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Raft International plc
Annual Report and Accounts 2005

Raft International is a leading provider of software solutions and services for the energy trading and financial services sectors. The Group's core business is risk management and it has a long history of implementing innovative, best practice credit risk and operational risk management solutions.

Contents

- Turnover increased by 11.9% to £8.1 million (2004: £7.3 million)
- Loss for the year before exceptional items was maintained at £1.0 million (2004: £1.0 million)
- Balance sheet stable with over £1.1 million of cash and no debt
- Major new client wins awarded during period with Powerex, Mirant and Hydro
- Significant professional services contract awarded in Europe
- Distribution agreement signed with Rome Corporation in USA
- Seven more key customer deliveries made
- Cost reduction programme to match cost base to revenue level almost complete

Raft International's experienced team of risk and IT professionals work in partnership with our clients to provide unrivalled risk management solutions. Our reputation for world-class software products, development and customer services is a testament to our commitment to excellence as our customer base includes some of the largest players in the financial services and energy markets.

Energy Credit Risk Management

Features

Corporate risk management is evolving as executives continue to manage their enterprise in a challenging environment brought on by recent legal and regulatory demands including Sarbanes-Oxley, rating agencies and corporate governance reporting requirements. The effects are far-reaching and will have a lasting impact on how corporations conduct their business.

***raft* credit**, the premier, enterprise-wide credit risk management solution, is comprehensive in scope, fully integrated by design and infinitely scalable. Leading global energy companies continue to choose ***raft* credit** to aggressively manage all aspects of credit risk while reducing operational costs and meeting or exceeding the changing demands of both internal and external stakeholders.

***raft* credit** allows a company to manage its credit risk profile proactively, mitigate risk through integrated collateral and workflow management, streamline its credit administration and reporting, and enhance its profile with internal and external stakeholders. ***raft* credit** is a modular solution designed to provide immediate benefit to multiple users and groups including senior management, credit, legal, and the front office.

Because of the diversity of approaches to credit risk management and our customer requirements for best practices, we have a series of seamless, integrated and interactive modules.

Outlook

During 2005 we launched four new modules in the ***raft* credit** suite, these new modules make ***raft* credit** the most functionally rich energy credit risk management solution available in the market.

In addition each of the new modules is a stand alone product. We are researching new markets we could potentially penetrate with these new products. In particular we see new opportunities for our ***raft* scoring** and ***raft* legal** products.

The market for ***raft* credit** continues to be strong in North America and has increased significantly in Europe. The pipeline in Europe for energy credit is at record levels, with a number of major decisions due in the first half of 2006.

Operational Risk Management

Features

***raft* radar** provides an integrated solution to the key business problem of the moment: how to cope with the demands of regulators for compliance with an increasing number of regulations in a cost-effective manner, whilst actually improving corporate governance. In many organisations, compliance with initiatives such as Basel II, MifID and Sarbanes-Oxley has been done in a piecemeal way using highly specialised and narrow-focussed products. As such, there has been massive duplication of effort and duplication of data, with no simple means of summarising the information necessary for effective overall governance.

***raft* radar** is designed to support multiple risk and compliance frameworks and multiple means of data collection. Data collected through incidents, indicators and assessments may be summarised on management dashboards, providing the CEO, CFO and CIO with an instant picture of risks and control weaknesses throughout the organisation. As an example, results from Basel II, COBIT and Sarbanes Oxley initiatives may be summarised using COSO ERM as an integrating framework. This integrated approach minimises duplication of effort in the assessments of controls and risks whilst providing maximum management value from the information collected.

***raft* radar** is also unique in the market as it allows Risk and Control management to be integrated into the day-to-day activities of the organisation rather than just being imposed from above. Using sophisticated workflow modelling business processes may be accurately modelled and diarised to ensure significant control points are monitored and executed as a matter or routine. The system has extensive task management capabilities including the chasing of actions through automated emails and the generation of management alerts when recommended processes are not followed. A key client of ***raft* radar** reported a three-fold return on investment, through the increased efficiency of operation resulting from system implementation.

Outlook

Our strategy is to grow the business by continuing to market the product to the Banking sector for Basel II and Sarbanes-Oxley compliance and we are also developing the product to address Solvency II for insurance companies. Our blue chip client base provides us with a firm base from which to grow this business. We believe a key factor for success is global coverage and we are developing relationships with various strategic partners that can assist us in achieving this coverage.

Professional Services

Features

Raft provides Professional Services predominantly to the investment banking community.

