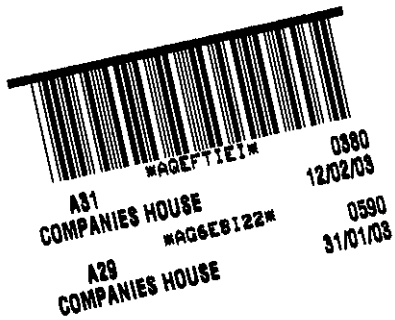


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Company number 1749877

RM plc

**Annual Report and Financial Statements
for the year ended 30th September 2002**



RM plc

Annual Report and Financial Statements for the year ended 30th September 2002

CONTENTS	Page
CHAIRMAN'S STATEMENT	2
CHIEF EXECUTIVE'S REVIEW	4
STRATEGIC REVIEW	6
AT A GLANCE	7
FINANCIAL REVIEW	8
DIRECTORS	11
DIRECTORS' REPORT	12
CORPORATE GOVERNANCE REPORT	15
REMUNERATION REPORT	18
INDEPENDENT AUDITORS' REPORT	21
CONSOLIDATED PROFIT AND LOSS ACCOUNT	22
CONSOLIDATED BALANCE SHEET	23
COMPANY BALANCE SHEET	24
CONSOLIDATED CASH FLOW STATEMENT	25
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	25
NOTES TO THE FINANCIAL STATEMENTS	26
FIVE YEAR SUMMARY	43
SHAREHOLDER INFORMATION	44

Increase in public funding for
education over the next four years

38%

In the 2002 Comprehensive Spending Review the Treasury committed to further significant increases in education funding. Over the next four years education spending will increase from £49.5 billion in government year 2001/02 to £68.4 billion in government year 2005/06.

Increase in the average number of
PCs available per school over the last
four years

137%

ICT (Information and Communications Technology) is an indispensable part of the fabric of a school. The most recent Department for Education and Skills survey shows that the average number of PCs available per school in 2002 is 64, compared to 27 in 1998.

Proportion of schools ordering from RM
during 2002

66%

Two thirds of schools in UK placed an order with RM during
2002. Over 27,000 schools have bought from RM in the last
five years.

Group's market position

No. 1

RM supplies more goods and services to UK schools than
any other commercial company.

RM plc works with educational establishments to provide innovative ways of delivering education. Our goal is to help educationalists use new processes, techniques and technology to improve standards of teaching and learning.

Operational Headlines

Recovery programme on plan

Turnover £202.2 million

Net cash inflow from operating activities £25.0 million

Net funds up £5.6 million to £32.7 million

Profit before tax, exceptional items and goodwill amortisation £5.0 million

Dividend maintained at 4.15p per share

£3.4 million returned to shareholders through share buy back

CHAIRMAN'S STATEMENT

The year to 30th September 2002 has been difficult for the ICT sector as a whole and, particularly in the first half, for RM plc. However, we have met the revised plan we set for the Group in February, and results for the year as a whole are slightly ahead of market expectations. The strategy we have put in place, combined with our cost control programme, provide a solid platform for RM's continued recovery.

Results

In line with the Board's expectations set out in the February trading update, Group turnover for the year was down 16% at £202.2 million (2001: £241.9 million). Underlying turnover (excluding LSP which made its peak contribution last year and is now in its final year of funding) was down 11% to £182.9 million. Second half performance was markedly better than that in the first half, with second half turnover (excluding LSP) down by only 4% year-on-year.

Gross profit percentage was 25.3% (2001: 25.7%) reflecting product mix changes. Laptop computers are now a larger proportion of the Group's PC sales and, as anticipated, curriculum software sales were affected by market uncertainty.

Operating expenses (excluding exceptional charges and goodwill amortisation) for the year were £47.2 million. However, second half operating expenses were £22.2 million, compared with £25.0 million in the first half, reflecting the benefit of the Group's cost control programme.

Profit before tax (before exceptional charges and goodwill amortisation) was £5.0 million (2001: £16.3 million). After exceptional charges (relating to property, staff reductions and asset impairment) of £9.0 million, goodwill amortisation of £2.0 million and a tax credit of £1.1 million, the Group made a loss after tax of £4.8 million. Earnings per share (before exceptional charges and amortisation of goodwill) was 3.8p (2001: 12.3p).

Demonstrating the underlying strength of RM's business, cashflow for the year was excellent with cash inflow from operating activities of £25.0 million. Even after returning £7.3 million to shareholders (through dividend and share buy backs) and acquisitions costing £5.7 million during the year, RM's net funds position at 30th September 2002 increased by £5.6 million to £32.7 million (2001: £27.1 million).

The Board is proposing an unchanged total dividend for the year of 4.15p per share. The final dividend of 3.2p will be paid on 7th February 2003 to shareholders on the register at 10th January 2003.

Share Buy Back

During the year RM purchased 4.96% of its issued share capital at a cost of £3.4 million. These purchases have had the effect of increasing earnings per share for the year for remaining shareholders. At an EGM on 6th November 2002 authorisation was granted for RM to buy back up to a further 10% of its shares. We will only buy back further shares if the Board believes that it is to the benefit of shareholders.

Board

Tim Pearson took over from Richard Girling as CEO in February 2002. On behalf of the Board, I would like to thank Richard for his contribution to RM over more than twenty years. The Board's Nomination Committee, with assistance from external consultants, undertook a wide-ranging search for a new CEO and interviewed a number of external and internal candidates. We concluded unanimously that Tim was the right person to take RM forward to the next stage of its growth, and the firm action and new strategy he has put in place over the last nine months have validated that decision.

I reported at the half year that we intended to strengthen the Board by recruiting further Non-Executive Directors and I am delighted that Sir Bryan Carsberg, John Windeler and Professor Tim Brighouse have now joined the Board. Each of them is a highly respected and innovative leader in his own field, and together they bring a depth and breadth of commercial, financial and educational experience to the Board that will help make RM a better company, to the benefit of all its stakeholders.

As announced, Tim Brighouse has been appointed to the new position of London Schools Commissioner and will step down from the Board at the end of the year. I am pleased, however, that Tim has agreed to take on the unpaid role of Chairman of RM's Education Advisory Council, ensuring that his unrivalled experience of driving improvements in schools will continue to be available to RM. The Education Advisory Council will provide the Group with expert educational knowledge and understanding; and will be invaluable in helping us develop products and services that deliver more educational value for our customers and in establishing RM as an important educational influence in our own right.

CHAIRMAN'S STATEMENT

Market

Total public funding for education continues to grow, with the Government announcing plans in the 2002 Comprehensive Spending Review for a further three years of 8% year-on-year growth. The government departments responsible for education in the UK also continue to view transformation of the education service – through private sector partnership and the deployment of technology – as a high priority.

However, as ICT becomes more central to mainstream educational practice, centrally-driven initiatives for establishing ICT infrastructure have become a less important factor in driving growth in RM's market. Spending will increasingly be driven by individual education establishments and this means that ICT budgets are likely to rise less rapidly.

People

It is RM's staff who deliver the Group's success. In what has been a very difficult period for the Group, I would like to thank them all for their exceptional levels of contribution and commitment during the year.

Prospects

As is always the case at this point in RM's year, it is too early to give an indication of the outcome for 2003. However, performance in the second half of 2002 was very much in line with management's plan and markedly better than that in the first half. We reinforced our market-leading position and released a significant number of strategically important new products that demonstrate education vision and effectiveness.

RM has a highly seasonal business, with the majority of revenue arising in the second half and gross profit margins materially higher in the second half than in the first. The current year will benefit from a full year of cost reductions and, as a result, we expect a significant decrease in the first half loss.

For the year as a whole, we expect turnover to be broadly flat. There will be a significant reduction in turnover from LSP, but we expect this to be offset by growth elsewhere including some contribution from our strategic projects activity. We have put in place a business plan that recognises the significant changes in RM's market environment and still delivers an acceptable level of earnings growth.

Looking further ahead it is clear that education, and increasing private sector involvement in education, remain important government priorities. RM is a leading commercial provider to education in the UK and we intend to capitalise on the opportunities our skills, products, services and market position will offer us.



John Leighfield
22nd November 2002

CHIEF EXECUTIVE'S REVIEW

I took over as CEO of RM in February at a time of considerable uncertainty for the Group. My first priority was to stabilise RM's core business, and I am pleased to report that we now have a tighter cost structure in place and our activities and resources are more effectively targeted at the opportunities available in UK education. We have released a substantial number of key products and made significant improvements to our business operations. Recovery has begun, but there remains much to be done.

Review of strategy and operations

As we entered 2002, it became clear that market demand was at odds with the Group's plan and that our cost base was too high for the level of business we were achieving. It was also clear that some areas of the business were not operating as effectively as they should.

I initiated a wide-ranging review of strategy and operations in February with the aim of maximising shareholder value. The review confirmed that RM has good products, dedicated people and strong customer relationships, which together create a very strong customer franchise in UK schools. It also confirmed that the Group is one of the leading commercial providers to UK education as a whole and the clear market leader for educational ICT.

However, the review also showed that we were not fully exploiting the opportunities available to us and that a good deal of work would be required to make RM as efficient and effective as it needs to be in the future. To address this I put in place a three-stage recovery plan for the Group:

- match RM's cost base to the revenues and margins realistically available from the UK educational ICT market;
- understand the real opportunities in the educational ICT market and address them effectively, efficiently and in a more customer-driven manner;
- identify education services opportunities to provide future growth for RM's business.

Underpinning the recovery plan is our strong commitment to improve the levels of customer satisfaction RM delivers, and to become the most valued commercial partner for education establishments.

Cost control

Following the February trading update we initiated immediate action to reduce the Group's cost base. The cost control programme we put in place has had a significant effect and strict cost control will remain a fundamental part of RM's culture. Operating costs in the second half of the year were £2.9 million lower than those in the first half.

Our cost reduction programme was focused on staff reductions, rationalisation of premises and a much tighter non-staff cost regime. Staff numbers have decreased most significantly in administrative areas in order to allow appropriate investment in customer retention and satisfaction and business development to continue.

Market

Following the recent Comprehensive Spending Review there is good visibility of total education funding growth for the next three years, and the UK's Government remains committed to a fundamental transformation of the education service. The recent Department for Education and Skills (DfES) policy paper – **Transforming The Way We Learn** – illustrates this:

"... when used in the right circumstances, ICT has huge potential to engage pupils in ways that will help to realise their individual talents. It also offers teachers new opportunities to develop their professional skills, whether in the classroom or the virtual classroom. Thus ICT is at the heart of many of the proposals for transforming secondary education (and for building on recent reforms of primary education) that we set out last year in the white paper 'Schools – Achieving Success'."

The future pattern of funding specifically for ICT is, however, less clear than it has been in recent years. With most schools having recently made substantial investments in ICT infrastructure, their focus is on making effective use of that infrastructure. There is also clear evidence that the changes to national teachers' pay arrangements are putting school budgets under pressure.

Important ICT products for schools now include whole-class teaching technology and high-speed Internet connections as well as extensions to existing networks. As we reported in February, this led to changes in purchasing priorities in schools with growth in demand for broadband services, laptop computers and interactive white boards.

