 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 Company has made significant investments in protecting itself against a disaster. The Company has also piloted its plans for dealing with a disaster. The Company has comprehensive property insurance covering all of its properties.

7. PENSION RISK

The Company 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 and the, as yet unclear, mechanisms for calculating future years' payments might mean significant unplanned cost.

SIR BRYAN GARSBERG

Chairman, Audit Committee
18 November 2005

BOARD OF DIRECTORS

JOHN LEIGHFIELD CBE

Chairman [N]

John Leighfield (age 67) was appointed Chairman in 1994, having joined RM as a Non-Executive Director in 1993. Until April 1993 he was Executive Chairman of AT&T ISTEEL. He is a Non-Executive Director of Getmapping plc. He is Chairman of the Council and Pro-chancellor of Warwick University. He is past President of both the BCS and the CSSA and current President of IMIS. He is Master of the Worshipful Company of Information Technologists.



John Leighfield

TIM PEARSON

Chief Executive Officer

Tim Pearson (age 45) was appointed Chief Executive Officer in February 2002 having joined the Board in 1997. He previously held the role of Managing Director – RM Learning and had responsibility for the Group's Internet and content strategy. He joined RM in 1981 and has held a number of senior technical and service management positions. He attended the Harvard University Business School Advanced Management Program. He is past Chairman of the Internet Service Provider Association.



Tim Pearson

MIKE GREIG

Group Finance Director

Mike Greig (age 49), 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 of Comino Group plc, a provider of software-based business solutions for occupational pensions, social housing and local authorities. He attended the Harvard University Business School Program for Management Development.



Mike Greig

ROB SIRS

Chief Operating Officer

Rob Sirs (age 44) was appointed to the Board as a Director in March 2004. He joined RM in 1990 as Manufacturing Manager. Since then he has performed a number of senior software development, services and general management roles, including Head of Procurement, PC Division Director and RM Schools Managing Director. He was appointed to the role of Group Director – Products and Services in 2002. He attended the Harvard University Business School Advanced Management Program. Prior to RM, Rob worked for Andersen Consulting and Mars.



Rob Sirs

[A] Audit Committee Member

[R] Remuneration Committee Member

[N] Nominations Committee Member

SHERRY GOUTU

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

Sherry Goutu (age 41) was appointed to the Board as a Non-Executive Director in 1999. She is one of the UK's leading technology entrepreneurs 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 Development Committee, Vice Chairman of the Prince's Trust Technology Leadership Group and a Trustee of the Venture Partnership Foundation. She holds degrees from the University of British Columbia (BA hon), The London School of Economics (MSc with distinction) and Harvard Business School (MBA).



Sherry Goutu

SIR BRYAN CARSBERG

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

Sir Bryan Carsberg (age 66) 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 SVB Holdings 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.



Sir Bryan Carsberg

JOHN WINDELER

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

John Windeler (age 62) 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. 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.



John Windeler

SIR MIKE TOMLINSON

Non-Executive Director [R]

Sir Mike Tomlinson (age 63) 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, London.



Sir Mike Tomlinson

PROFESSOR TIM BRIGHOUSE

Non-Executive Director [N]

Tim Brighouse (age 65) 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.



Professor Tim Brighouse

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 2005.

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. A review of the Group's activities and its prospects for the forthcoming year is contained in the Chairman's Statement and the Chief Executive Officer's Operating Review.

2. RESULTS AND DIVIDENDS

The Group's profit for the year, after taxation and goodwill charges, was £2.0 million (2004: £3.9 million). The Directors recommend the payment of a final dividend per share of 3.80p bringing the total dividend for the year to 4.85p per share (2004: 4.60p). The final dividend is payable on 3 February 2006 to shareholders on the register on 6 January 2006.

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 £16.8 million was incurred in 2005 (2004: £14.5 million). All research and development costs are written off in the year in which they are incurred.

4. DIRECTORS AND THEIR INTERESTS

The names of the current Directors of the Company are given on pages 26 and 27. 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 2005 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	9	–	–	–	–	–	–
NON-EXECUTIVE								
J.P. Leighfield	11	11	–	–	–	–	1	1
S.L. Coutu	11	11	3	3	5	5	1	1
B. Carsberg	11	11	3	3	5	5	1	1
J.R. Windeler	11	11	3	3	5	5	1	1
M.J. Tomlinson	11	9	–	–	5	5	–	–
T.R.P. Brighouse	11	10	–	–	–	–	1	1

* Rob Sirs attended a Harvard University Business School Advanced Management Program during the year and was unavailable to attend two Board meetings.

6. DIRECTORS PROPOSED FOR REAPPOINTMENT

Three Directors are retiring from office by rotation and are offering themselves for re-election. Mike Greig, Sherry Coutu and John Leighfield 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 26 and 27.

7. ANNUAL GENERAL MEETING

The annual general meeting of the Company will take place at 2pm on Monday 23 January 2006 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 £604,804 (33.33% of the issued share capital as at 18 November 2005). 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 £90,730 (5.0% of the nominal value of the issued share capital as at 18 November 2005). 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, 23 April 2007. 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 23 April 2007, 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 to allow the Company to indemnify its officers to the extent permitted by the new Sections 309 A to C of the Companies Act 1985.

8. SUBSTANTIAL SHAREHOLDINGS

As at 18 November 2005, the Company had been notified of the following interests in 3% or more of its issued ordinary share capital:

	Number of shares	Percentage held
Schroder Investment Management	22,251,801	24.53%
Legal & General	3,659,653	4.03%
Barclays PLC	3,109,731	3.43%
Zurich Financial Services	2,741,000	3.02%

9. ACQUISITION OF THE COMPANY'S OWN SHARES

Further to the shareholders' resolution at the annual general meeting on 24 January 2005, the Company purchased no shares (2004: nil) during the year, other than 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 24 January 2005, to purchase through the market up to 8,970,079 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 2006 annual general meeting or on 24 April 2006, 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 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 2005 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 2005, 95% 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 Management 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-instructed learning through teaching manuals, 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.

During 2005, following a ballot of all staff, the Group 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 2005, received an 84% response rate. 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 £33,000 (2004: £56,000). A further £2,000 was given to locally-based community support projects (2004: £3,000). The Group made no political donations during this year or the previous year.

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

RM recognises that those businesses that are successful in the long-term, will be those that not only achieve excellent financial performance, but also deal well with their corporate social responsibilities. Although software and computer services is a sector with relatively limited environmental impact, RM believes that it must take its responsibilities seriously. RM has developed its SEE policy to help ensure that these issues form an integral part of the Company's performance and decision making processes.

In terms of social performance, RM believes that its responsibilities start with its employees – details of our employment policies are

provided in section 11. The Company is committed to protecting and enhancing the health and safety of all of its employees, and others who may be affected by its activities.

RM aims to be a considerate and committed member of the communities in which it operates. During 2005 RM made charitable donations totalling £35,000, to various projects. However, it is the willingness of our employees to engage in community projects, which has played a more important role in establishing RM's reputation as a company that engages widely with the broader community. Every employee can choose to devote a small amount of work time each year to support one of RM's two chosen charities. In addition, during the year the Group established the RM Foundation to support the charitable activities of employees. Through the RM Foundation, the Group will 'top-up' funds raised by employees for our chosen charities.

RM is striving to improve its environmental performance. To achieve this we are committed to reducing the amount of energy we consume and waste we generate. Our staff play an important role in helping us to accomplish our goal and have been instrumental in driving through process changes. We recognise that customers increasingly favour environmentally-friendly companies and hope our actions over the past year will prove beneficial to all.

During the year we underwent an external assessment of energy saving opportunities at our Milton Park headquarters. This survey, carried out on behalf of the Carbon Trust, identified measures and recommended actions to allow us to save energy and reduce associated carbon dioxide emissions. A number of these have been implemented, including a suggestion to amend the timing controls for the heating and air-conditioning. This has resulted in a saving of 60 hours' energy per week across the offices. We have also made further changes to the company car fleet and have recently placed our first order for a 'dual fuel' car, which combines a petrol engine with an electric motor to give greatly increased fuel efficiency. We promote initiatives to reduce car usage and individuals are encouraged by our Environmental Committee to car share, cycle or use public transport wherever possible.