Raft has a reputation as a world-class supplier of Risk products and our experience of working with multiple clients has built a mass of expertise and knowledge of how various organisations handle market risk, credit risk, collateral management and operational risk, including real world understanding of Basel II and Sarbanes-Oxley.

Raft Professional Services can provide a full range of development services, from Project Managers to developers utilising both Microsoft and Java technologies.

Raft were pioneers in the use of component technology, which is utilised throughout our products and can provide advice on how best to produce bespoke builds or deploy existing Raft components to provide rapid solutions.

Raft Professional Services is a specialist consultancy used to deliver solutions to resolve critical issues where billions of dollars are potentially at risk. As such, Raft personnel are used to working to professional procedures under pressure to meet tight deadlines whilst satisfying highly demanding global clients.

Outlook

This business has grown significantly over 2005 and we expect this to continue into 2006 and beyond.

This growth will come from a combination of increased professional services work within our existing customer base, new opportunities related to the implementation of Raft products both in energy and financial services and leveraging existing relationships.

In particular, we expect a major new contract that was signed this year to grow significantly over the next five years.

It has been a challenging year, but our sales pipeline remains encouraging as energy and financial services companies guided by regulatory requirements move to invest in best practice systems for risk management and compliance. Raft's core focus in the year ahead therefore will be to capitalise on the strength of our risk and energy solutions and service this demand.

During 2005, Raft continued to make steady progress. Despite a disappointing first half, the new products launched during 2005 have greatly increased the breadth and depth of our application functionality which we believe is now unrivalled in the market place. Our focus is now on converting our current strong pipeline into new client business. In order to achieve this we evolved the Divisional structure of the Company during 2005 into a number of regional units each managed by a senior executive.

The market environment appears to be improving and as mentioned previously we have experienced increasing interest in our products, but sales cycles remain lengthy and there are continuing delays with client IT spend. However, the culture shift towards increased awareness of regulatory requirements and the need for best practice in both financial institutions and energy companies is leading to prospective customers adopting programes to address the risk management and compliance issues to which our products provide solutions.

We had three new name client wins during the year, including Powerex, our first Canadian client, who will provide a useful reference site for us in this strategically important geography. Mirant Energy, a Fortune 500 wholesale energy company, is using ***raft*** **credit** not only to manage its credit risk, but also to assist in its Sarbanes-Oxley compliance programme. The most recent new name client is Hydro in Norway whose implementation was successfully completed on time and on budget within three months. Hydro now provides us with another high profile reference site in Europe.

During the period we also signed new contracts with existing clients. We will be providing American Electric Power (AEP) with our ***raft*** **analytics** module which enables clients to measure Potential Future Exposure to counterparty risk. Raft and AEP have also co-developed a price scenario generator based on cutting edge technology and using some of the most advanced analytical techniques available today. We also signed a large Professional Services contract with one of the leading financial services groups in the Nordic region. We have been working with this client for the past ten years and this contract win demonstrates our ability to deliver consistently high quality services.

Client delivery during the period has been pleasing with a number of significant implementations:

- ABN Amro – delivery of Sarbanes-Oxley Module
- Barclays Capital – delivery of phase 2 and 3 of ***raft*** **radar**, including Sarbanes-Oxley Module
- Lloyds TSB – implementation of ***raft*** **radar**
- RWE Trading – implementation of the core product plus the development and implementation of ***raft*** **scoring** and ***raft*** **legal**
- Constellation Energy – implementation of ***raft*** **credit** core product
- Mirant – implementation of the ***raft*** **credit** core product
- Hydro – implementation of the ***raft*** **credit** core product

These implementations will assist us greatly in our efforts to convert our pipeline into new client business, both in North America and Europe.

As previously announced, we have undertaken a fundamental review of our cost base in order to match revenues to costs. This programme is almost complete, and although it has had minimal impact as anticipated over the period, it has allowed us to enter the new financial year confident of being in a position where our cost base is largely covered by signed contracts and recurring revenues from existing customers.

In September 2005, we announced that the Board had concluded that the Company required a critical mass which it does not currently possess in order to realise the full potential of its product and service offerings. Since that time, we have undertaken an active process of identifying possible merger or acquisition opportunities and seeking potential business partners, some of whom may regard the Company as a merger or acquisition opportunity for themselves. Recently, it was confirmed that, following a number of confidential approaches and discussions with interested or potentially interested parties, the Board was at an advanced stage in talks intended to lead to the making of an offer for the issued share capital of the Company. These discussions are ongoing and a further announcement will be made when appropriate.