There is also a clear need for high quality learning content to support the Government's transformation agenda. This is something that is recognised across the UK, with initiatives such as the DfES' Curriculum Online programme (originally announced last December) which is intended to provide additional funding for software purchases. However, the well-reported confusion in the marketplace resulting from the BBC's proposals has meant that this need did not turn into the previously anticipated level of business.

An increasing amount of business in the educational market place is being transacted through large contracts and we are currently bidding for a number of major projects worth, in aggregate, £120 million. We have developed our capability for effectively addressing this kind of business during the year by putting in place a high-level strategic projects team.

Products and services

Where we have identified new developments and opportunities in the education market – as was the case with LSP – RM has consistently delivered good business results. One of the key actions following the strategic review was to ensure that we systematically identify and respond to real customer needs. Product and service development during the year has been increasingly responsive to customers' emerging needs – though there remains further progress to be made.

CHIEF EXECUTIVE'S REVIEW

PC hardware continues to provide a profitable revenue stream for RM, with sales this year of over 120,000 PCs. In response to customer needs we have significantly enhanced our PC product offer. A wider laptop offer has helped us achieve a good performance in the DfES £100 million Laptop for Teachers initiative. With *RM Intellidesk™* and our new small form-factor PC we have also introduced products that directly address the pressing space restrictions of most classrooms.

Since the end of the year, RM has launched the *RM Tablet PC* – designed specifically for education – using Microsoft®'s Windows® XP Tablet operating system. The Group was Microsoft's education partner at the Tablet PC launch, and the product – which is currently sold at a world-leading price point of £799 – has been enthusiastically received by customers.

Our *RM ClassBoard™* interactive white board range was introduced in February 2002 and RM is now one of the leading interactive white board providers. We have also introduced a new interactive white board software package - *Easiteach Studio™* – which has been developed using software technology from the Group's *Softease®* acquisition.

The *RM Connect™* product family continues to be the most widely used network infrastructure in UK schools. A major new generation – *Community Connect 3™* – was launched during the year and will be required by our customers as they migrate their networks to the latest generation of Microsoft technology. The most significant driver of this upgrade will be Microsoft Windows XP, and the move to this new desktop operating system is slower than originally anticipated. We will continue our R&D programme related to the *RM Connect* family to further develop its position as the leading network infrastructure platform in UK schools. The number of stations connected to *RM Connect 2* and *Community Connect 3* networks increased by 65,000 during the year.

Broadband and Internet revenues performed extremely well with growth of 39% year-on-year. This business comprises both services provided to individual schools and large contracts, such as the South West Grid for Learning, which was renewed during the year.

The Group continued investment during the year in a number of innovative education software products in areas where we had first-mover advantage. *MathsAlive™* now addresses the whole of Key Stage 3 and continues to generate more enthusiasm than any other product we have ever developed. The whole-class education service approach pioneered by *MathsAlive* has now been extended to primary school ICT teaching with the introduction of *ICT Alive™*.

Organisation

RM is moving towards a much simplified organisational structure, which is focused on ensuring that the products and services that the Group offers are well matched to our customers' needs and on improving our customer relationships. RM has exceptional staff and my intention with the new organisational structure is to provide them with clear objectives, straightforward performance measures and to match remuneration and rewards to real performance.

The previous three business units are being integrated into two major divisions – **Products & Services** and **Marketing & Sales** – with a corporate services department covering finance, information systems, HR and administration. Each of the major divisions reports directly to me, and will be headed by a senior Director.

The new structure is designed to give Marketing & Sales, as the customers' representative, a stronger voice inside RM. It brings a twin focus to RM's operations, recognising that, to a large extent, RM is dealing with a single customer base and our success will come from managing our relationships with it. Marketing & Sales is responsible for ensuring that the products and services we offer are a good match for our customers' needs, and that our customer relationships continue to develop. Products & Services is responsible for delivering excellent products with the highest levels of customer service.

Looking Ahead

The DfES has recently launched its delayed Curriculum Online initiative, which will bring £50 million of dedicated funding into the market over the next twelve months – though we believe this will predominantly substitute existing funds. The Group's plan for the year has been set with the assumption of a continuation of reduced levels of demand for digital learning resources, which we believe that this is the most sensible approach given the uncertainty over the BBC's proposals. Future investments in educational content will only be made in areas where we have confidence that RM can generate a sustainable competitive advantage and where the Board believes it is unlikely that the BBC will enter.

RM remains a strong leader in the provision of educational ICT infrastructure. RM Window Box™ and RM Connect remain the leading infrastructure product ranges in primary and secondary schools. Combined with our enhanced PC product range, other hardware developments and growing services capabilities, they position us well for continued success in this area.

Cost control and increasing efficiency and effectiveness have been the key focus areas over the last nine months. During this year we will increasingly turn our attention to the Group's third strategic aim of returning growth to the business. RM is a leading commercial supplier to UK educational establishments. We have a direct relationship with our customers, and have well developed skills in working with schools to deliver complex, strategically important, high value products and services. This positions us well for growth driven by the provision of other sophisticated, and not necessarily ICT-related, educational services.

Tim Pearson
22nd November 2002

STRATEGIC REVIEW

During 2002 RM undertook a major strategic review of its business. The brief for this review was, without any prejudices or preconceptions, to develop a strategy that maximises shareholder value and to set out the foundations for a new business plan that would deliver this strategy.

The key findings of the review were:

1. The schools ICT market has ongoing – although reduced – growth potential and centrally-driven initiatives have caused significant volatility in spend profile and product mix.

The educational ICT market is made up of a number of sub-segments (eg: PCs, broadband connections and teacher training), with funding coming from multiple sources (eg: schools' core budgets, central government funding and lottery funding). Over the last five years the market has grown significantly, with this growth resulting from a number of different initiatives. Up until 2001, RM had delivered smooth profit and turnover growth by successfully reacting to changes in funding sources and product requirements. However, over the last twelve months, the market has moved rapidly with shifts in product demand and significant changes in government initiatives.

2. RM has unrivalled customer relationships and the UK's strongest distribution channel for education products, founded on understanding schools' ICT needs.

The review confirmed that the RM brand is highly respected in our target markets. The Group's relationships with schools are well developed, with approximately one third of schools identifying themselves as regular and loyal purchasers and a further one third purchasing from RM occasionally. RM is significantly larger (in terms of sales) than its nearest competitor in the educational ICT market, with strong market share and the leading position in each market sub-segment. The Group is also the leading commercial supplier (by value) to schools in general.

The review has informed RM's future business plan, which will focus on the Group's channel and customer relationship strengths, with RM continuing to be a broadly based supplier of products and services to schools. The Group will:

- leverage the key strategic advantage of customer relationships, and structure the Group to take best advantage of it;
- address expected volatility by remaining broadly based (by product) and becoming more flexible;
- drive performance through targeted initiatives and tight cost control;
- set the cost base to deliver acceptable profitability even with modest market growth and significant BBC impact.

In the immediate recovery phase of its plan the Group will continue to focus on ICT products. Future growth, however, will be driven by an increasing involvement in broader education services.

AT A GLANCE

RM is the UK's number one provider of educational services, software and ICT infrastructure to schools, colleges and universities. We're an educational ICT pioneer and have been responsible for significant innovation in the areas of education networking, ICT for whole-class teaching and online education services. With strong relationships with many thousands of educators, we're a trusted partner for educational establishments across the UK.

Education has been the heart of the Group's business since 1977 when RM was responsible for the earliest microcomputers used in UK schools. We've been at the forefront ever since bringing together technical knowledge, educational understanding and high levels of customer service. Crucially, we're an education services organisation – our role is to help our customers improve standards of teaching and learning.

Infrastructure services and software

Schools and colleges have extensive and complex ICT installations. RM provides a wide range of products and services – from software tools designed to simplify system management, through Internet Service Provision and broadband, to facilities management and outsourcing – which allow educators to concentrate on teaching and learning.

Educational software and services

The real value of ICT to education is through software that genuinely enhances teaching and learning. RM has led the way with products such as RM Window Box (for primary schools), Integrated Learning Systems and whole-class teaching services (such as Maths Alive). The majority of RM's software revenues come from RM-developed products, or products where the Group has exclusive, long-term distribution rights.

PC hardware

RM supplies more PC hardware to education establishments in the UK than anyone else. As well as the Group's own range of laptop, desktop and server PCs, RM also provides Sony VAIO laptops.

Softease

Softease, which publishes the award-winning Textease range of products, was acquired by RM in 2001. Textease products are widely used in UK schools and provide a complete classroom productivity package designed specifically for use by children.

3T Productions

3T Productions is an interactive design and development company specialising in the design and development of bespoke educational software and content. Customers include the Teacher Training Agency, Qualifications and Curriculum Authority and the Department for Education and Skills.

FINANCIAL REVIEW

Turnover and profits

Group turnover for the year was down 16% at £202.2 million. Second half performance was an improvement over the first half; second half turnover was down 12% and only 4% down excluding LSP. Gross profit percentage for the year was 25.3%, compared with 25.7% last year.

Total operating expenses before goodwill amortisation and exceptional items were £47.2 million. The second half benefited from cost reductions and operating expenses before goodwill and exceptionals in the second half were £2.9 million lower than in the first half. Full year investment in research and development increased by £2.1 million to £13.8 million and now equates to 6.8% of turnover.

Exceptional items

Following Tim Pearson's appointment as CEO, costs were brought into line with expected levels of turnover: ninety-nine people were made redundant; and 22,000 square feet of property were vacated in Oxfordshire. This gave rise to a restructuring charge of £4.0 million: £2.1 million related to staff changes and redundancies; and £1.9 million related to property costs. These actions contributed to annualised cost savings of approximately £4 million, with the full benefit being felt in the next financial year.

During the Strategic Review it became clear that the 10-year strategic alliance agreement RM entered into with Computer Curriculum Corporation (CCC) in 1997 was unlikely to deliver the expected benefits in the years ahead. Since the agreement was signed the ownership and management of CCC has changed and the Board's expectations of future products has reduced. The Group has taken a non-cash asset impairment charge of £5 million to reduce the carrying value of the licence held as an intangible asset.

Cash flow

The Group continues to be strongly cash generative. The net cash inflow from operations has been more than 100% of operating profit before goodwill amortisation throughout the preceding six years. In the year to September 2002 the net cash inflow from operating activities of £25.0 million represented in excess of six times the operating profit before goodwill amortisation and exceptional items.

Balance sheet

Intangible fixed assets ended the year £2.3 million lower at £7.1 million. The movements were the addition of £5.3 million goodwill on acquisitions, the exceptional write off of the licence held as an intangible asset and normal amortisation. The net book value of tangible fixed assets declined by £5.1 million as the depreciation charge of £8.8 million significantly exceeded net capital expenditure of £3.5 million. Capital expenditure was low as a result of cost control and there being no requirement for investment in the Dudley PFI contract this year.

Stocks were £10.0 million maintaining, the low levels recorded last year end. Days sales outstanding, a measure of time taken to collect debts from customers, were particularly good at the year end and trade debtors fell by £11.9 million to £39.3 million.