We have also focused on aspects of the office environment where we can make environmental improvements. Staff are encouraged to minimise their use of paper and printing technology. This is supported by the development of RMi, which allows 'paperless' workflow processes to be used across the business.

Product design and lifecycle are important as well. In addition to ensuring we meet forthcoming legislation, such as the Waste Electrical and Electronic Equipment (WEEE) Directive, we are actively developing a 'green' PC which uses and emits less energy than normal.

Like most businesses of its size, RM is continuing 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. To these ends, 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 creditor days, which have not been adjusted for the seasonal nature of the business of the Group, for the year ended 30 September 2005 were 31 days (2004: 43 days) based on the ratio of trade creditors at the year end to the amounts invoiced by suppliers during the year.

By order of the Board

A.J. ROBSON

Company Secretary
18 November 2005

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 2005.

2005 HIGHLIGHTS

RM delivered a strong performance for shareholders during the year. Diluted earnings per share (EPS), before goodwill charges, grew 12% to 10.5p compared with 9.4p for 2004. There were also improvements in customer satisfaction and market share measures and, therefore, as a result of this strong performance:

- Executive Directors achieved bonus awards of 55% (55% of the maximum achievable).
- 100% of share options granted in December 2002 will become exercisable as a result of EPS growth.
- The Co-Investment Plan (CIP) awarded a 2.88 for 1 match for the shares held by the executives for the criteria set in 2002.

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 last year 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.

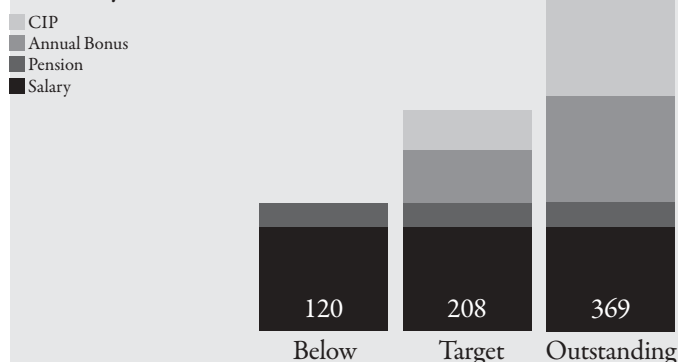
1. REMUNERATION POLICY

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.

STRUCTURE OF TOTAL REMUNERATION FOR EXECUTIVE DIRECTORS

Base salary = 100



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

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

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

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

- Through the RM plc 2002 Staff Share Scheme all UK employees, who have been in service for at least seven months at the date of the annual award, receive free shares.
- More than 56% of employees can earn bonuses linked to EPS, customer satisfaction, and personal objectives.
- Selected senior executives are invited to participate in the Co-Investment Plan, 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 Co-Investment 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 2006 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		
<ul style="list-style-type: none"> 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 share 10% personal objectives
LONG-TERM INCENTIVES		
<ul style="list-style-type: none"> 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. Supports retention and strong alignment with shareholders	Relative Total Shareholder Return (TSR) EPS
SHAREHOLDING REQUIREMENT		
<ul style="list-style-type: none"> 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.

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, comes 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 ensure that they are of similar size and complexity in a similar 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 the first time in four 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.

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

B) ANNUAL BONUS

The annual bonus potential is 100% of base salary with 40% of any bonus paid in shares deferred for three years.

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 2006

The performance targets that the Remuneration Committee believes are critical to achieve in 2006 are increases in EPS, customer satisfaction, and market share indicators and attainment of personal objectives relating to RM's overall success.

The weighting of the different bonus measures is as follows:

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

We have set targets for each parameter, which 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 and market share/customer acquisition areas has been achieved.

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

The Committee believes that it is in shareholders' interests that bonuses are tied to an increase in market share and we consider a variety of measures to inform our judgement on whether or not it is clear that targets have been met. Achieving market share targets could result in an annual bonus payment of 20% of base salary. If market share, particularly with regard to the Building Schools for the Future programme, does not increase, then none of the 20% bonus is paid. 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 2005

In 2005 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 EPS growth of 12% which triggered the customer satisfaction and market share targets to be taken into consideration. The CIP also matched shares at 2.88 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 2006 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 EPS 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 2006. These will be based on EPS growth and relative 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 goodwill charges and exceptional items. 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 below.

EPS growth	TSR relative to FTSE Software and Computer Services index			
	Annual compound growth	Match	Relative ranking	Match
Less than RPI + 3%	Nil	Below median	Nil	
RPI + 5%	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 Remuneration Committee, on taking advice from PricewaterhouseCoopers LLP, understands that the EPS growth requirements, set out above, are broadly in line with the growth rates required in long-term incentive arrangements recently introduced by other quoted companies. However, the Remuneration Committee is aware that these targets appear less stretching than last year. This reflects the fact that the Board has agreed a substantial expenditure to prepare the Group for the BSF programme. This immediate and strategically crucial business development expenditure of £4 million will not result in revenues this year. In light of this the Remuneration Committee believes that the EPS targets set for the 2006 plan are sufficiently stretching in the context of RM's business environment over the next three years.

The Remuneration Committee will employ its discretion to ensure that matching awards are affordable and justified in the context of the Group's underlying financial performance. The Committee believes that the two measures operate in shareholders' interests because they reward executives for making the extra-ordinary long-term investments in the BSF programme.

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 was 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.

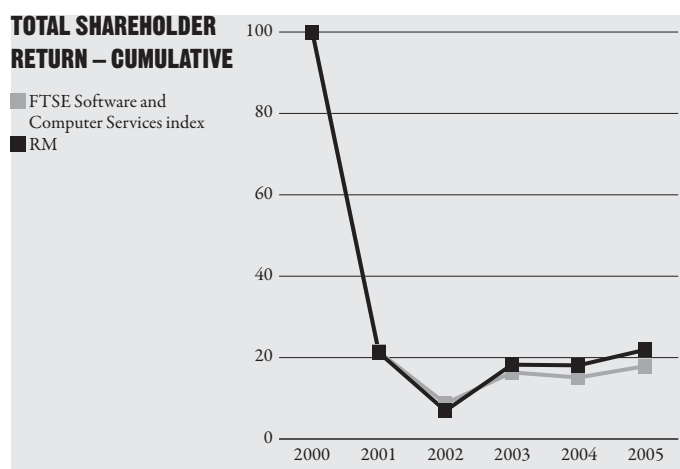
D) SHARE OPTION SCHEME

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

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

2. PERFORMANCE GRAPHS

The Group's TSR is compared in the graph below against the TSR of the FTSE Software and Computer Services index. This index has been chosen as the best benchmark of RM's performance as this is the sector within which RM operates. RM is a constituent of this index. £100 invested in RM shares on 1 October 2002 (prior to the Company's recovery plan being put in place), would have been worth £315.85 at 1 October 2005. An investor, who had invested the same amount in the FTSE Software and Computer Services index, would have seen their investment rise to £205.51 over the same period.



The graph above shows the value over five years of £100 invested in RM shares on 1 October 2000, 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. Non-Executive Directors receive an annual fee of £24,000 for the basic fiduciary duties of a Director plus a per diem payment for time spent on additional RM business. 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
J.P. Leighfield	3 November 1993	1 May 2005	2 years
S.L. Coutu	18 October 1999	28 October 2004	3 years
B. Carsberg	1 September 2002	1 September 2004	3 years
J.R. Windeler	1 October 2002	1 October 2005	3 years
M.J. Tomlinson	2 February 2004	–	3 years
T.R.P. Brighouse	20 May 2004	–	3 years

4. DIRECTORS' REMUNERATION

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

	2005 £000	2004 £000
Emoluments	1,066	986
Gains on exercise of share options	284	–
	1,350	986

Directors' emoluments in respect of the Directors of the Company who served during the year ended 30 September 2005 were as follows:

Name	Fees and other remuneration £000	Taxable benefits £000	Annual bonuses** £000	2005 Total £000	2004 Total £000
EXECUTIVE					
T.R. Pearson	239	–	123	362	329
M.D. Greig*	165	1	85	251	224
R.A. Sirs	168	1	87	256	220
NON-EXECUTIVE					
J.P. Leighfield	55	22	–	77	77
S.L. Coutu	24	–	–	24	43
B. Carsberg	24	–	–	24	25
J.R. Windeler	24	–	–	24	20
T.R.P. Brighthouse	24	–	–	24	8
M.J. Tomlinson	24	–	–	24	16
M.D. Fischer	–	–	–	–	11
M.R.H.J. O'Regan	–	–	–	–	13
	747	24	295	1,066	986

* In addition M.D. Greig received and retained £21,000 (2004: £21,000) in respect of his position as a Non-Executive Director of Comino Group plc.