Outlook

As mentioned, the Group has now streamlined its business with costs carefully controlled and managed. We remain cautiously optimistic of a continued upturn in our markets. Our routes to market have been strengthened through distribution deals and, although we plan to remain predominantly in the risk management sector, our new products could see us widen the industry sectors in which we operate. We believe the Group is now better positioned to address market opportunities going forward.

C. D. Priestley

David Priestley
Executive Chairman
18 January 2006

Revenue for the year ended 31 October 2005 increased by 11.9% to £8.1 million (2004: £7.3 million). The loss for the year before operational exceptional items was maintained at £1.0 million (2004: £1.0 million). Operating exceptional items amounted to £0.4 million (2004: £Nil). The closing cash balance at 31 October 2005 was £1.1 million (2004: £1.1 million).

Revenue

Revenues from products comprised 47% of total revenue earned in the year to 31 October 2005 (2004: 42%). The Group won five significant product contracts during the period, three of which were from new customers. The Group also completed six significant installations during the year. This was in addition to repeat maintenance, services and upgrade sales made to an expanding base of existing customers. Consequently ***raft* credit** revenue increased by £0.4 million to £2.2 million and ***raft* radar** revenue increased by £0.3 million to £1.6 million.

Professional Services revenue stabilised this year at £4.3 million (2004: £4.2 million).

Gross profit

Gross profit increased to £3.2 million during the year to 31 October 2005 (2004: £2.7 million). This represents 39% of revenue (2004: 37%).

The Credit Risk Division achieved similar levels of profitability year on year. Although the Division obtained 58% profit margin during the year, this was distorted as a result of one project which involved the development of a module in conjunction with a customer. The underlying profit margin for the division was 64% (2004: 63%).

The Operational Risk Division performed significantly more profitably than in previous years, achieving a gross profit of 65% (2004: 45%). This is mainly as a result of additional high margin licences sold in 2005, together with an increase in legacy maintenance revenue.

We expect both product margins to improve again next year as the proportion of maintenance revenue from existing customers increases further.

As reported last year, there continues to be downward pressure on prices within the Professional Services Division. Although we expect revenue to remain stable, we expect margins to increase next year as a result of new more profitable business replacing legacy contracts which completed in 2005.

Administration expenses

Administration expenses before operational exceptional items increased by £0.5 million to £4.2 million (2004: £3.7 million). The increase in expenditure is primarily due to additional costs incurred in research and development in the year by £0.3 million to £0.6 million (2004: £0.3 million). Major projects undertaken this year included redeveloping the ***raft* radar** platform and the completion of three additional modules for the ***raft* credit** product. The Group also invested an additional £0.2 million on additional sales resources and marketing spend. This investment had immediate positive benefits with the Group as we enter the new financial year with a robust pipeline.

David Priestley
Executive Chairman
David co-founded Raft International in 1995 after 16 years in the financial services IT industry. David has established and run companies providing consulting services and trading software development services to leading banks. In his role as executive chairman, David is specifically responsible for corporate expansion and acquisition, as well as being responsible for the Group's strategy in the energy sector.

Frank Møbjerg
Chief Executive of the Professional Services Division
Frank has over 20 years' experience in financial IT from within the banking environment itself. Prior to joining Raft International in 1996, Frank was a senior vice president in a leading Scandinavian bank responsible for IT development. Frank's initial role with the Company was the establishment of the Copenhagen office and he is responsible for professional services sales and implementation services throughout the Group.

Asim Shah
Chief Technical Officer
Asim co-founded Raft International with David Priestley in 1995. Asim's career started in software development, prior to moving into development management and eventually overall IT strategy. Asim is responsible for the Company's major development projects, technical architecture, research and development of emerging technologies and overall ownership of the Raft Component Inventory.

Lance Moir
Non-executive Director
Lance has extensive financial management and financial services experience from both a banking and a corporate perspective and has previously served as the financial director of a quoted public company. Lance lectures at Cranfield School of Management in the fields of accounting and finance and is a Fellow and former member of council of the Association of Corporate Treasurers and an Associate of the Chartered Institute of Bankers.

Barney Quinn
Non-executive Director
Barney has extensive business management experience coupled with sales and marketing expertise in the IT and software and services sectors. He has both set up and run software and services businesses in the UK and North America. After graduating he spent 11 years with the Burroughs Corporation in a variety of sales, marketing and management roles. He then spent 19 years as a board director with Sherwood International which was quoted on the LSE including latterly as chief operating officer.