Closing cash and short term deposits increased for the second year in succession by £10.0 million reaching £39.1 million. After taking into account loan notes of £6.4 million, net funds were £32.7 million, up £5.6 million. Average net funds were £23.1 million (2001: £7.1 million).

Deferred income representing customer payments in advance for annually contracted and other services was £20.3 million (2001: £22.6 million), with the decline attributable to the Learning Schools Programme.

Tax and Treasury

The tax credit of £1.1 million represents 28% of the loss before amortisation of goodwill (2001: tax rate 28%). Under Financial Reporting Standard 19 (FRS 19) the Group has recognised a deferred tax asset of £0.9 million.

The Group expects to benefit from the research and development tax credit introduced from 1st April 2002 which gives an enhanced tax deduction of 25% of qualifying research and development expenditure. Whilst the definition of qualifying research and development is still subject to clarification, it is already clear that some expenditure which is included within RM's published research and development figure, for example the costs of premises, will not meet the criteria.

The Board approves significant treasury transactions and reviews treasury policy on a regular basis. Short term investments are held predominantly in sterling with a defined list of institutions approved by the Board.

FINANCIAL REVIEW

Pensions

The Accounting Standards Board has extended the transitional arrangements for the implementation of FRS 17 "Retirement Benefits". The Group has continued to account for the P&L cost of its deferred benefit pension scheme under SSAP 24 whilst disclosing FRS 17 information in the notes to the accounts.

The FRS 17 valuation as at 30th September 2002 identified that there was a deficit of £16.9 million (£11.8 million after tax) compared to a deficit of £7.5 million (£5.3 million after tax) at 30th September 2001. This increase in the deficit reflects the poor performance of equity markets during the year as well as an increase in liabilities as a result of a reduction in the discount rate used to value them. 30th September 2002 marked a particularly low point for equity markets. The deficit fluctuates significantly from day to day and would have been materially lower had the valuation taken place, for example, one month later.

During the year the cost of benefits was reduced by increasing the normal retirement age for future service from 60 to 65 and increasing employee contributions by 1%. Following the year end the scheme has been closed to new members and further benefit changes implemented to save £0.25 million per annum. As a result of these changes it is anticipated that current contribution levels will recover the deficit by 2012, and that the P&L charge for 2003 will be no higher than the £3.1 million recorded in 2002.

Acquisitions

Softase Limited was acquired in October 2001 for a total consideration of £5.0 million which was settled by the issue of loan notes. The major assets of Helicon Publishing Limited were acquired in February for a consideration of £0.7 million in cash. Goodwill arising on the acquisitions of £4.6 million in Softase and £0.7 million on Helicon has been capitalised and is being amortised over a 5 year period.

Shareholders return

The mid market share price at the close of business on 30th September 2002 was 59.5p, capitalising the Group at £53.4 million. The highest and lowest mid market prices recorded in the financial year were 317.5p and 59.5p. Since the year-end the share price has increased, and was 83.5p on 21st November 2002.

The interim dividend of 0.95p per ordinary share was paid to shareholders in July and a proposed final dividend of 3.20p makes a total dividend for the year of 4.15p, the same level as last year. The combined cash cost of the interim and final dividends is £3.8 million.

The Company exercised the authority that it was granted at the last AGM to buy back up to 5% of the issued share capital. During the year it repurchased 4,680,088 shares at an average price of 71.7p per share. Had this been in place for the full year it would have increased earnings per share for the year by approximately 3%.

Accounting and presentation changes

The financial statements have been prepared on the basis of consistent accounting policies in line with those used in the previous financial year end with the exception that FRS 19 "Deferred Taxation" has been adopted with effect from 1st October 2001. The effect of adopting FRS 19 is not material on the Group.

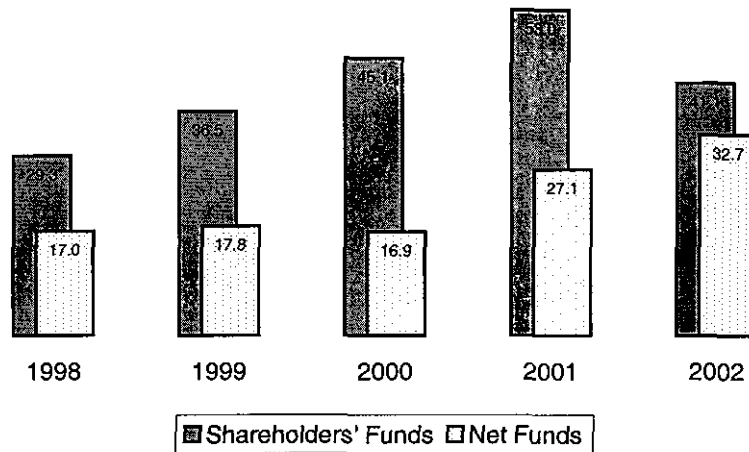
In order to aid the understanding of the underlying performance of the Group, the profit and loss has been presented in columnar format and an additional earnings per share measure excluding exceptional items has been incorporated.

Information systems

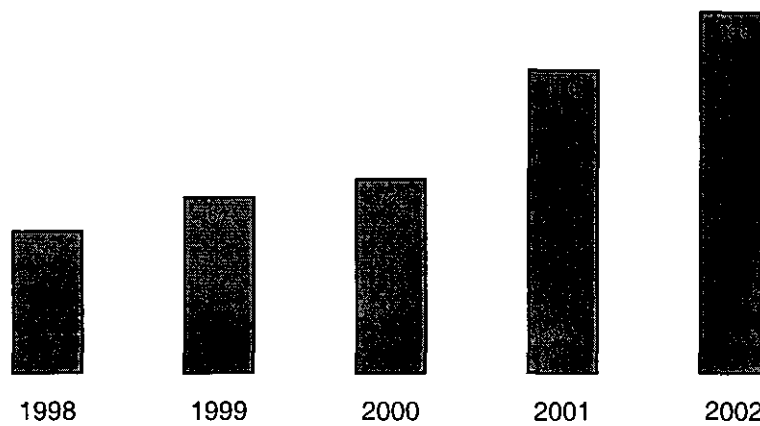
RM has continued to invest in a business systems model that enables browser based applications to view a single database of customer, product and order fulfilment information. This major asset has translated into a direct customer benefit as RM's fully integrated RM.com e-commerce provision allows customers to both order online and view industry leading 'My Account' details at their convenience. Significant process and systems improvements have accompanied the launch of the RM Community Connect 3 product. Customers are now able to view their installation plans, quotations and contacts online. RM continues to share and expand its support knowledge base, which complements the extremely popular Support Online service that efficiently manages over 6,000 on-line customer calls per month.

FINANCIAL REVIEW

Shareholders & Net Funds £ million



R & D Expenditure £ million



DIRECTORS

DIRECTORS' BIOGRAPHIES

John Leighfield CBE - Non-Executive Chairman (a) (r) (n)

John Leighfield (age 64) was appointed non-executive Chairman in 1994, having joined RM as a non-executive Director in 1993. Until April 1993 he was Executive Chairman of AT&T Istel. He is Chairman of Synstar plc and a non-executive Director of a number of other organisations. 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.

Tim Pearson - Chief Executive Officer

Tim Pearson (age 42) 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.

Michael Greig - Finance Director FCMA, MA, MSc

Mike Greig (age 46) 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.

Michael Fischer - Non-Executive President

Mike Fischer (age 52) was Chief Executive from 1973, when he co-founded RM with Mike O'Regan, until November 1997. He is a founder and Chairman of Alamy.com Limited, an online provider of photographic image exchange for people trading web images. He is also a former non-executive Director of Madge NV, a networking products group quoted on NASDAQ. He is a trustee of the Fischer Family Trust and the Oxford Maritime Trust.

Sherry Coutu - Senior Non-Executive Director (a) (r) (n)

Sherry Coutu (age 38) was appointed to the Board as a non-executive Director in 1999. She was founder and Chairman of Interactive Investor International plc and of ISI Emerging Markets. Prior to this she has also been Director of Strategy for Bell Cablemedia and a consultant with Accenture and Coopers & Lybrand Deloitte. She is a non-executive Director of Harvard Business School Alumni Board, National Archives (Public Record Office), Jarvis PLC and a part-time lecturer at the London Business School.

Michael O'Regan OBE - Non-Executive Director (a)

Mike O'Regan (age 55) co-founded RM in 1973 and has been a non-executive Director since 1992. He is a non-executive Director of the three Oxford Technology Venture Capital Trust PLCs. In addition, he is joint Director of *Hamilton Maths and Reading Projects* and a trustee of PEEP, an Oxford based educational project that he formed in 1994, and of three other educational trusts.

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

Sir Bryan Carsberg (age 63) 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 Chairman of the Pensions Compensation Board, a former Director General of OFTEL and a former Director General of Fair Trading. He served as Secretary General of the International Accounting Standards Committee from 1996 to 2001.

John Windeler - Non-Executive Director (a) (r) (n)

John Windeler (age 59) was appointed to the Board as a non-executive Director in October 2002. He is 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, UK Ltd between 1989 and 1994. He has a BA in English and an MBA in Finance, both from Ohio State University.

Professor Tim Brighouse - Non-Executive Director* (r)

Tim Brighouse (age 62) was appointed to the Board as a non-executive Director in October 2002. 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.

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

*Tim Brighouse will stand down from the Board on 1st January 2003 following his appointment as London Schools Commissioner.

DIRECTORS' REPORT

The Directors present their report on the affairs of the Company (RM plc) and its subsidiary undertakings (together the Group, or RM) and the consolidated financial statements and auditors' report for the year ended 30th September 2002.

1. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are the supply of ICT software, systems and services and the provision of educational services to educational establishments. A review of the Group's activities and its prospects for the forthcoming year are contained in the Chairman's Statement and Chief Executive's Review.

2. RESULTS AND DIVIDENDS

The Group's loss for the year, after taxation, was £4,819,000 (2001: £10,656,000 profit). The Directors recommend the payment of a final dividend of 3.20p bringing the total dividend for the year to 4.15p per share (2001: 4.15p). The final dividend is payable on 7th February 2003 to shareholders on the register on 10th January 2003.

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 an appreciable element of innovation. Expenditure of £13,836,000 was incurred in 2002 (2001: £11,646,000). All research and development costs are written off in the year in which they are incurred.

4. DIRECTORS AND THEIR INTERESTS

The Directors of the Company at 30th September 2002, who served during the year, together with their beneficial interests in the share capital of the Company, were as follows:

	Ordinary Shares of 2p each	
	30/09/02	*30/09/01
J.P. Leighfield	148,000	123,000
T.R. Pearson	61,746	25,857
M.D. Fischer	4,272,190	4,802,190
M.D. Greig	95,750	70,272
S.L. Coutu	37,079	7,079
M.R.H.J. O'Regan	2,970,000	3,250,000
B. Carsberg (appointed 1 st September 2002)	-	-

* or date of appointment if later.

Information in relation to the Directors' share options is given in the Remuneration Report.