**60% of the annual bonus is paid in cash and 40% deferred into shares payable after three years.

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

The current base salary figures of the Executive Directors are:

Tim Pearson*	£234,000
Mike Greig	£165,000
Rob Sirs	£195,000

* The Remuneration Committee recommended a higher salary for Tim Pearson which he refused to accept. He wished to hold his salary to a 4% increase (in line with other staff) rather than in line with the benchmarking exercise which otherwise would have delivered a 10% increase.

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 2006 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. 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.

	2005 Grant	2004 Grant	2003 Grant
EPS condition			
3-year average annual EPS growth (50% of grant)	RPI + 5% = 1 for 1 match RPI + 12% = 3 for 1 match (sliding scale)	RPI + 7.5% = 1 for 1 match RPI + 17.5% = 3 for 1 match (sliding scale)	RPI + 5% = 1 for 1 match RPI + 12% = 3 for 1 match (sliding scale)
Relative TSR condition (50% of grant)	Versus FTSE S&CS Median = 1 for 1 match Top quartile = 3 for 1 match (sliding scale)	Versus FTSE S&CS Median = 1 for 1 match Top 15% = 2 for 1 match Top 5% = 3 for 1 match (sliding scale)	Versus FTSE 250 Average = 1 for 1 match +1 std deviation = 2 for 1 match +2 std deviations = 3 for 1 match (sliding scale)

EPS figures reported in 2006 and thereafter will be produced under the new International Financial Reporting Standards (IFRS). 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 potential number of matching shares*	Market price on award date	Expected value if full match†	Performance period for matching shares
T.R. Pearson	26/03/2003	162,597	107.5p	£272,756	01/10/02 – 30/09/05
	16/12/2003	89,040	135.0p	£149,365	01/10/03 – 30/09/06
	10/12/2004	51,297	156.0p	£86,051	01/10/04 – 30/09/07
M.D. Greig	26/03/2003	111,198	107.5p	£186,535	01/10/02 – 30/09/05
	16/12/2003	107,607	135.0p	£180,511	01/10/03 – 30/09/06
	10/12/2004	67,011	156.0p	£112,411	01/10/04 – 30/09/07
R.A. Sirs	26/03/2003	116,946	107.5p	£196,177	01/10/02 – 30/09/05
	16/12/2003	90,000	135.0p	£150,975	01/10/03 – 30/09/06
	10/12/2004	95,268	156.0p	£159,812	01/10/04 – 30/09/07

* 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.

† Using 167.75p being the market price of an ordinary share at 30 September 2005.

6. DIRECTORS' SHARE OPTIONS

The Remuneration Committee has determined that Executive Directors will not be granted share options in 2006. 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 2006.

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. There will be no re-testing of performance conditions.

REMUNERATION REPORT

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

The total number of options currently outstanding is 6,437,067 which represents 7.09% of RM's current shares in issue. Growth in EPS compared with 2001 means that the options granted in December 2002 will become 100% exercisable.

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

At 1 October 2004	Granted in year	Exercised in year	Lapsed in year**	At 30 September 2005	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 £1.6775								
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 £1.6775								
184,940	Nil	Nil	Nil	184,940	£1.100	-	17/02/00 – 01/12/06	17/02/07 – 01/12/13
Options exercised and lapsed during the year								
204,637	Nil	200,544	4,093	Nil	£0.715	£1.750	21/06/05	21/06/12
Options lapsed during the year								
54,000	Nil	Nil	54,000	Nil	£2.500	-	29/11/04	29/11/11
M.D. GREIG								
Options with an exercise price equal to or above £1.6775								
180,259	Nil	Nil	Nil	180,259	£4.318	-	03/12/00 – 24/05/03	03/12/07 – 24/05/10
Options with an exercise price below £1.6775								
106,626	Nil	Nil	Nil	106,626	£1.040	-	17/02/00 – 01/12/06	17/02/07 – 01/12/13
Options lapsed during the year								
54,000	Nil	Nil	54,000	Nil	£2.500	-	29/11/04	29/11/11
113,687	Nil	Nil	2,274	111,413	£0.715	-	21/06/05	21/06/12
R.A. SIRIS								
Options with an exercise price equal to or above £1.6775								
190,922	Nil	Nil	Nil	190,922	£3.807	-	03/12/00 – 24/05/03	03/12/07 – 24/05/10
Options with an exercise price below £1.6775								
231,670	Nil	Nil	Nil	231,670	£0.877	-	17/02/00 – 01/12/06	17/02/07 – 01/12/13
Options exercised and lapsed during the year								
75,791	Nil	74,275	1,516	Nil	£0.715	£1.750	21/06/05	21/06/12
Options lapsed during the year								
42,000	Nil	Nil	42,000	Nil	£2.500	-	29/11/04	29/11/11
25,000	Nil	Nil	8,250	16,750	£0.735	-	05/03/05	05/03/12

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

** Options lapsed on performance testing.

The gain on exercise of options for each Director was Tim Pearson, £207,000 and Rob Sirs, £77,000.

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 2005 to 18 November 2005.

The market price of the ordinary shares at 30 September 2005 was 167.75p per share and the range during the year was 138p to 195.5p per share.

7. DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors in the ordinary shares of RM plc as at 30 September 2005 or at their date of appointment, if later, were:

	30 September 2005	30 September 2004
J.P. Leighfield	148,000	148,000
T.R. Pearson	101,701	92,186
M.D. Greig	96,058	95,985
R.A. Sirs	101,561	82,389
S.L. Coutu	44,316	44,316
B. Carsberg	–	–
J.R. Windeler	29,000	29,000
M.J. Tomlinson	–	–
T.R.P. Brighthouse	6,000	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 1,364 shares (2004: 132,053).

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.

With regard to the impending changes in the tax rules governing pensions (effective 6 April 2006) the Committee have decided to offer the three Executive Directors 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 pension. This is in line with emerging practice whereby companies are maintaining the existing pension framework and offering executives flexibility where possible.

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:

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.

REMUNERATION REPORT

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 45) £000	M.D. Greig (age 49) £000	R.A. Sirs (age 44) £000
Accrued annual pension at 30 September 2005	64	39	35
Director's contributions during the year	23	11	11
Increase in accrued pension during the year	7	2	3
Increase in accrued pension (net of inflation)	6	1	2
Transfer value of increase (net of inflation and Director's contributions)	47	10	5
Transfer value of accrued pension at 30 September 2005	625	399	300
Transfer value of accrued pension at 30 September 2004	471	326	237
Increase in transfer value (net of Director's contributions)	131	62	52

Tim Pearson joined the Company prior to 1989 and so is not affected by the Inland Revenue Earnings Cap. Both Mike Greig and Rob Sirs are potentially affected by the Earnings Cap. Mike Greig joined the Company at the time of the introduction of the Earnings Cap in 1989 and received a commitment from the Company that if the Earnings Cap does impact his actual pension, then the Company will put him in the same position as if the Earnings Cap did not apply. As Mike Greig's benefits are not currently restricted by the Earnings Cap it has not been necessary to establish any special pension arrangements for him. The manner in which this commitment will be met is being reviewed in the context of the new pensions tax regime applying from 6 April 2006.

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 23 January 2006.

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 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 Sir Mike Tomlinson, five meetings.

C) ADVISERS TO THE REMUNERATION COMMITTEE

During 2005, 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 18 November 2005 and signed on its behalf by:

S.L. COUTU

Chair, Remuneration Committee
18 November 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RM plc

We have audited the financial statements of RM plc for the year ended 30 September 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, reconciliation of net cash flow to movement in net funds and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of 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

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration 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 auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 transactions with the Company and other members of the Group 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 July 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 for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and 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 United Kingdom auditing standards 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 circumstances of the Company and the Group, 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 financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2005 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
Reading
18 November 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Note	2005 £000	2004 £000
TURNOVER	2	262,707	263,264
Cost of sales		(188,999)	(194,757)
GROSS PROFIT	2	73,708	68,507
Operating expenses			
Selling and distribution		(34,224)	(32,746)
Research and development		(16,812)	(14,546)
Administrative expenses		(18,536)	(15,232)
		(69,572)	(62,524)
OPERATING PROFIT	3	4,136	5,983
OPERATING PROFIT ANALYSED:			
– before goodwill charges		11,522	10,502
– goodwill charges		(7,386)	(4,519)
TOTAL OPERATING PROFIT		4,136	5,983
Net interest receivable	5	1,323	1,071
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,459	7,054
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION ANALYSED BETWEEN:			
– profit on ordinary activities before taxation and goodwill charges		12,845	11,573
– goodwill charges		(7,386)	(4,519)
		5,459	7,054
Tax charge on profit on ordinary activities	6	(3,455)	(3,162)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,004	3,892
Dividends paid and proposed	7	(4,331)	(4,075)
RETAINED LOSS FOR THE YEAR		(2,327)	(183)
EARNINGS PER ORDINARY SHARE	8		
Basic		2.3p	4.4p
Diluted		2.2p	4.3p
Diluted – before goodwill charges		10.5p	9.4p

All material activities relate to continuing operations.

There are no material recognised gains or losses other than the profit or loss for each year. Accordingly a consolidated statement of total recognised gains and losses has not been presented.

The accompanying notes are an integral part of this consolidated profit and loss account.

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2005

	Note	2005 £000	2004 £000
FIXED ASSETS			
Intangible fixed assets	9	17,304	24,737
Tangible fixed assets	10	26,357	20,202
		43,661	44,939
CURRENT ASSETS			
Stocks	12	17,658	16,492
Debtors	13	49,456	51,538
Investments – short-term cash deposits		500	5,000
Cash at bank and in hand		22,442	22,480
		90,056	95,510
CREDITORS			
Amounts falling due within one year	14	(83,273)	(86,442)
NET CURRENT ASSETS		6,783	9,068
TOTAL ASSETS LESS CURRENT LIABILITIES		50,444	54,007
CREDITORS			
Amounts falling due after more than one year	14	(9,759)	(11,086)
PROVISION FOR LIABILITIES AND CHARGES	15	(2,170)	(2,320)
NET ASSETS		38,515	40,601
CAPITAL AND RESERVES			
Called-up share capital	16	1,815	1,794
Share premium account		22,151	20,349
Capital redemption reserve		94	94
ESOP shareholding	17	(1,386)	(1,010)
Profit and loss account		15,841	19,374
EQUITY SHAREHOLDERS' FUNDS	18	38,515	40,601

These financial statements were approved by the Board of Directors on 18 November 2005.

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

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

COMPANY BALANCE SHEET

AS AT 30 SEPTEMBER 2005

	Note	2005 £000	2004 £000
FIXED ASSETS			
Investment in subsidiary undertakings	11	43,324	44,906
CURRENT ASSETS			
Debtors	13	19,300	14,274
Cash at bank and in hand		34	35
		19,334	14,309
CREDITORS			
Amounts falling due within one year	14	(6,244)	(5,569)
NET CURRENT ASSETS		13,090	8,740
TOTAL ASSETS LESS CURRENT LIABILITIES		56,414	53,646
CREDITORS			
Amounts falling due after more than one year	14	(2,450)	(3,012)
PROVISION FOR LIABILITIES AND CHARGES	15	(1,200)	(1,200)
NET ASSETS		52,764	49,434
CAPITAL AND RESERVES			
Called-up share capital	16	1,815	1,794
Share premium account		22,151	20,349
Capital redemption reserve		94	94
ESOP shareholding	17	(1,632)	(1,063)
Profit and loss account		30,336	28,260
EQUITY SHAREHOLDERS' FUNDS	18	52,764	49,434

These financial statements were approved by the Board of Directors on 18 November 2005.

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

The accompanying notes are an integral part of this balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Note	2005 £000	2004 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	19	17,204	22,399
Returns on investments and servicing of finance	20	1,032	1,071
Taxation		(3,743)	(3,532)
Capital expenditure and financial investment	21	(14,506)	(9,691)
Acquisitions	22	–	(16,873)
Equity dividends paid		(4,127)	(3,909)
NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(4,140)	(10,535)
Management of liquid resources	23	4,500	8,125
Financing	24	(403)	(2,607)
DECREASE IN CASH IN THE YEAR	25	(43)	(5,017)

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

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

FOR THE YEAR ENDED 30 SEPTEMBER 2005

	Note	2005 £000	2004 £000
DECREASE IN CASH IN THE YEAR		(43)	(5,017)
Cash outflow from change in liquid resources		(4,500)	(8,125)
Settlement of loan notes		600	2,208
Change in net cash resulting from cash flows		(3,943)	(10,934)
Issue of loan notes		–	(1,699)
Exchange translation		5	(3)
MOVEMENT IN NET FUNDS IN THE YEAR		(3,938)	(12,636)
Net funds brought forward		25,781	38,417
NET FUNDS CARRIED FORWARD	25	21,843	25,781

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

The principal Group accounting policies are set out below and have been applied consistently throughout the current and preceding year.

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of RM plc and its subsidiary undertakings made up to 30 September 2005. The results of subsidiaries acquired are included in the Group profit and loss account from the date on which control passed. Goodwill arising on acquisitions prior to 30 September 1998 was written off to a separate goodwill reserve in accordance with the accounting standards then in force.

TURNOVER AND REVENUE RECOGNITION

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

Turnover on long-term contracts is recognised while contracts are in progress. Turnover 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 turnover recognised at the balance sheet date as a proportion of total contract turnover.

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 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 profit and loss account as other finance costs within interest.

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 stock as long-term contract balances.

Where the cumulative fair value of goods and services provided exceeds amounts invoiced the balance is included within debtors as amounts recoverable on contracts. Where amounts invoiced exceed the fair value of goods and services provided the excess is first set off against work in progress and then included in deferred income within creditors.

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

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**TANGIBLE FIXED ASSETS**

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on tangible fixed assets at rates calculated to write off the cost, less estimated residual value, evenly over each asset's expected useful economic life as follows:

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

Assets purchased specifically for the delivery of long-term contracts are written off evenly over an appropriate period in accordance with the terms of the contract.

RM's computer units used for the purposes of administration, research and development and customer demonstrations are capitalised and carried at cost less accumulated depreciation.

INTANGIBLE FIXED ASSETS

Intangible fixed assets are shown at cost less amortisation. Licence costs relate to Research Machines' rights to use or otherwise deal with software products. Goodwill relates to the acquisition of Group subsidiaries and the purchase of assets from Helicon Publishing Limited by the Group. Amortisation is provided at rates to write off the cost of goodwill and licences on a straight-line basis over a period of five years. Provision is made for impairment where appropriate.

Goodwill arising on acquisitions in the year ended 30 September 1998 and earlier periods was written off to reserves in accordance with the accounting standards then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

DERIVATIVE FINANCIAL INSTRUMENTS

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to probable liabilities. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's accounts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

RESEARCH AND DEVELOPMENT

Research and development costs, relating to the advancement of technical knowledge and innovative solutions are written off to the profit and loss account, as permitted by SSAP 13, in the year in which they are incurred.

STOCKS

Stocks are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing stocks to their present state and location, including an appropriate proportion of overheads. Provision is made for obsolete, slow moving and defective items where appropriate.

TAXATION

Current taxation, 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 provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Investments in subsidiary undertakings are stated at cost less provision for any impairment where appropriate.

FOREIGN CURRENCY

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at the balance sheet date or, where appropriate, at the rate of exchange in a related forward contract. Foreign currency transactions are translated at the rate ruling on the date of the transaction or, where appropriate, at the rate in a related forward exchange contract. Exchange gains and losses are charged or credited to the profit and loss account as they occur.

LEASES

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

PENSION COSTS

For the defined benefit scheme it is the general policy of the Group to provide for and to fund pension liabilities on the advice of qualified independent actuaries, by payment to independent trusts. Independent actuarial valuations are carried out every three years. The amount charged to the profit and loss account, 'the regular pension cost' is calculated so as to produce a substantially level percentage of current and future pensionable payrolls. Variations from the regular pension cost are allocated to the profit and loss account over the average remaining service lives of current members.

For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year.