In addition R.A.G. Girling and M.W. Burrell were Directors until 27th May 2002. Subsequent to the year end J.R. Windeler and T.R.P. Brighthouse were appointed on 1st October 2002. T.R.P. Brighthouse will stand down from the Board on 1st January 2003 following his appointment as London Schools Commissioner, but will continue to chair RM's Education Advisory Council.

In addition to the interests listed above, T.R. Pearson has a non-beneficial interest as a trustee of the RML Staff Share Scheme in 196,720 (2001: 92,578) shares.

No Director of the Company was materially interested in any contract of significance involving the Company or any of its subsidiary undertakings.

5. ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will take place at 2.00pm on 29th January 2003 at 140 Milton Park, Abingdon, Oxon OX14 4RS.

Four Directors are retiring and offering themselves for re-election. J.P. Leighfield and S.L. Coutu are retiring as, under the Articles of Association, one third of all Directors are required to do so each year. This is done on a rotational basis unless a Director has been appointed during the year. B. Carsberg was appointed on 1st September 2002 and J.R. Windeler was appointed on 1st October 2002. Accordingly they are retiring and offering themselves for re-election. The Directors who are proposed for re-election at the next annual general meeting have letters of appointment which expire as follows.

Director	Expiry Date
J.P. Leighfield	1 st October 2005
S.L. Coutu	18 th October 2004
B. Carsberg	1 st September 2004
J.R. Windeler	1 st October 2005

Biographical details for each of these Directors are on Page 11.

DIRECTORS' REPORT

5. ANNUAL GENERAL MEETING (Continued)

In addition to the routine business of the meeting there are two ordinary resolutions and one special resolution. The first ordinary resolution is to approve the RM plc Co-Investment Plan and to authorise the Directors to do all such acts and things as may be necessary or desirable to carry the same into effect. The second ordinary resolution is to approve the Board Report on Remuneration contained in the Company's Report and Accounts.

The special resolution proposes that (a) 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 £597,945 (33.33% of the issued share capital as at 22nd November 2002) and (b) 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 £89,701 (5.0% of the nominal value of the issued share capital as at 22nd November 2002). The Directors have no present intention of allotting further ordinary shares other than in connection with employee share schemes. The authorities being sought expire on the date of the next annual general meeting or, if earlier, 29th April 2004.

6. SUBSTANTIAL SHAREHOLDINGS

On 22nd November 2002 the following were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of Shares	Percentage Held
Schroder Investment Management	18,381,367	20.49%
Fidelity International Ltd	4,587,764	5.11%
M.D. Fischer	4,272,190	4.76%
Legal & General	3,376,405	3.76%
M.R.H.J. O'Regan	2,970,000	3.31%

7. ACQUISITION OF THE COMPANY'S OWN SHARES

Further to the shareholders' resolution at the AGM on 23rd January 2002, the Company purchased 4,680,088 ordinary shares with a nominal value of £93,602 representing 4.96% of the Company's called-up ordinary share capital for a consideration of £3,356,267.

At the end of the year, the Directors had authority, under the shareholders' resolution of 23rd January 2002, to purchase through the market 38,331 of the Company's ordinary shares 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 shares for the 5 business days immediately preceding the day on which such share is contracted to be purchased. This authority expires on 29th January 2003.

Subsequent to the year-end, an EGM of the shareholders of the Company, held on 6th November 2002, approved a resolution granting the Company the authority to repurchase a further 8,970,079 shares, being 10% of the issued share capital. This authority expires at the conclusion of the 2004 AGM or on 6th February 2004, whichever is the earlier.

8. EMPLOYEES

RM is an equal opportunities employer. Applications for employment are always fully considered irrespective of gender, ethnic origin, race, religion, sexual orientation or disability. In the event of members of staff 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.

RM operates a communications policy which aims to integrate staff into the business and to educate and inform them, encouraging a sense of involvement and keenness to contribute. Technical and personal skills development courses, sourced internally and externally, are available to staff at all levels. Directors and managers receive training in RM's key management methods. Additionally, self-instructed learning through teaching manuals and computer programs provides an important element in the technical training of support staff.

Considerable value is placed on involving staff and keeping them informed on matters affecting them as employees and on the performance of the Company as a whole. This is achieved through formal and informal meetings, dissemination of written communications directly or via noticeboards and the Company Intranet.

RM's employment policies are the responsibility of Sherry Coutu, Board Director.

DIRECTORS' REPORT

9. CHARITABLE AND POLITICAL DONATIONS

During the year the Group made various charitable donations totalling £38,000 (2001: £281,000). A further £4,000 was given to locally based community support projects (2001: £3,000). The Group made no political donations during the year.

10. SOCIAL, ENVIRONMENTAL AND ETHICAL MATTERS ("SEE") STATEMENT

SEE best practice is a continuous process for RM and every part of the business is covered. The Board is regularly updated with information about SEE matters that may affect the short and long term value of the Company and takes account of SEE matters in its decision-making. The Company has put into place policies and procedures for managing risks arising from SEE matters.

On environmental matters, performance is reviewed on a regular basis, environmental targets are assessed and relevant employees are trained in environmental awareness. During the year, the Environment Agency conducted a favourable review audit of our activities and has helped us to improve the recording of our waste management data and to make further reductions in our generation of business waste. These have included changes to our facilities to reduce water consumption and measures to minimise our production of packaging waste. We work closely with key suppliers to identify how we can help them to improve their environmental performance.

Initiatives have been introduced to reduce the impact of staff commuting and greater use is being made of public transport for both business and personal travel. We will be promoting improved environmental performance both at work and at home.

RM's SEE policies are the responsibility of Mike Greig, Board Director.

11. 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.

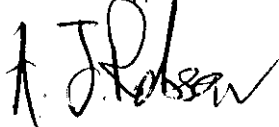
The Board has put in place an Education Advisory Council (EAC), chaired by Professor Tim Brighouse and including Mike Fischer, Board Director and Mike O'Regan, Board Director. The EAC has the specific aim of ensuring RM is kept up to date with educational policy and practice.

12. 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 30th September 2002 were 32 days (2001: 22 days) based on the ratio of trade creditors at the year end to the amounts invoiced by suppliers during the year.

13. AUDITORS

Following the resignation of Arthur Andersen on 31st July 2002 the Directors appointed Deloitte & Touche to fill the casual vacancy until the conclusion of the Annual General Meeting in January 2003 at which the Directors will place a resolution to appoint Deloitte & Touche as auditors for the ensuing year.



By Order of the Board
A.J. Robson
Company Secretary
22nd November 2002

CORPORATE GOVERNANCE REPORT

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, subject to any material departures disclosed and explained in the financial statements.

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 and to enable 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

In June 1998 the Hampel Committee and London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee.

The Company has complied throughout the year with the provisions of the code of Best Practice set out in section 1 of the Combined Code except that the President does not have a fixed term contract (A.6.1).

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 below and, in connection with directors' remuneration, in the relevant section of the Remuneration Report.

Board of Directors

The Board consists of two Executive Directors and seven Non-Executive Directors. Non-Executive Directors are appointed for a fixed term, subject to re-election. They can serve a maximum of three terms.

Of the seven Non-Executive Directors, five are considered to be independent according to the requirements of the Code: namely John Leighfield, Sherry Coutu, Sir Bryan Carsberg, John Windeler and Professor Tim Brighouse. Sherry Coutu is the Senior Non-Executive Director.

The Board meets eleven times a year and has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. Directors receive an 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.

Board Committees

There are three Board Committees, namely Audit, Remuneration and Nominations, all of which comprise solely Non-Executive Directors.

The Audit Committee comprises five Non-Executive Directors, is chaired by Sir Bryan Carsberg, and meets at least twice a year. The Company's external auditors and the Finance Director normally attend part of these meetings. It 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.

The Remuneration Committee comprises five Non-Executive Directors and is chaired by Sherry Coutu. It 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. Executive Directors may be invited to attend Committee meetings, but will not be present during any discussion of their own pay arrangements.

The Nominations Committee comprises four Non-Executive Directors and is chaired by John Leighfield. It recommends to the Board, candidates for appointment as Directors.

CORPORATE GOVERNANCE REPORT

Relations with Shareholders

The Company's Chief Executive and Finance Director meet regularly with institutional shareholders, fund managers and analysts as part of an active investor relations program to discuss long-term issues and obtain feedback. Private investors are encouraged to participate in the Annual General Meeting. In order to improve communications with private investors further, the Company has set up an investors' relations section within its website at www.rm.com

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 Board attaches considerable importance to the Group's systems of internal control and risk management.

The Board and the Audit Committee have reviewed the process of risk management and internal control in accordance with the Turnbull Guidance. The Board have carried out an analysis to identify the major risks that affect the Group, the impact of those risks and considered how those risks are managed. The Group has appointed a Group Risk Manager who has continued this work and developed the Group's approach towards risk management which includes taking action to avoid or reduce each risk.

The Group's internal controls are designed to meet the particular requirements of the Group and 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 ongoing process of enhancing and improving these processes ensures that business risks and opportunities are effectively managed.

Strategic risks are formally assessed by the Board during the annual planning process and steps are taken following this process to ensure that all such risks are monitored and managed going forward. The Board delegates responsibility for operational risks to the Chief Executive Officer and the senior management team 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 Board of the operating company works within strict terms of reference and any matters outside those terms or the agreed business plan are referred to the full Board for decision. 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 major business risks facing the Group and developing appropriate policies to manage those risks. The Board of the operating company meets weekly with an agenda of specific operational measures for review and meets more formally on a monthly basis to review key measures and strategic items.

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. 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.

CORPORATE GOVERNANCE REPORT

Monitoring – The Board has an established Audit Committee that meets periodically to review reports from management and Deloitte & Touche, the external auditors, so as to derive reasonable assurance on behalf of the Board that financial control procedures are in place and operate effectively. During the year 2000 an internal audit function was established which reports directly to the Audit Committee and which has terms of reference agreed by the Audit Committee.

Going Concern

After making enquiries and taking into account the Group's cash resources, 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
22nd November 2002

REMUNERATION REPORT

1. COMPOSITION OF THE REMUNERATION COMMITTEE

The members of the Committee who served during the year were:

S.L. Coutu - Chairman
 J.P. Leighfield
 M.W. Burrell (until 27th May 2002)

Subsequent to the year end B. Carsberg, J.R. Windeler and T.R.P. Brighouse were appointed to the Committee.

2. POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The Company's continued recovery and further development will require it to compete with companies which operate on a global scale. To do so successfully will be heavily dependent on retaining and building a team of individuals whose skills are scarce and in great demand within the marketplace. The executive remuneration package, as determined by the Remuneration Committee, is intended to attract and retain high quality executives and motivate them to achieve a high level of Company performance in line with the best interests of shareholders, while not being excessive. In framing the policy the Committee has access to internal and external advice.

The Committee considers that a well-designed remuneration strategy, which effectively balances risk and reward, is an important part of motivating the Group's most senior executives. During the year the Committee has consulted with major shareholders, and RM will seek approval for a Co-Investment Plan at the next AGM. This plan is designed to align the interests of executives more closely to those of shareholders by requiring executives to invest a proportion of their own personal wealth in the business. The Co-Investment Plan also complements the existing Executive Share Option Scheme and underpins the equity-related elements of remuneration by maintaining at least some value when conditions are adverse and options can become "under water" with no perceived value.