Any differences between amounts charged in the profit and loss account and paid to the pension funds are shown in the balance sheet as a liability or asset.

2. SEGMENT INFORMATION

	2005 £000	2004 £000
TURNOVER BY ACTIVITY		
Infrastructure software and services	87,595	79,049
Education software and services	47,459	49,686
Hardware	127,653	134,529
	262,707	263,264
GROSS PROFIT BY ACTIVITY		
Infrastructure software and services	25,054	22,457
Education software and services	28,175	25,833
Hardware	20,479	20,217
	73,708	68,507

All of the Group's turnover, profit and net assets relate to the Group's main activities, which are based principally in the United Kingdom. Sales by destination to non-UK countries of £3.2 million (2004: £2.5 million) included Europe £0.7 million (2004: £0.8 million), Australasia £1.6 million (2004: £1.5 million) and other countries £0.9 million (2004: £0.2 million).

No profit before tax or net asset by class of business segment information has been disclosed because, in the opinion of the Directors, such disclosure would not be meaningful.

3. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2005 £000	2004 £000
DEPRECIATION OF TANGIBLE FIXED ASSETS:		
– owned	8,682	7,805
GOODWILL CHARGES:		
– goodwill amortisation	6,294	4,519
– goodwill impairment	1,092	–
TOTAL GOODWILL CHARGES	7,386	4,519
OPERATING LEASES:		
– plant and machinery	700	543
– other	2,736	2,968
AUDITORS' REMUNERATION:		
SERVICES AS AUDITORS		
– Statutory audit	190	174
– Further assurance services	95	–
TAX SERVICES		
– Tax compliance	70	60
– Tax advisory	14	–
OTHER NON-AUDIT SERVICES		
– Other accounting advice	7	13
TOTAL AUDITORS' REMUNERATION	376	247
PROFIT ON SALE OF FIXED ASSETS	(260)	(205)
BUILDING SCHOOLS FOR THE FUTURE COSTS	1,819	103
RESEARCH AND DEVELOPMENT	16,812	14,546
ADMINISTRATIVE EXPENSES	18,536	15,232
ADMINISTRATIVE EXPENSES (INCLUDING RESEARCH AND DEVELOPMENT)	35,348	29,778

In addition to the amounts shown above, the auditors received a fee of £5,000 (2004: £4,800) for the audit of the Group pension scheme.

During the financial year Group company peakschoolhaus Limited was unsuccessful in its bid to be a preferred partner to Ofsted for regional inspection services. An impairment review performed on the goodwill arising on the acquisition of peakschoolhaus Limited indicated that the unamortised goodwill of £1.1 million was impaired. Consequently, an impairment charge of £1.1 million has been recognised during the year.

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. All research and development costs are written off in the year in which they are incurred.

4. STAFF COSTS

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

	2005 Number employed	2004 Number employed
Products and Services	1,554	1,281
Marketing and Sales	307	312
Lifelong Learning and Higher Education	43	59
Corporate Services	233	223
	2,137	1,875

Their aggregate remuneration comprised:

	2005 £000	2004 £000
Wages and salaries	73,926	66,515
Social security costs	5,715	5,057
Other pension costs	3,799	3,567
Staff share scheme	70	130
	83,510	75,269

Information in relation to the Directors' remuneration and share options are shown in the Remuneration Report.

5. NET INTEREST RECEIVABLE

	2005 £000	2004 £000
Interest receivable and similar income	1,359	1,099
Interest payable on loan notes	(12)	(18)
Other interest payable and similar charges	(24)	(10)
	1,323	1,071

Included within interest receivable and similar income is £0.7 million (2004: £nil) representing additional cash flows on sale of finance lease debt. At 30 September 2005 the Group had no finance lease debt owed to it (2004: £nil).

6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2005 £000	2004 £000
(A) ANALYSIS OF TAX CHARGE ON ORDINARY ACTIVITIES		
CURRENT TAXATION		
UK corporation tax at 30% (2004: 30%) based on the profit for the year	3,405	3,375
Adjustment in respect of prior years	(155)	(4)
Total current tax	3,250	3,371
DEFERRED TAXATION		
Timing differences, origination and reversal	134	(204)
Adjustment in respect of prior years	71	(5)
Total deferred tax	205	(209)
Tax on profit on ordinary activities	3,455	3,162

(B) FACTORS AFFECTING THE CURRENT TAX CHARGE FOR THE PERIOD

The difference between the total current 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:

	2005 £000	2004 £000
Profit on ordinary activities before tax	5,459	7,054
Tax at 30% thereon:	1,638	2,116
Effects of:		
– goodwill charges not deductible for tax purposes	2,216	1,274
– other expenses not deductible for tax purposes	321	400
– timing differences between capital allowances and depreciation	(133)	189
– movement in short-term timing differences	–	30
– research and development tax credit	(600)	(500)
– effect of overseas losses/(profits)	140	(134)
– gains on the exercise of share options	(177)	–
– prior period adjustments	(155)	(4)
Current tax charge for period	3,250	3,371

7. DIVIDENDS PAID AND PROPOSED

	2005 £000	2004 £000
Ordinary shares:		
Interim paid of 1.05p (2004: 1.00p) per share	932	880
Final proposed of 3.80p (2004: 3.60p) per share	3,399	3,195
	4,331	4,075

8. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated on the Group's profit after taxation of £2.0 million (2004: £3.9 million) divided by the weighted average number of shares in issue during the year, being 88,923,547 shares (2004: 88,894,220). Diluted earnings per share takes into account the dilutive effect of share options.

A reconciliation of basic earnings per share with diluted earnings per share is as follows:

	2005 Profit after tax £000	2005 No. of shares ('000)	2005 Pence per share	2004 Profit after tax £000	2004 No. of shares ('000)	2004 Pence per share
Basic earnings per share	2,004	88,924	2.3	3,892	88,894	4.4
Impact of share options	–	434	(0.1)	–	779	(0.1)
Diluted earnings per share	2,004	89,358	2.2	3,892	89,673	4.3
Supplementary earnings per share before goodwill charges						
Diluted earnings per share	2,004	89,358	2.2	3,892	89,673	4.3
Effect of goodwill charges	7,386	–	8.3	4,519	–	5.1
Diluted earnings per share before goodwill charges	9,390	89,358	10.5	8,411	89,673	9.4

In the Directors' opinion, earnings per ordinary share before goodwill charges, as presented in the Consolidated Profit and Loss Account, represents a more consistent measure of underlying performance.

9. INTANGIBLE FIXED ASSETS

The movement in the year was as follows:

	Licence £000	Goodwill £000	Total £000
GROUP			
Cost			
Beginning of the year	9,643	35,329	44,972
Adjustment to deferred consideration and net assets acquired	–	(47)	(47)
End of the year	9,643	35,282	44,925
Amortisation			
Beginning of the year	9,643	10,592	20,235
Charged in the year	–	6,294	6,294
Impairment	–	1,092	1,092
End of the year	9,643	17,978	27,621
Net book value at the end of the year	–	17,304	17,304
Net book value at the start of the year	–	24,737	24,737

The Group continues to amortise goodwill at rates estimated to write off the cost of goodwill on a straight-line basis over a period of five years. The charge for the year has increased as a result of the inclusion of charges for the full period on goodwill arising on the acquisitions of TTS Group Limited and Sentinel Products Limited and also an impairment of the goodwill arising on peakschoolhaus Limited, see note 3.