3. DIRECTORS' REMUNERATION

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

	2002 £000	2001 £000
Emoluments	703	807
Gains on exercise of share options	-	793
Money purchase pension contributions	18	22
	721	1,622

Directors' emoluments in respect of the Directors of the Company who served during the year ended 30th September 2002 was as follows:

Name	Fees and other Remuneration £000	Taxable Benefits £000	Annual Bonuses £000	2002 Total £000	2001 Total £000
Executive					
T.R. Pearson	205	-	10	215	170
M.D. Greig	158	-	7	165	170
R.A.G. Girling	161	-	-	161	241
J.R. Netherton	-	-	-	-	87
Non-Executive					
J.P. Leighfield	49	16	-	65	56
S.L. Coutu	36	-	-	36	20
M.D. Fischer	16	16	-	32	31
M.R.H.J. O'Regan	16	-	-	16	16
B. Carsberg	2	-	-	2	-
M.W. Burrell	11	-	-	11	16
	654	32	17	703	807

In addition to his emoluments shown above, R.A.G. Girling was paid £170,000 by the Company in accordance with his contractual entitlement following his resignation from the Board on 27th May 2002.

REMUNERATION REPORT

3. DIRECTORS' REMUNERATION (Continued)

Base Salary

The salaries of Executive Directors are reviewed annually and are set to reflect the executive's experience, responsibilities and marketability. Following the impact of adverse trading conditions in the first part of the year, the Remuneration Committee welcomed requests from T.R. Pearson and M.D. Greig to forego voluntarily 10% of their salary until such time as the Committee agree that the fortunes of the business are sufficiently restored to warrant reinstatement. The Executive Directors' bonus entitlements and pension contributions and entitlements, which are based on salary, have been reduced by the same amount. The Committee believes these voluntary sacrifices to be commendable symbolic gestures by the Executive Directors involved.

Annual Bonus

The Executive Directors are eligible for annual performance related bonuses under which the level of bonus is determined partly by achievement of personal objectives and partly by a formula measuring actual Group profit before tax against targets set at the beginning of each financial year. The bonuses are capped at 57.5% of base salary for the Chief Executive Officer (actually achieved 5%) and 37.5% of base salary for each of the other Executive Directors (actually achieved 5%).

Benefits in Kind

Taxable benefits in kind are in respect of company cars and medical insurance.

Pensions

The following Director had accrued entitlements under a defined benefit scheme as follows:

	Accrued pension 30/09/01 £000	Increase in accrued pension excluding inflation £000	Accrued pension 30/09/02 £000	Transfer value £000
T.R. Pearson	33	15	48	93

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The transfer value is the increase in the accrued pension calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less Director's contributions.

Members of the scheme have the option to pay Additional Voluntary Contributions; neither any contributions nor the resulting benefits are included in the above table.

Two Directors are members of money purchase schemes. Contributions paid by the Company in respect of such Directors were as follows:

	2002 £000	2001 £000
M.D. Fischer	2	3
M.D. Greig	16	19
	18	22

4. DIRECTOR'S LONG-TERM INCENTIVE SCHEMES

Other than the arrangements relating to share options detailed below, the Company has not operated any long-term incentive schemes.

5. POLICY ON GRANTING OF SHARE OPTIONS

The Remuneration Committee believes that the grant of share options to Executive Directors and key employees is vital in attracting, retaining and motivating high calibre staff in a competitive market and is an incentive which aligns the interests of employees and shareholders. Grants are made under the RM plc 2001 Executive Share Option Scheme, the key terms of which are as follows:

1. awards granted to executives and key individuals who are vital to the development of the business;
2. half yearly awards with an annualised value of normally up to two times salary;
3. executives to pay the NIC on exercise of options, therefore reducing the cost of the scheme to the Company;
4. options exercisable three years after the date of grant normally dependent upon achievement of challenging performance requirements and remaining exercisable until the tenth anniversary of the date of grant;

REMUNERATION REPORT

5. POLICY ON GRANTING OF SHARE OPTIONS (Continued)

5. an overall limit on shares that may be issued under the scheme and all other employee share schemes operated by the Company since its flotation of 15% of the issued ordinary share capital (with options granted prior to or on flotation being excluded from the limit);

6. a scheme life of three years, with shareholder approval required in 2004 for further executive awards.

RM share options are not offered at a discount.

6. DIRECTORS' SHARE OPTIONS

	Number of options over ordinary shares of 2p each in RM plc				At Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	At 01/10/01	Granted in year	Exercised in year	At 30/09/02				
T.R. Pearson	70,000	Nil	Nil	70,000	£1.475	-	17/02/00	17/02/07
	31,667	Nil	Nil	31,667	£2.933	-	20/05/01	20/05/08
	21,750	Nil	Nil	21,750	£4.415	-	04/12/01	04/12/08
	40,002	Nil	Nil	40,002	£5.000	-	21/05/02	21/05/09
	17,500	Nil	Nil	17,500	£7.615	-	06/12/02	06/12/09
	36,000	Nil	Nil	36,000	£5.600	-	24/05/03	24/05/10
	24,000	Nil	Nil	24,000	£5.450	-	26/02/04	26/02/11
	24,000	Nil	Nil	24,000	£5.225	-	30/05/04	30/05/11
	Nil	54,000	Nil	54,000	£2.500	-	29/11/04	29/11/11
	Nil	204,637	Nil	204,637	£0.715	-	21/06/05	21/06/12
M.D. Greig	25,000	Nil	Nil	25,000	£1.475	-	17/02/00	17/02/07
	33,340	Nil	Nil	33,340	£1.635	-	03/12/00	03/12/07
	31,667	Nil	Nil	31,667	£2.933	-	20/05/01	20/05/08
	21,750	Nil	Nil	21,750	£4.415	-	04/12/01	04/12/08
	40,002	Nil	Nil	40,002	£5.000	-	21/05/02	21/05/09
	17,500	Nil	Nil	17,500	£7.615	-	06/12/02	06/12/09
	36,000	Nil	Nil	36,000	£5.600	-	24/05/03	24/05/10
	24,000	Nil	Nil	24,000	£5.450	-	26/02/04	26/02/11
	24,000	Nil	Nil	24,000	£5.225	-	30/05/04	30/05/11
	Nil	54,000	Nil	54,000	£2.500	-	29/11/04	29/11/11
Nil	113,687	Nil	113,687	£0.715	-	21/06/05	21/06/12	

All Director's share options are Super or Unapproved options.

There have been no changes in the Directors' interests in the shares of the Company during the period 1st October 2002 to 22nd November 2002. No options held by Directors lapsed during the year.

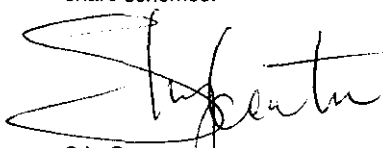
The market price of the ordinary shares at 30th September 2002 was 59.5p and the range during the year was 59.5p to 317.5p.

7. SERVICE CONTRACTS

The executive Directors' service contracts are terminable on the giving of one year's notice. The Committee considers this appropriate given the nature of the Company's business and the skills and expertise of the executives concerned.

8. REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration for non-executive Directors is determined by the executive Directors of the Board based on external professional advice and comparitors. Non-executive Directors, other than the President, have fixed term letters of appointment, are not eligible for pension scheme membership and do not participate in the Company's share schemes.



S.L. Coutu
Chairman, Remuneration Committee
22nd November 2002

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RM plc:

We have audited the financial statements of RM plc for the year ended 30th September 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Corporate Governance Report. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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 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. 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 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.

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 30th September 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Reading
22nd November 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30th September 2002

	Note	Before exceptional Items & goodwill amortisation £000	Exceptional items £000	Non exceptional goodwill amortisation £000	Total 2002 £000	2001 £000
Turnover	2					
Continuing operations		201,210	-	-	201,210	241,916
Acquisitions		948	-	-	948	-
Total Turnover		202,158	-	-	202,158	241,916
Cost of sales		(150,914)	-	-	(150,914)	(179,837)
Gross Profit	2	51,244	-	-	51,244	62,079
Operating expenses:						
Selling & distribution		(26,457)	-	-	(26,457)	(26,906)
Research & development		(13,836)	-	-	(13,836)	(11,646)
Administration	3	(6,892)	(8,968)	(1,988)	(17,848)	(8,712)
		(47,185)	(8,968)	(1,988)	(58,141)	(47,264)
Operating (Loss)/Profit	3	4,059	(8,968)	(1,988)	(6,897)	14,815
Operating (loss)/profit analysed between:						
Continuing operations		3,766	(8,968)	(1,158)	(6,360)	14,815
Acquisitions		293	-	(830)	(537)	-
Total operating (loss)/profit		4,059	(8,968)	(1,988)	(6,897)	14,815
Net interest receivable	5	983	-		983	392
(Loss)/Profit on Ordinary Activities before Taxation		5,042	(8,968)	(1,988)	(5,914)	15,207
Tax credit/(charge) on (loss)/profit on ordinary activities	6				1,095	(4,551)
(Loss)/Profit on Ordinary Activities after Taxation					(4,819)	10,656
Dividends paid and proposed	7				(3,767)	(3,911)
Retained (Loss)/Profit					(8,586)	6,745
(Loss)/Earnings per ordinary share:	8					
Basic					(5.1p)	11.4p
Diluted					(5.1p)	11.2p
Diluted –before amortisation of goodwill and exceptional items					3.8p	12.3p

All activities relate to continuing operations.

There were no 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.

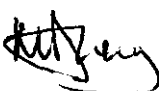
CONSOLIDATED BALANCE SHEET

As at 30th September 2002

	Note	2002 £000	2001 £000
FIXED ASSETS			
Intangible fixed assets	9	7,141	9,430
Tangible fixed assets	10	20,199	25,299
		27,340	34,729
CURRENT ASSETS			
Stocks	12	9,954	10,972
Debtors	13	43,041	53,665
Investments - short term cash deposits		20,157	8,095
Cash at bank and in hand		18,968	21,070
		92,120	93,802
CREDITORS			
Amounts falling due within one year	14	(70,327)	(67,975)
		21,793	25,827
NET CURRENT ASSETS			
		49,133	60,556
TOTAL ASSETS LESS CURRENT LIABILITIES			
CREDITORS			
Amounts falling due after more than one year	14	(5,943)	(6,506)
PROVISION FOR LIABILITIES AND CHARGES	15	(2,131)	(1,026)
		41,059	53,024
NET ASSETS			
CAPITAL AND RESERVES			
Called-up share capital	16 & 17	1,794	1,887
Share premium account	17	20,349	20,340
Capital redemption reserve	17	94	-
Profit and loss account	17	18,822	30,797
		41,059	53,024
EQUITY SHAREHOLDERS' FUNDS			

These financial statements were approved by the Board of Directors on 22nd November 2002.