10. TANGIBLE FIXED ASSETS

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						
Beginning of the year	957	2,623	7,785	33,072	5,934	50,371
Additions	1	42	857	12,645	2,076	15,621
Exchange rate translation	-	3	20	36	5	64
Disposals	-	(7)	(1,963)	(12,467)	(1,812)	(16,249)
End of the year	958	2,661	6,699	33,286	6,203	49,807
Depreciation						
Beginning of the year	1	1,076	4,884	21,429	2,779	30,169
Charged in the year	44	139	1,093	5,929	1,477	8,682
Exchange rate translation	-	1	6	16	1	24
Disposals	-	(6)	(1,781)	(12,017)	(1,621)	(15,425)
End of the year	45	1,210	4,202	15,357	2,636	23,450
Net book value at the end of the year	913	1,451	2,497	17,929	3,567	26,357
Net book value at the start of the year	956	1,547	2,901	11,643	3,155	20,202

11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2005 £000	2004 £000
COMPANY		
Equity investments in subsidiary undertakings at cost		
Beginning of the year	37,829	19,079
Investments during the year	1	18,750
Impairment	(1,583)	-
End of the year	36,247	37,829
Loans to subsidiary undertakings	7,077	7,077
	43,324	44,906

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

11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

All principal subsidiaries of the Group are involved in the education market; at 30 September 2005 these were as follows:

	Principal activity	Country of incorporation	Proportion of voting rights and shares held
Research Machines plc	Software, services and systems	England	100%
3T Productions Ltd	Software	England	100%
Softase Ltd	Software	England	100%
peakschoolhaus Ltd	Services	England	100%
SIR (UK) Ltd (t/a Forvus Computer Services)	Data analysis and reporting	England	100%
Sentinel Products Ltd	Software, services and systems	England	100%
TTS Group Ltd	Resource supply	England	100%
RM Asia-Pacific Pty Ltd	Software, services and systems	Australia	100%
RM Education Solutions India Private Ltd	Software	India	100%
RM Educational Software Inc	Software	USA	100%

On 30 September 2005 the Group exercised its option to acquire RM Educational Software, Inc, a company based in North America, for a consideration of \$100. Previously RM Educational Software, Inc had been consolidated into the Group as a quasi-subsubsidiary. Other than the recognition of the amount paid on exercise of the option there is no change to the accounting for RM Educational Software, Inc.

12. STOCKS

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Components	8,464	10,498	–	–
Work in progress	236	397	–	–
Finished goods	3,167	3,580	–	–
	11,867	14,475	–	–
Long-term contract balances – net costs less foreseeable losses and payments on account	5,791	2,017	–	–
	17,658	16,492	–	–

13. DEBTORS

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Amounts falling due within one year				
Trade debtors	43,364	44,460	–	–
Amounts recoverable on contracts	1,176	751	–	–
Other debtors	524	134	–	–
Prepayments and accrued income	3,287	4,883	–	–
Amounts owed from subsidiary undertakings	–	–	10,920	11,744
Dividends receivable	–	–	8,380	2,530
	48,351	50,228	19,300	14,274
Amounts falling due after more than one year				
Deferred taxation comprising:				
– depreciation in excess of capital allowances	264	536	–	–
– short-term timing differences	841	774	–	–
	1,105	1,310	–	–
	49,456	51,538	19,300	14,274
Movement on deferred taxation asset in the year				
Beginning of the year	1,310	1,101	–	–
Profit and loss account (debit)/credit	(205)	209	–	–
End of the year	1,105	1,310	–	–

The deferred tax asset arises from fixed asset and short-term timing differences which will reverse in the future.

14. CREDITORS

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Amounts falling due within one year				
Trade creditors	20,753	28,903	–	–
Amounts due to subsidiary undertakings	–	–	1,642	1,073
UK corporation tax	1,315	1,779	90	90
Other taxation and social security	8,452	6,588	–	–
Other creditors	1,814	236	–	–
Accruals	20,525	23,850	14	74
Payments received on account	4,075	–	–	–
Deferred income	21,841	20,754	–	–
Loan notes	1,099	1,137	1,099	1,137
Proposed dividends	3,399	3,195	3,399	3,195
	83,273	86,442	6,244	5,569

14. CREDITORS (CONTINUED)

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Amounts falling due after more than one year				
Loan notes:				
– more than one year but not more than two years	–	562	–	562
Other creditors:				
– between one and two years	2,450	–	2,450	–
– between two and five years	–	2,450	–	2,450
Deferred income:				
– between one and two years	4,979	4,659	–	–
– between two and five years	2,330	3,046	–	–
– after five years	–	369	–	–
	7,309	8,074	–	–
	9,759	11,086	2,450	3,012

OTHER CREDITORS – BETWEEN TWO AND FIVE YEARS

SIR (UK) Limited was acquired on 11 July 2003. An initial consideration in cash of £4.6 million was paid at acquisition with a further deferred consideration of up to £2.5 million payable in December 2006. The vendors have provided a warranty against the deferred consideration, dependent upon certain financial targets being met. The value of this warranty represents an asset to the Group which is contingent upon the performance of the business in the periods from acquisition to 30 September 2006. Given the level of uncertainty surrounding the measurement of the asset no value has been ascribed to it.

15. PROVISION FOR LIABILITIES AND CHARGES

	Issuable loan notes £000	Restructuring provision £000	Total £000
GROUP			
Beginning of the year	1,200	1,120	2,320
Utilised in the year	–	(150)	(150)
End of the year	1,200	970	2,170
COMPANY			
Beginning of the year and end of the year	1,200	–	1,200

The issuable loan notes relate to the acquisition of Sentinel Products Limited and are redeemable in 2007.

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 of the leases.

The Group and the Company have no unprovided deferred taxation (2004: £nil).

16. CALLED-UP SHARE CAPITAL

	2005 £000	2004 £000
Authorised:		
125,000,000 ordinary shares of 2p each (2004: 125,000,000 at 2p each)	2,500	2,500
Allotted, called-up and fully paid:		
90,729,696 ordinary shares of 2p each (2004: 89,700,795 at 2p each)	1,815	1,794

1,028,901 ordinary shares of 2p each were allotted in the year (2004: nil), for consideration of £0.8 million. These shares have a nominal value of £0.02 million.

RML STAFF SHARE SCHEME

The RML Staff Share Scheme is an Inland Revenue approved employee share scheme constituted under a trust deed. As at 30 September 2005 the trustees of the scheme held 1,361 shares (2004: 173,956) on behalf of the employees, which had a market value on that date of £0.002 million (2004: £0.2 million).

RM PLC 2002 STAFF SHARE SCHEME

The RM plc 2002 Staff Share Scheme is an Inland Revenue approved employee share scheme constituted under a trust deed and has been introduced to replace the RML Staff Share Scheme. As at 30 September 2005 the trustees of the scheme held 255,350 shares (2004: 180,281) on behalf of the employees, which had a market value on that date of £0.4 million (2004: £0.3 million).

THE EMPLOYEE BENEFIT TRUST

In 1993 the Company established an Employee Benefit Trust (EBT) to operate in connection with the Company's executive share schemes. The trustee of the EBT is RM Employee Share Schemes Trustee Limited, a wholly-owned subsidiary of the Company. 1,028,901 ordinary shares have been allotted for use by the EBT during the year (2004: nil).

The EBT owns 14,290 shares in RM plc (2004: 14,290) and has waived rights to the dividend on these shares. On 30 September 2005 these shares had a market value of £0.02 million (2004: £0.02 million).

THE RM PLC EMPLOYEE SHARE TRUST

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. For further details, see note 17.

16. CALLED-UP SHARE CAPITAL (CONTINUED)**SHARE OPTION SCHEMES**

As at 30 September 2005 the following options granted in respect of ordinary shares of 2p each were outstanding:

Scheme	Calendar year of issue	Number of shares	Period of option	Exercise price per share
A) RM plc 1994 EXECUTIVE – ORDINARY	1995	12,500	10 years	£0.802
	1996	10,000	10 years	£1.220
	1998	147,500	10 years	£4.415
	1999	138,000	10 years	£5.000
		308,000		
B) RM plc 1994 EXECUTIVE – SUPER	1997	348,640	10 years	£1.475
	1997	356,370	10 years	£1.635
	1998	683,336	10 years	£2.933
	1998	164,000	10 years	£4.415
	1999	644,010	10 years	£5.000
	1999	358,750	10 years	£7.615
	2000	628,149	10 years	£5.600
		3,183,255		
C) RM plc 2001 EXECUTIVE – APPROVED	2002	36,850	10 years	£0.735
	2002	133,248	10 years	£0.715
	2002	204,583	10 years	£0.785
	2003	10,000	10 years	£0.950
	2003	412,500	10 years	£1.445
		797,181		
D) RM plc 2001 EXECUTIVE – UNAPPROVED	2002	23,450	10 years	£0.735
	2002	416,442	10 years	£0.715
	2002	1,014,239	10 years	£0.785
	2003	272,500	10 years	£1.445
		1,726,631		
E) RM plc 2004 EXECUTIVE – APPROVED	2004	314,000	10 years	£1.536
F) RM plc 2004 EXECUTIVE – UNAPPROVED	2004	108,000	10 years	£1.536

17. ESOP SHAREHOLDING

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. 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 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.