T.R. Pearson
DIRECTOR


M.D. Greig
DIRECTOR

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

COMPANY BALANCE SHEET

As at 30th September 2002

	Note	2002 £000	2001 £000
FIXED ASSETS			
Investment in subsidiary undertakings	11	18,997	14,016
CURRENT ASSETS			
Debtors	13	35,017	43,386
Cash at bank and in hand		11	11
		35,028	43,397
CREDITORS			
Amounts falling due within one year	14	(7,675)	(3,700)
NET CURRENT ASSETS			
		27,353	39,697
TOTAL ASSETS LESS CURRENT LIABILITIES			
		46,350	53,713
CREDITORS			
Amounts falling due after more than one year	14	(1,712)	(1,437)
NET ASSETS			
		44,638	52,276
CAPITAL AND RESERVES			
Called-up share capital	16 & 17	1,794	1,887
Share premium account	17	20,349	20,340
Capital redemption reserve	17	94	-
Profit and loss account	17	22,401	30,049
EQUITY SHAREHOLDERS' FUNDS			
	17	44,638	52,276

These financial statements were approved by the Board of Directors on 22nd November 2002.



T.R. Pearson
DIRECTOR



M.D. Greig
DIRECTOR

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th September 2002

	Note	2002 £000	2001 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18	25,019	20,913
Returns on investments and servicing of finance	19	983	392
Taxation		(4,209)	(1,545)
Capital expenditure and financial investment	20	(3,506)	(7,272)
Acquisitions and disposals	21	(499)	-
Equity dividends paid		(3,916)	(3,419)
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		13,872	9,069
Management of liquid resources	22	(12,062)	4,106
Financing	23	(3,903)	919
(DECREASE)/INCREASE IN CASH IN THE YEAR		(2,093)	14,094

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 30th September 2002

	Note	2002 £000	2001 £000
(DECREASE)/INCREASE IN CASH IN THE YEAR		(2,093)	14,094
Capital element of finance lease payments		11	21
Cash inflow/(outflow) from change in liquid resources		12,062	(4,106)
Settlement of loan notes		522	212
Change in net cash resulting from cash flows		10,502	10,221
Issue of loan notes		(4,898)	-
Exchange translation		(9)	(5)
MOVEMENT IN NET FUNDS IN THE YEAR		5,595	10,216
Net funds brought forward		27,068	16,852
NET FUNDS CARRIED FORWARD	24	32,663	27,068

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

A summary of the Group's principal accounting policies is set out below. All of these policies have been applied consistently throughout the year and the preceding year with the exception that FRS 19 "Deferred Taxation" has been adopted from 1st October 2001. The effect of adopting FRS 19 has not resulted in a prior year adjustment.

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 30th September 2002. 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 30th September 1998 was written off to a separate goodwill reserve in accordance with the accounting standards then in force. In the Company's financial statements investments in subsidiary undertakings are stated at cost less any provision for impairment where appropriate.

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, which are essential to the functionality of the delivered product. If such obligations exist, revenue is recognised as they are fulfilled. Revenue from term licences is spread over the period of the licence, reflecting the Group's obligation to support the relevant software products or update their content over the term of the licence. Revenue from contracts for maintenance, support and annually 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. Revenue on long-term contracts is ascertained in a manner appropriate to the stage of completion of the contract.

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:

Leasehold building improvements	Up to 25 years
Plant & equipment	4-10 years
Computers	2-6 years
Vehicles	2-4 years

RM's computer units used for the purposes of administration, research and development and customer demonstrations are 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 3T Productions Limited and Softease Limited 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 between five and ten years. Provision is made for impairment where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange transaction risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

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

The Group undertakes a programme of R&D, 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. Expenditure of £13,836,000 was incurred in 2002 (2001: £11,646,000). All research and development costs are written off 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.

Long-Term Contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Taxation

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

Deferred taxation is 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.

Investments

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

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

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

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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

Pension Costs

It is the general policy of the Group to provide for and to fund pension liabilities on the advice of external 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.

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

	2002	2001
	£000	£000
Turnover by Division		
Schools	172,502	209,611
Lifelong Learning and Higher Education	29,656	32,305
	202,158	241,916
Turnover by Activity		
Software & Internet	56,949	60,241
Services	46,332	66,857
PC & 3 rd Party Products	98,877	114,818
	202,158	241,916
Gross Margin by Division		
Schools	46,574	55,440
Lifelong Learning and Higher Education	4,670	6,639
	51,244	62,079
Gross Margin by Activity		
Software & Internet	26,053	29,416
Services	9,368	10,370
PC & 3 rd Party Products	15,823	22,293
	51,244	62,079

All of the Group's turnover and profit arose from the Group's main activities, which are based principally in the United Kingdom. Sales to non-UK countries of £1,974,000 (2001: £1,616,000) included Europe £389,000 (2001: £696,000), Australasia £1,504,000 (2001: £851,000) and other countries £81,000 (2001: £69,000).

No net asset segment information has been disclosed because in the opinion of the Directors such disclosure would not be meaningful.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after charging:	2002	2001
	£000	£000
Depreciation of tangible fixed assets:		
- owned	8,796	8,112
- held under finance leases and hire purchase contracts	9	15
Amortisation of Intangible fixed assets:		
- licences	5,631	990
- goodwill	1,988	1,045
Operating leases:		
- land and buildings	4,520	2,005
- plant and machinery	707	1,183
Auditors' remuneration:		
- audit services	134	120
- taxation advice	71	64
- other professional services	62	65
Profit on sale of fixed assets	130	61
Research and development	13,836	11,646

The exceptional administration cost incurred in the year to 30th September 2002 was the result of the following:

(a) During the year the Directors critically reviewed the organisation's cost base in light of the lower turnover and in conjunction with a thorough review of strategy have taken steps, which include employee redundancies and rationalisation of facilities, to reduce it. An exceptional charge of £3,968,000 has been included in the profit and loss account in respect of the costs of executing this reorganisation. £2,068,000 relates to restructuring and redundancy costs and £1,900,000 relates to rationalisation of facilities. The estimated cost of rationalising the facilities has increased by £500,000, reflecting the downturn in the property market, since the interim announcement.

(b) At the interim stage of the year the Directors performed an impairment review of the carrying value of the licence held as an intangible fixed asset. The licence relates to the rights to manufacture and distribute certain software products and was acquired in 1997. Having due regard to the recent and forecast performance, developments in the competitive market place and other influencing factors, the Directors considered that it was appropriate to charge £5,000,000, as a provision for impairment, to the profit and loss account within administration costs.

The total of the exceptional items is £8,968,000. The net effect after taxation is £6,360,000.

4. STAFF COSTS

The average monthly number of persons (including Directors) employed by the Group during the year was as follows:	2002	2001
	Number	Number
	Employed	Employed
RM Schools	1,044	1,165
RM Learning	311	315
Lifelong Learning and Higher Education	55	52
Corporate Services	180	206
	1,590	1,738
Their aggregate remuneration comprised:	2002	2001
	£000	£000
Wages and salaries	45,125	43,316
Social security costs	3,886	3,917
Other pension costs	3,119	2,630
Employee share scheme	(45)	294
	52,085	50,157

Information in relation to the Directors' remuneration and share options is given in the Remuneration Report on pages 18 to 20, which form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

5. NET INTEREST RECEIVABLE	2002 £000	2001 £000
Interest receivable and similar income	1,154	572
Interest payable on loan notes	(151)	(36)
Other interest payable and similar charges	(20)	(144)
	983	392

6. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	2002 £000	2001 £000
<i>(a) Analysis of tax charge on ordinary activities</i>		
<i>Current Taxation</i>		
UK corporation tax at 30% (2001: 30%) based on the (loss)/profit for the year	847	6,891
Adjustment in respect of prior years	18	(1,765)
Total current tax	865	5,126
<i>Deferred Taxation</i>		
Timing differences, origination and reversal	(1,945)	(539)
Adjustment in respect of prior years	(15)	(36)
	(1,960)	(575)
Tax on (loss)/ profit on ordinary activities	(1,095)	4,551

(b) Factors affecting the current tax charge for the period

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2001: 30%). The actual tax charge for the current and the previous year exceeds the standard rate for the reasons set out in the following reconciliation.

	2002 £000	2001 £000
(Loss)/profit on ordinary activities before tax	(5,914)	15,207
Tax at 30% thereon:	(1,774)	4,562
Effects of:		
Expenses not deductible for tax purposes	666	340
Capital allowances in excess of depreciation	2,121	481
Movement in short-term timing differences	(176)	58
Research and development tax credit	(100)	-
Reversal of prior accruals for contributions in respect of share option arrangements	110	1,450
Prior period adjustments	18	(1,765)
Current tax charge for period	865	5,126

The tax charges for 2001 and 2002 were increased by virtue of a current tax charge arising on the reversal of a prior accrual for contributions in respect of share option arrangements. This accrual had been fully reversed by 30th September 2002.

NOTES TO THE FINANCIAL STATEMENTS

7. DIVIDENDS PAID AND PROPOSED	2002	2001
	£000	£000
Ordinary shares:		
Interim paid of 0.95p (2001: 0.95p) per share	897	891
Final proposed of 3.20p (2001: 3.20p) per share	2,870	3,020
	3,767	3,911

8. (LOSS)/EARNINGS PER SHARE

Basic earnings per share are calculated on the Group's loss after taxation of £4,819,000 (2001: £10,656,000 profit) divided by the weighted average number of shares in issue during the year, being 93,765,066 shares (2001: 93,886,333). Diluted earnings per share takes into account the dilutive effect of share options.

FRS 14 requires presentation of diluted EPS when a Group could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making Group with outstanding share options, net loss per share would only be increased by the exercise of out-of-money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted EPS for out-of-money share options.

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

	2002 (Loss)/profit after tax £000	2002 No. of Shares (‘000)	2002 Pence per share	2001 Profit after tax £000	2001 No. of Shares (‘000)	2001 Pence per share
Basic earnings per share	(4,819)	93,765	(5.1)	10,656	93,886	11.4
<i>Impact of share options</i>	-	10	-	-	1,416	(0.2)
Diluted earnings per share	(4,819)	93,775	(5.1)	10,656	95,302	11.2
Supplementary earnings per share before amortisation of goodwill and exceptional items:						
Diluted earnings per share	(4,819)	93,775	(5.1)	10,656	95,302	11.2
Effect of amortisation of goodwill	1,988	-	2.1	1,045	-	1.1
Diluted earnings per share before amortisation of goodwill	(2,831)	93,775	(3.0)	11,701	95,302	12.3
Effect of exceptional items	6,360	-	6.8	-	-	-
Diluted earnings per share before amortisation of goodwill and exceptional items	3,529	93,775	3.8	11,701	95,302	12.3

NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE FIXED ASSETS

The movement in the year was as follows:

Group	Licence £000	Goodwill £000	Total £000
Cost:			
Beginning of the year	9,643	5,228	14,871
Additions	-	5,330	5,330
End of the year	9,643	10,558	20,201
Amortisation:			
Beginning of the year	3,786	1,655	5,441
Impairment charge in the year	5,000	-	5,000
Charged in the year	631	1,988	2,619
End of the year	9,417	3,643	13,060
Net book value at the end of the year	226	6,915	7,141
Net book value at the start of the year	5,857	3,573	9,430

The goodwill additions relate to the acquisition of Softease, £4,635,000 (see note 11) and the purchase of major assets from Helicon Publishing Limited, £695,000.