As at 30 September 2005, 1,278,814 (2004: 950,000) ordinary shares of 2p each were held in trust at a cost of £1.6 million (2004: £1.1 million). The market value of these shares at 30 September 2005 was £2.1 million (2004: £1.4 million).

18. RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £000	Share premium account £000	Capital redemption reserve £000	ESOP shareholding £000	Profit and loss account £000	2005 Total £000	2004 Total £000
GROUP							
Beginning of the year	1,794	20,349	94	(1,010)	19,374	40,601	41,215
Retained loss for the year	-	-	-	-	(2,327)	(2,327)	(183)
Share issues	21	745	-	-	-	766	-
Transfer in respect of issue of shares to employee trusts	-	1,057	-	-	(1,057)	-	-
Purchase of shares	-	-	-	(569)	-	(569)	(399)
ESOP shareholding transfer	-	-	-	193	(193)	-	-
Currency translation differences	-	-	-	-	44	44	(32)
End of the year	1,815	22,151	94	(1,386)	15,841	38,515	40,601
COMPANY							
Beginning of the year	1,794	20,349	94	(1,063)	28,260	49,434	46,867
Profit for the year	-	-	-	-	6,407	6,407	7,041
Share issues	21	1,802	-	(569)	-	1,254	-
Purchase of shares	-	-	-	-	-	-	(399)
Dividends paid and proposed	-	-	-	-	(4,331)	(4,331)	(4,075)
End of the year	1,815	22,151	94	(1,632)	30,336	52,764	49,434

The total amount of goodwill written off to reserves is £1.1 million which occurred in 1995.

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company. The Company made a profit for the year amounting to £6.4 million (2004: £7.0 million).

19. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2005 £000	2004 £000
Operating profit	4,136	5,983
Depreciation charge	8,682	7,805
Goodwill charges	7,386	4,519
Profit on sale of fixed assets	(260)	(205)
Increase in stocks	(1,166)	(1,952)
Decrease/(Increase) in debtors	1,992	(5,168)
(Decrease)/Increase in creditors	(3,566)	11,417
NET CASH INFLOW FROM OPERATING ACTIVITIES	17,204	22,399

20. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2005 £000	2004 £000
Interest received	1,068	1,249
Interest paid	(36)	(178)
NET CASH INFLOW	1,032	1,071

21. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2005 £000	2004 £000
Purchase of tangible fixed assets	(15,590)	(11,091)
Proceeds from sale of fixed assets	1,084	1,400
NET CASH OUTFLOW	(14,506)	(9,691)

22. ACQUISITIONS AND DISPOSALS

	2005 £000	2004 £000
Investment in subsidiaries	–	(15,839)
Net cash acquired with subsidiary undertakings	–	1,309
Net borrowings repaid on acquisition	–	(2,343)
NET CASH OUTFLOW	–	(16,873)

NOTES TO THE FINANCIAL STATEMENTS

23. MANAGEMENT OF LIQUID RESOURCES

	2005 £000	2004 £000
Cash withdrawn from deposit accounts	4,500	8,125

24. FINANCING

	2005 £000	2004 £000
Issue of ordinary share capital	766	–
Repayment of loan notes	(600)	(2,208)
Purchase of own shares	(569)	(399)
NET CASH OUTFLOW	(403)	(2,607)

25. ANALYSIS OF NET FUNDS

	At 1 Oct 2004 £000	Cash flow £000	Non-cash movements £000	At 30 Sept 2005 £000
Cash in hand, at bank	22,480	(43)	5	22,442
Current asset investments	5,000	(4,500)	–	500
CASH AT BANK AND SHORT-TERM DEPOSITS	27,480	(4,543)	5	22,942
Debt due within one year	(1,137)	600	(562)	(1,099)
Debt due after one year	(562)	–	562	–
NET FUNDS	25,781	(3,943)	5	21,843

26. FINANCIAL INSTRUMENTS

The Group's financial instruments, other than derivatives, comprise cash, liquid resources and various items, such as trade debtors and trade creditors that arise directly from its operations. The Group also enters into derivatives transactions in the form of forward foreign currency contracts. The purpose of such transactions is to manage the currency risks arising from the Group purchasing significant amounts of its raw materials in US dollars. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group does not hold or issue derivative financial instruments for speculative purposes.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The Board reviews and agrees policies on a regular basis for managing each of these risks and they are summarised below.

LIQUIDITY AND INTEREST RATE RISK

The Group finances its operations through retained profits. The Group's policy is to maintain only the foreign currency balances required to pay its suppliers. Any surplus sterling balances are invested on 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.

26. FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN CURRENCY RISK

The Group's policy is to limit exposure related to foreign exchange risk by purchasing foreign currencies through short- to medium-term forward foreign currency contracts.

As permitted by FRS 13, short-term debtors and creditors have been excluded from disclosures, other than the currency risk disclosures.

FINANCIAL ASSETS

	Floating rate 2005 £000	Interest free 2005 £000	Total 2005 £000	Floating rate 2004 £000	Interest free 2004 £000	Total 2004 £000
Sterling	21,145	861	22,006	19,527	7,027	26,554
US dollar	250	46	296	394	13	407
Australian dollar	180	166	346	286	91	377
Euro	–	28	28	–	9	9
Indian rupee	55	211	266	25	108	133
	21,630	1,312	22,942	20,232	7,248	27,480

Interest on the floating rate assets is based on the relevant money market or deposit rate.

FAIR VALUES

The Group's floating rate financial assets comprise cash deposits on money markets or with financial institutions on maturing terms from seven days to three months. As all are short-term, the fair value of the assets is not considered to be materially different from the book value. In addition, the Group held US dollar forward purchase contracts with a maturing value of £16.6 million, all of which mature in less than one year (2004: £21.2 million). The unrecognised gain on forward contracts yet to mature, as at 30 September 2005 was £0.4 million, all of which is expected to be recognised in the year ending 30 September 2006 (2004: £0.3 million loss).

CURRENCY EXPOSURES

As at 30 September 2005, after taking into account the effects of forward exchange contracts the Group had no significant currency liabilities at the balance sheet date. Other than those disclosed above, there are no material unrecognised gains or losses as at 30 September 2005.

BORROWING FACILITIES

At 30 September 2005 the Group had committed borrowing facilities, expiring in February 2006, of £13.0 million (2004: £12.0 million). At the year end the amount of the committed facility drawn down was nil (2004: nil).

FINANCIAL LIABILITIES

The Group has loan notes as disclosed in notes 14 and 15. There is no material difference between the fair value and the book value of these loan notes.

27. PENSION SCHEME

The Group operates or contributes to a number of pension schemes, all of which are defined contribution with the exception of the Research Machines plc 1988 Pension Scheme. That scheme, which closed to new members with effect from 1 January 2003, provides benefits based on both final pensionable salary and the value of individual accounts. The assets of the scheme are held separately from those of the Group in a trustee-administered fund. Contributions to the scheme are determined by a qualified independent actuary on the basis of valuations. They are charged to the profit and loss account so as to spread these costs over employees' working lives with the Group.

STATEMENT OF STANDARD ACCOUNTING PRACTICE 24 DISCLOSURES (SSAP 24)

An actuarial valuation of the scheme was carried out as at 31 May 2003 for funding purposes, using the projected unit method of funding. It was assumed that investment returns would be 6.4% pa pre-retirement; 4.7% pa post-retirement; salaries would increase by 3.85% pa; and pensions would increase by 1.5% pa in respect of service accrued before 1 April 1997, and 2.35% pa in respect of service accrued on or after 1 April 1997. Assets were taken at their market value. The next triennial valuation is due to take place at 31 May 2006.

The 2003 valuation also showed that the expected long-term cost of the scheme to the Group was 7.4% of pensionable salaries. For service after 1 June 2005, the pension accrued will increase, when in payment, in line with increases in the Retail Prices Index (RPI) up to a maximum of 2.5% per annum. Prior to 1 June 2005 the pension increase for service after 6 April 1997 had been in line with increases in the RPI, but with a maximum of 5% per annum. The long-term cost to the Group has fallen to 7.1% of pensionable salaries as a result of this change and this change is reflected in the Regular Cost for the year to 30 September 2005. The average contribution rate over the year was therefore 7.2% of pensionable salaries.