10. TANGIBLE FIXED ASSETS

The movement in the year was as follows:

Group	Short Leasehold Improvements £000	Plant & Equipment £000	Computers £000	Vehicles £000	Total £000
Cost:					
Beginning of the year	2,570	7,992	26,676	7,258	44,496
Acquisition of subsidiary	-	53	7	9	69
Additions	28	513	2,160	1,433	4,134
Disposals	(24)	(1,964)	(1,031)	(1,536)	(4,555)
End of the year	2,574	6,594	27,812	7,164	44,144
Depreciation:					
Beginning of the year	693	4,516	11,259	2,729	19,197
Charged in the year	134	941	5,858	1,872	8,805
Disposals	(23)	(1,944)	(902)	(1,188)	(4,057)
End of the year	804	3,513	16,215	3,413	23,945
Net book value at the end of the year	1,770	3,081	11,597	3,751	20,199
Net book value at the start of the year	1,877	3,476	15,417	4,529	25,299

The net book value of leased vehicles is £8,000 (2001: £23,000).

NOTES TO THE FINANCIAL STATEMENTS

11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS	2002	2001
Company	£000	£000
Equity investments in subsidiary undertakings at cost:		
Beginning of the year	6,939	6,960
Investments during the year	4,981	-
Investments disposed of during the year	-	(21)
End of the year	11,920	6,939
Loans to subsidiary undertakings	7,077	7,077
	18,997	14,016

The Company's principal subsidiary undertakings operating in the United Kingdom are Research Machines plc, 3T Productions Limited and Softease Limited, all of which are wholly owned. RM Australasia Pty Ltd was incorporated in Australia and the Company subscribed for 100% of the issued share capital.

The principal activity of Research Machines plc and RM Australasia Pty Ltd is the supply of software, services and systems to meet the specialist requirements of the education market. The principal activity of 3T Productions Limited comprises the development and sale of bespoke interactive and multimedia software predominantly for education. The principal activity of Softease Limited comprises the development and sale of educational software.

On the 19th October 2001 the Company acquired Softease Limited. The following table sets out the book values of the identifiable assets and liabilities acquired:

	Book Value £000
Tangible fixed assets	69
Stock	11
Debtors	102
Cash and deposits	196
Creditors	(32)
Net assets acquired	346
Goodwill	4,635
	4,981
Satisfied by:	
Issue of loan notes	4,898
Acquisition costs	83
	4,981

The consideration paid or payable consists of an initial consideration in loan notes of £3,000,000 with a further consideration of up to £1,900,000 payable in loan notes over 18 months, conditional upon certain financial targets being met.

There were no fair value adjustments on acquisition.

12. STOCKS	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Components	6,958	7,777	-	-
Work in progress	85	67	-	-
Finished goods	1,458	1,501	-	-
	8,501	9,345	-	-
Long-term contract balances – net costs less foreseeable losses	1,453	1,627	-	-
	9,954	10,972	-	-

NOTES TO THE FINANCIAL STATEMENTS

13. DEBTORS	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Amounts falling due within one year:				
Trade debtors	39,282	51,231	-	-
Other debtors	844	673	-	-
Prepayments and accrued income	1,981	1,761	-	-
Amounts owed from subsidiary undertaking	-	-	35,017	28,386
Dividends receivable	-	-	-	15,000
	42,107	53,665	35,017	43,386
Amounts falling due after more than one year:				
Deferred taxation comprising:				
- Capital allowances in excess of depreciation	611	-	-	-
- Short-term timing differences	323	-	-	-
	934	-	-	-
	43,041	53,665	35,017	43,386
<hr/>				
14. CREDITORS	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Amounts falling due within one year:				
Trade creditors	19,649	13,673	-	-
UK corporation tax payable	1,464	4,801	-	-
Social Security and PAYE	1,448	1,705	-	-
VAT	4,266	3,861	-	-
Other creditors	550	1,083	-	-
Loan notes	4,730	629	4,730	629
Finance leases	20	11	-	-
Proposed dividends	2,870	3,020	2,870	3,020
Accruals	19,261	21,654	75	51
Deferred income	16,069	17,538	-	-
	70,327	67,975	7,675	3,700
Amounts falling due after more than one year:				
Loan notes:				
- more than one year but not more than two years	1,712	1,437	1,712	1,437
Finance leases:				
- more than one year but not more than two years	-	20	-	-
Deferred income:				
- between one and two years	3,332	3,783	-	-
- between two and five years	899	1,183	-	-
- after five years	-	83	-	-
	4,231	5,049	-	-
	5,943	6,506	1,712	1,437

NOTES TO THE FINANCIAL STATEMENTS

15. PROVISION FOR LIABILITIES AND CHARGES

Group	Deferred taxation £000	Restructuring £000	Total £000
Beginning of the year	1,026	-	1,026
Provided in the year	-	3,968	3,968
Utilised in the year	-	(1,837)	(1,837)
Released	(1,026)	-	(1,026)
End of the year	-	2,131	2,131

Company

Beginning and end of the year	-	-	-
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	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
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Movement on deferred taxation provision in the year:

Beginning of year	1,026	1,601	-	-
Profit and loss account credit	(1,960)	(575)	-	-
End of the year	(934)	1,026	-	-

Analysis of Deferred Tax Balance (see note 13)

Capital allowances in excess of depreciation	-	1,458	-	-
Short-term timing differences	-	(432)	-	-
	-	1,026	-	-

The Group and the Company have no unprovided deferred taxation (2001: £Nil).

16. SHARE CAPITAL

	2002 £000	2001 £000
Authorised:		
125,000,000 Ordinary Shares of 2p each (2001: 125,000,000 at 2p each)	2,500	2,500
Allotted, called up and fully paid:		
89,700,795 Ordinary Shares of 2p each (2001: 94,368,383 at 2p each)	1,794	1,887
	Number of shares	Premium arising £000
During the year the following Ordinary Shares of 2p each were allotted:		
Issued on exercise of options for cash	12,500	9

NOTES TO THE FINANCIAL STATEMENTS

16. SHARE CAPITAL (Continued)

Share Repurchase

During the period June 2002 to September 2002, the Company purchased and subsequently cancelled, 4,680,088 ordinary shares at prices ranging from 60p per share to 77p per share, with an average of 71.7p per share. The nominal value of the shares repurchased and cancelled was £93,602 and a consequent capital redemption reserve has been established. The total cost of the purchase including expenses was £3,380,000, which has been charged against distributable reserves.

RML Staff Share Scheme

The RML Staff Share Scheme is an Inland Revenue approved employee share scheme constituted under a trust deed. As at 30th September 2002 the trustees of the scheme held 196,720 shares (2001:92,578) on behalf of the employees, which had a market value on that date of £117,000 (2001: £174,000).

Share Option Schemes

As at 30th September 2002 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	25,000	10 years	£0.802
	1996	10,000	10 years	£1.220
	1998	161,500	10 years	£4.415
	1999	183,000	10 years	£5.000
	1999	55,500	10 years	£7.615
	2000	<u>131,312</u>	10 years	£5.600
		<u>566,312</u>		
b) RM plc 1994 Executive - Super	1997	525,345	10 years	£1.475
	1997	356,370	10 years	£1.635
	1998	783,753	10 years	£2.933
	1998	200,250	10 years	£4.415
	1999	696,810	10 years	£5.000
	1999	381,250	10 years	£7.615
	2000	<u>693,855</u>	10 years	£5.600
		<u>3,637,633</u>		
c) RM plc 2001 Executive - Approved	2001	190,400	10 years	£5.450
	2001	27,000	10 years	£5.225
	2001	187,750	10 years	£2.500
	2002	135,000	10 years	£0.735
	2002	<u>255,102</u>	10 years	£0.715
			<u>795,252</u>	
d) RM plc 2001 Executive - Unapproved	2001	540,200	10 years	£5.450
	2001	733,000	10 years	£5.225
	2001	1,075,500	10 years	£2.500
	2002	65,000	10 years	£0.735
	2002	<u>1,344,898</u>	10 years	£0.715
			<u>3,758,598</u>	

NOTES TO THE FINANCIAL STATEMENTS

16. SHARE CAPITAL (Continued)

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. A total of 12,500 (2001: 650,808) new ordinary shares have been allotted for use by the EBT during the year, all of which have been transferred to employees exercising options under the relevant share option scheme (see note 17).

The EBT owns 14,290 shares of RM plc (2001: 14,290) and has waived rights to the dividend on these shares. On 30th September 2002 these shares had a market value of £9,000 (2001: £27,000).

17. RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Profit and Loss Account £000	2002 Total Shareholders' Funds £000	2001 Total Shareholders' Funds £000
Group						
Beginning of the year	1,887	20,340	-	30,797	53,024	45,132
Retained (loss)/profit for the year	-	-	-	(8,586)	(8,586)	6,745
Share issues	1	9	-	-	10	1,152
Share repurchase	(94)	-	94	(3,380)	(3,380)	-
Other	-	-	-	(9)	(9)	(5)
End of the year	1,794	20,349	94	18,822	41,059	53,024
Company						
Beginning of the year	1,887	20,340	-	30,049	52,276	38,004
(Loss)/Profit for the year	-	-	-	(501)	(501)	14,697
Dividends paid and proposed	-	-	-	(3,767)	(3,767)	(3,911)
Share issues	1	9	-	-	10	3,486
Share repurchase	(94)	-	94	(3,380)	(3,380)	-
End of the year	1,794	20,349	94	22,401	44,638	52,276

The total amount of goodwill written off to reserves is £1,111,000 and 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.

18. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2002 £000	2001 £000
Operating (loss)/profit	(6,897)	14,815
Depreciation charge	8,805	8,127
Exceptional amortisation of intangible fixed assets	5,000	-
Normal amortisation of intangible fixed assets	2,619	2,035
Profit on sale of fixed assets	(130)	(61)
Decrease in stocks	1,029	9,845
Decrease in debtors	11,660	14,089
Increase/(Decrease) in creditors	2,933	(27,937)
Net cash inflow from operating activities	25,019	20,913

NOTES TO THE FINANCIAL STATEMENTS

19. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	2002	2001		
	£000	£000		
Interest received	1,154	572		
Interest paid	(168)	(175)		
Interest element of finance lease rental payments	(3)	(5)		
Net cash inflow	983	392		
20. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	2002	2001		
	£000	£000		
Purchase of tangible fixed assets	(4,134)	(7,977)		
Proceeds from sale of plant and equipment	628	705		
Net cash outflow	(3,506)	(7,272)		
21. ACQUISITIONS AND DISPOSALS	2002	2001		
	£000	£000		
Purchase of assets of Helicon Publishing Ltd	(695)	-		
Cash acquired with subsidiary undertaking	196	-		
Net cash outflow	(499)	-		
22. MANAGEMENT OF LIQUID RESOURCES	2002	2001		
	£000	£000		
Cash (placed in)/withdrawn from deposit accounts	(12,062)	4,106		
23. FINANCING	2002	2001		
	£000	£000		
Issue of ordinary share capital	10	1,152		
Repayment of loan notes	(522)	(212)		
Capital element of finance lease rental payments	(11)	(21)		
Share repurchase	(3,380)	-		
Net cash (outflow)/inflow	(3,903)	919		
24. ANALYSIS OF NET FUNDS	Cash	Other Non	At 30 Sept	At 30 Sept
	Flow	Cash Changes	2002	2001
	£000	£000	£000	£000
Cash in hand, at bank	(2,093)	(9)	18,968	21,070
Current asset investments	12,062	-	20,157	8,095
Cash at bank and short term deposits	9,969	(9)	39,125	29,165
Finance leases	11	-	(20)	(31)
Debt due within one year	522	(4,623)	(4,730)	(629)
Debt due after one year	-	(275)	(1,712)	(1,437)
Net funds	10,502	(4,907)	32,663	27,068

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL INSTRUMENTS

The Group's financial instruments, other than derivatives, comprise cash, liquid resources and various items, such as trade debtors, trade creditors etc. 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's 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 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 minimum foreign currency balances required to pay its suppliers. Any surplus sterling balances are invested on the money market, or with financial institutions on terms maturing from 7 days to 3 months.

Foreign Currency Risk

The Group's policy is to eliminate material currency exposures on probable purchases through short-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 2002 £000	Interest Free 2002 £000	Total 2002 £000	Floating Rate 2001 £000	Interest Free 2001 £000	Total 2001 £000
Sterling	33,349	4,345	37,694	22,728	5,834	28,562
US Dollar	3,543	(2,935)	608	552	(195)	357
Australian Dollar	474	55	529	203	17	220
Euro	277	17	294	-	26	26
	37,643	1,482	39,125	23,483	5,682	29,165

Fair Values

The Group's floating rate financial assets comprise cash deposits on money markets, or with financial institutions on terms maturing from 7 days to 3 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 £24.3m, all of which mature in less than one year from the year-end. There is no material difference between the fair value and the book value of these forward contracts.

Currency Exposures

As at 30th September 2002, after taking into account the effects of forward exchange contracts the Group had no significant currency exposures. There are no material unrecognised gains or losses as at 30th September 2002.

Borrowing Facilities

The Group has undrawn committed borrowing facilities at 30th September 2002, expiring in January 2003, of £12.7m.

Financial Liabilities

The Group has loan notes as disclosed in note 14. The interest payable on these loan notes is set to market rates every 6 months and, as a result, there is no material difference between the fair value and the book value of these loan notes.

NOTES TO THE FINANCIAL STATEMENTS

26. PENSION SCHEME

The Group's principal pension scheme 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 actuary on the basis of triennial valuations. They are charged to the profit and loss account so as to spread these costs over employees' working lives with the Group. The scheme has been closed to new members with effect from 1st January 2003.

Statement of Standard Accounting Practice 24 Disclosures (SSAP24)

An actuarial valuation of the scheme was carried out as at 31st May 2001 for funding purposes, using the projected unit method of funding. It was assumed that investment returns would be 6.5% p.a. pre-retirement, 5.5% p.a. post-retirement, salaries would increase by 4.5% p.a., and pensions would increase by 1.5% p.a. in respect of service accrued before 1st April 1997, and 2.5% p.a. in respect of service accrued on or after 1st April 1997. Assets were taken at their market value.

At 31st May 2001 the market value of the scheme's assets was estimated to be £30,895,000. This represented 92% of the benefits that had accrued to the members, after allowing for expected future increases in salaries. The valuation also showed that the expected long-term cost of the scheme to the Group was 10.4% of pensionable salaries in respect of the over-25 section and 3.5% of pensionable salaries in respect of the under-25 section. The contribution rate would also require an additional 0.5% in order to recover the deficit in funding over the average expected working lifetime of the active membership.

Following the valuation, the normal retirement age for service after 1st May 2002 was increased from 60 to 65 in respect of future service and both the Group and the employee contributions were each increased by 1% to 10.7% and 6.5% respectively from 1st May 2002. The Company contribution rate of 10.7% compares to an expected long-term cost of the scheme following these revisions of 6.8%. This includes the additional 0.5% to recover the deficit described above.

The Group also makes payments to defined contribution pension schemes on behalf of certain employees of the Group.

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

Included in creditors falling due within one year are outstanding pension contributions of £395,000 (2001: £418,000). No amounts are outstanding in respect of the Company.

Financial Reporting Standard 17 Disclosure (FRS17)

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. FRS17 has been introduced with transition arrangements that have recently been revised. Under these arrangements the Company is required to disclose the following information about the scheme and the figures that would have been shown under FRS17 in the balance sheet and the profit and loss account.

A full actuarial valuation was carried out at 31st May 2001 and updated to 30th September 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 30 Sept 2002	At 30 Sept 2001
Discount rate	5.50%	6.00%
Rate of increase in salaries	3.75%	4.00%
Rate of increase in pensions in deferment	2.25%	2.50%
Rate of increase in pensions in payment	2.25%	2.50%
Inflation assumption	2.25%	2.50%

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

	At 30 Sept 2002	At 30 Sept 2002	At 30 Sept 2001	At 30 Sept 2001
		£000		£000
Equities	7.00%	21,850	7.00%	23,300
Bonds	4.50%	2,725	5.00%	2,500
Other	4.00%	525	5.00%	400
Total market value of scheme assets		25,100		26,200
Actuarial value of scheme liability		42,000		33,700
Shortfall in the scheme assets		(16,900)		(7,500)
Related deferred tax asset		5,070		2,250
Net pension shortfall		(11,830)		(5,250)

NOTES TO THE FINANCIAL STATEMENTS

26. PENSION SCHEME (Continued)

Analysis of the amount that would have been charged to operating profit	2002 £000
Current service cost	1,950
Past service cost	300
Total operating charge	2,250
Analysis of amount that would have been charged to other finance income	2002 £000
Expected return on pension scheme assets	1,925
Interest on pension liabilities	(2,125)
Net return	(200)
Analysis of amount that would have been recognised in statement of total recognised gains and losses	2002 £000
Actual return less expected return on assets	(7,600)
Experience gains and losses on liabilities	650
Changes in assumptions	(3,125)
Net loss recognised	(10,075)
Movement in deficit during the year	2002 £000
Deficit in scheme at beginning of year	(7,500)
Movement in year:	
Current service cost	(1,950)
Contributions (including augmentations)	3,125
Past service costs	(300)
Other finance expense	(200)
Actuarial loss	(10,075)
Deficit in scheme at end of year	(16,900)

Following the valuation at 31st May 2001 members were given the option of changing their normal retirement age (NRA) from 60 to 65 in respect of service from 1st May 2002. Members who chose to retain an NRA of 60 for future service pay additional contributions of 3% of pensionable salary. The Group has paid contributions at rates of 10.7% of pensionable salaries in respect of the over-25 section, and 3% of pensionable salaries in respect of the under-25 section from 1st May 2002. Prior to then, the Group paid contributions of 9.7% and 3% of pensionable salaries respectively.

History of experience gains and losses	2002 £000
Difference between expected and actual return on scheme assets:	
- amount (£ million)	(7,600)
- percentage of scheme assets	30%
Experience gains and losses on scheme liabilities:	
- amount (£ million)	650
- percentage of scheme liabilities	2%
Total amount recognised in statement of total recognised gains and losses:	
- amount (£ million)	(10,075)
- percentage of scheme liabilities	24%

NOTES TO THE FINANCIAL STATEMENTS

26. PENSION SCHEME (Continued)

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

	At 30 Sept 2002 £000	At 30 Sept 2001 £000
Net assets excluding pension liability	41,059	53,024
Pension liability	(11,830)	(5,250)
Net assets including pension liability	29,229	47,774
	At 30 Sept 2002 £000	At 30 Sept 2001 £000
Profit and loss reserve excluding pension liability	18,822	30,797
Pension shortfall	(11,830)	(5,250)
Profit and loss reserve	6,992	25,547

27. CONTINGENCIES AND COMMITMENTS

Commitments under operating leases

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

	Land & Buildings £000	Other £000
2002		
Expiry date:		
- within one year	42	160
- between two and five years	121	219
- after five years	2,049	-
	2,212	379
2001		
Expiry date:		
- within one year	20	22
- between two and five years	127	358
- after five years	2,048	-
	2,195	380
Capital Commitments		
The Group has the following capital expenditure commitments:	2002	2001
	£000	£000
Contracted for but not provided for	1,407	3,583

FIVE YEAR SUMMARY

£000 (except where otherwise stated)	1998	1999	2000	2001	2002
TURNOVER	130,996	162,210	207,560	241,916	202,158
OPERATING PROFIT*	9,522	11,730	15,046	15,860	4,059
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION*	10,037	12,262	15,497	16,252	5,042
PROFIT/(LOSS) AFTER TAXATION	7,223	9,197	7,509	10,656	(4,819)
DILUTED EARNINGS PER SHARE*	7.8p	9.8p	13.0p	12.3p	3.8p
DIVIDENDS PER SHARE	2.34p	2.86p	3.50p	4.15p	4.15p
BALANCE SHEET:					
- CAPITAL EMPLOYED	12,328	18,749	25,950	23,859	1,934
- NET CASH	16,964	17,794	19,182	29,165	39,125
- NET FUNDS	16,964	17,794	16,852	27,068	32,663
- SHAREHOLDERS' FUNDS	29,292	36,543	45,132	53,024	41,059
OPERATING PROFIT* AS A PERCENTAGE OF:					
- Turnover	7.3%	7.2%	7.2%	6.6%	2.0%
- Average Capital Employed	74.5%	75.5%	67.3%	63.7%	31.5%
AVERAGE No. OF EMPLOYEES	1,044	1,322	1,571	1,738	1,590

Notes:

*Before amortisation of goodwill and exceptional items.

SHAREHOLDER INFORMATION

Financial Calendar

Annual General Meeting	29 th January 2003
Payment of 2002 final dividend	7 th February 2003
Announcement of 2003 interim results	May 2003
Announcement of 2003 final results	November 2003

Corporate Website

Information about the Company's activities and financial information is available on the corporate website at www.rm.com

Investor Information

This is available via the Company website at www.rm.com/investors. Enquiries can be directed to the Director of Corporate Affairs and Investor Relations at the address below.

Directors

J.P. Leighfield	<i>Chairman (Non-Executive)</i>
T.R. Pearson	<i>Chief Executive</i>
M.D. Fischer	<i>President (Non-Executive)</i>
M.D. Greig	<i>Finance Director</i>
S.L. Coutu	<i>Senior Non-Executive Director</i>
M.R.H.J. O'Regan	<i>Non-Executive Director</i>
B. Carsberg	<i>Non-Executive Director</i>
J.R. Windeler	<i>Non-Executive Director</i>
T.R.P. Brighouse	<i>Non-Executive Director</i>

Company Secretary

A.J. Robson

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