At 31 May 2003 the market value of the scheme's assets was estimated to be £31.3 million. This represented 71% of the benefits that had accrued to the members after allowing for expected future increases in salaries.

Additional annual contributions of £1.3 million are payable in order to recover the deficit in funding over 15 years. From 1 November 2004 employee contributions to the scheme for those over the age of 25 are 7.5% of pensionable salary.

The pension charge for the year is disclosed in note 4.

Included in debtors falling due within one year is a net prepaid amount of £0.07 million. This comprises outstanding pension contributions of £0.43 million plus a prepaid contribution of £0.5 million (2004: £nil). No amounts are outstanding in respect of the Company.

FINANCIAL REPORTING STANDARD 17 DISCLOSURE (FRS 17)

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. FRS 17 has been introduced with transition arrangements under which the Company is required to disclose the following information about the scheme and the figures that would have been shown under FRS 17 in the balance sheet; the profit and loss account; and the statement of total recognised gains and losses.

The Group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 May 2003 and updated to 30 September 2005 by a qualified independent actuary. The service cost has been calculated using the projected unit method. The major assumptions used by the actuary were (in nominal terms):

	2005	2004	2003
Rate of increase in salaries	3.80%	4.20%	4.00%
Rate of increase of pensions in payment	2.70%	2.70%	2.50%
Rate of increase of pensions in deferment	2.70%	2.70%	2.50%
Discount rate	5.05%	5.60%	5.40%
Inflation assumption	2.70%	2.70%	2.50%

27. PENSION SCHEME (CONTINUED)

FINANCIAL REPORTING STANDARD 17 DISCLOSURE (FRS 17) (CONTINUED)

The standard PMA92 and PFA92 mortality tables have been adopted for pensioners and the same tables, but with an age adjustment of 4 years (2004: 3 years) for non-pensioners. The change in age adjustment represents an allowance for improved mortality and increased liabilities by £1.4 million.

The fair value of the assets in the scheme and the expected rates of return were:

	2005	2005 £000	2004	2004 £000	2003	2003 £000
Equities	6.80%	42,330	7.00%	33,600	7.00%	26,140
Bonds	4.30%	14,200	4.50%	9,050	4.50%	7,770
Total market value of scheme assets		56,530		42,650		33,910
Actuarial value of scheme liability		72,420		57,500		50,610
Shortfall in the scheme assets		(15,890)		(14,850)		(16,700)
Related deferred tax asset		4,767		4,455		5,010
Net pension shortfall		(11,123)		(10,395)		(11,690)

ANALYSIS OF THE AMOUNT THAT WOULD HAVE BEEN CHARGED TO OPERATING PROFIT

	2005 £000	2004 £000
Current service cost	1,730	1,830
Total operating charge	1,730	1,830

ANALYSIS OF AMOUNT THAT WOULD HAVE BEEN CHARGED TO OTHER FINANCE INCOME

	2005 £000	2004 £000
Expected return on pension scheme assets	2,910	2,350
Interest on pension liabilities	(3,320)	(2,820)
Net return and other finance costs	(410)	(470)

ANALYSIS OF AMOUNT THAT WOULD HAVE BEEN RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005 £000	2004 £000
Actual return less expected return on assets	5,900	1,230
Experience (loss)/gain on liabilities	–	(1,270)
Changes in assumptions	(8,200)	680
Net (loss)/gain recognised in statement of total recognised gains and losses	(2,300)	640

27. PENSION SCHEME (CONTINUED)

MOVEMENT IN DEFICIT DURING THE YEAR

	2005 £000	2004 £000
Deficit before tax in scheme at beginning of year	(14,850)	(16,700)
Movement in year:		
– current service costs	(1,730)	(1,830)
– contributions (including augmentations)	3,400	3,510
– net return and other finance costs	(410)	(470)
– actuarial (loss)/gain	(2,300)	640
Deficit before tax in scheme at end of year	(15,890)	(14,850)

HISTORY OF EXPERIENCE GAINS AND LOSSES

	2005	2004
Difference between expected and actual return on scheme assets:		
– amount (£000)	5,900	1,230
– as a percentage of scheme assets	10%	3%
Experience gains and losses on scheme liabilities:		
– amount (£000)	–	(1,270)
– as a percentage of scheme liabilities	–	2%
Total amount recognised in statement of total recognised gains and losses:		
– amount (£000)	(2,300)	640
– as a percentage of scheme liabilities	(3%)	1%

If the pension shortfall was recognised in the financial statements, the Group's net assets and profit and loss reserve would be as follows:

	2005 £000	2004 £000
Net assets excluding pension liability	38,515	40,601
Pension liability	(11,123)	(10,395)
Net assets including pension liability	27,392	30,206

	2005 £000	2004 £000
Profit and loss reserve excluding pension liability	15,841	19,374
Pension shortfall	(11,123)	(10,395)
Profit and loss reserve	4,718	8,979

28. COMMITMENTS AND CONTINGENCIES

COMMITMENTS UNDER OPERATING LEASES

The Group leases certain assets under operating leases, the terms of which are subject to re-negotiation at various intervals as specified in the lease agreements, and is committed to the following payments in the coming year:

2005	Land and buildings £000	Other £000
Expiry date:		
– within one year	113	175
– between one and two years	116	23
– between two and five years	273	13
– after five years	2,245	–
	2,747	211

2004	Land and buildings £000	Other £000
Expiry date:		
– within one year	268	330
– between two and five years	173	252
– after five years	2,221	–
	2,662	582

CAPITAL COMMITMENTS

The Group has the following capital expenditure commitments:

	2005 £000	2004 £000
Contracted for but not provided for	3,805	2,499

CONTINGENT LIABILITIES

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.

FIVE-YEAR SUMMARY

£000 (except where otherwise stated)	2001	2002	2003	2004	2005
TURNOVER	241,916	202,158	215,494	263,264	262,707
OPERATING PROFIT*	15,860	4,059	7,567	10,502	11,522
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION*	16,252	5,042	8,649	11,573	12,845
PROFIT/(LOSS) AFTER TAXATION	10,656	(4,819)	4,675	3,892	2,004
TAX RATE**	28%	28%	18%	27%	27%
DILUTED EARNINGS PER SHARE*	12.3p	3.8p	7.9p	9.4p	10.5p
DILUTED EARNINGS PER SHARE AT NORMALISED TAX RATE OF 28%*	12.3p	3.8p	6.9p	9.3p	10.3p
DIVIDENDS PER SHARE	4.15p	4.15p	4.35p	4.60p	4.85p
BALANCE SHEET:					
– capital employed	23,859	1,934	590	13,121	15,573
– net cash	29,165	39,125	40,625	27,480	22,942
– net funds	27,068	32,663	38,417	25,781	21,843
– shareholders' funds	53,024	41,059	41,215†	40,601	38,515
OPERATING PROFIT* AS A PERCENTAGE OF:					
– turnover	6.6%	2.0%	3.5%	4.0%	4.4%
– average capital employed	64%	32%	600%	153%	80%
AVERAGE NUMBER OF EMPLOYEES	1,738	1,590	1,545	1,875	2,137

* Before goodwill charges and exceptional items.

Exceptional items comprise:

2002 – £9.0 million exceptional administrative expenses related to restructuring and intangible asset impairment.

**Tax rate as a percentage of profit before goodwill charges.

† Restated for UITF 38.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

ANNUAL GENERAL MEETING

23 January 2006

PAYMENT OF 2005 FINAL DIVIDEND

3 February 2006

ANNOUNCEMENT OF 2006 INTERIM RESULTS

May 2006

ANNOUNCEMENT OF 2006 PRELIMINARY RESULTS

November 2006

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 by email at pheummings@rm.com

REGISTRARS AND SHAREHOLDING INFORMATION

Shareholders can access the details of their holdings in RM plc via the Shareholder Services option within the investor section of the corporate Web site at www.rm.com/investors. 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@capita-irg.com or telephone: 0870 162 3100. To help shareholders, the Capita Web site at www.capitaregistrars.com contains a shareholders' frequently asked questions section.

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M.D. GREIG Group Finance Director

R.A. SIRS Chief Operating Officer

S.L. COUTU Senior Independent Non-Executive Director

B. CARSBURG 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

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

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RM'S PRODUCTS

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

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