Isabelle Adams
Company Secretary
Isabelle is a chartered accountant with over ten years experience gained within both practice and industry. After graduating from Cambridge University in 1991 she trained with a medium-sized firm of chartered accountants. She stayed in public practice for five years, specialising in the audit of technology, football and publishing organisations. She then moved into industry, gaining experience in publishing and retail sectors including board level appointments. Isabelle also heads up the finance function of the Group.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group 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 judgments and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business; 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 Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Group's website is the responsibility of the directors; the work of the auditors does not involve a consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements as they are presented on the website.

Policy on payment to suppliers

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. At 31 October 2005 Group trade creditors represented approximately 49 days (2004: 53 days).

Employment policies

The Group seeks to offer equal opportunities to employees regardless of disability, sex, race or religion. The Group also recognises its obligation to provide a safe working environment for its staff.

Independent auditors

The auditors, Baker Tilly, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

On behalf of the Board

I Adams
Company Secretary
18 January 2006

The directors present their report with the financial statements of the Company and Group for the year ended 31 October 2005.

Principal activity

The principal activity of the Group in the year under review was the provision of computer software services to international banks, energy trading companies and other financial institutions.

Review of the business

A review of the business during the year is given in the chairman's statement, in the operating review and in the financial review. Included in these reviews are references to the Group's future prospects and these statements should be read as part of this report.

Results for the year

The results for the year ended 31 October 2005 and the financial position at that date are set out in the financial statements. The loss of the Group after taxation amounted to £1,420,000 (2004: £955,000 loss).

Dividends

The directors do not recommend the payment of a dividend on the ordinary shares.

Research and development

During the year, the Group expended £594,000 (2004: £323,000) on research and development activities.

Directors

The directors during the year and their interests in the 5p ordinary shares of the Company at the end of the year were as follows:

	31 October 2005 Number	31 October 2004 Number
C D Priestley	**12,623,945**	12,623,945
A Shah	**19,599,147**	19,599,147
F Møbjerg	**—**	6,279,868
L Moir	**20,000**	20,000
B Quinn	**200,000**	—
A Mehta (appointed 5 January 2005, resigned 31 August 2005)	**—**	—
P Pavluk (appointed 5 January 2005, resigned 3 January 2006)	**275,000**	—

Details of directors' share options are included in the directors' remuneration report. There were no changes between 31 October 2005 and 18 January 2006.

Share capital

As at 18 January 2006, the Company had been notified that the following persons other than directors had an interest of 3% or more in the issued share capital of the Company:

I Tobin 6.3%

Exceptional operating costs

During the year, the Group incurred £0.4 million of exceptional operating costs (2004: £Nil). These costs comprised £0.2 million of legal and professional fees in relation to corporate strategy projects and a provision for £0.2 million for the diminution of the value of assets held in an office which was closed after the year end as a result of our cost base reduction programme. We expect there to be further non-recurring costs associated with this programme of approximately £0.4 million in the current year.

Cash flow

Despite the reported Group loss, operating cash outflow was minimal during the year which resulted in closing cash balances virtually unchanged at £1.1 million (2004: £1.1 million). This was primarily a result of negotiating improved payment terms with new and existing customer's and better working capital management.

I Adams
Head of Finance
18 January 2006

The directors acknowledge the importance of the revised Combined Code and have complied with its requirements so far as is appropriate to a Group of the size and nature of Raft International plc.

Going concern

The directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements have been prepared on a going concern basis.

Directors

The Board currently consists of three executive directors and two non-executive directors.

Meeting structure

Following further restructuring of the Group, a meeting structure has been adopted which reflects the international basis of personnel and to better manage the business.

Meeting	Attendees	Frequency	Purpose
Board	Board	Quarterly	Strategic direction of the Group
Oversight/Executive	Board	Monthly	Review the financial and operational affairs of the Group
Audit	Non-executive directors and auditors	three times a year	Review financial controls, reporting of results, effectiveness and costs of the audit
Remuneration	Non-executive directors	Biannually	Framework of executive remuneration and its cost

Risk management and internal control

The Board has overall responsibility for the Group's system of risk management and internal controls.

The schedule of matters reserved for the Board ensures that the directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues.

The directors have delegated to executive management the establishment and implementation of a system of internal controls appropriate to the various business environments in which it operates. These controls include but are not limited to:

- strategic planning and the related annual planning and monthly re-forecasting process including the ongoing review by the Board of the Group's strategies;
- the definition of the organisational structure and the appropriate delegation of authorities to operational management;
- the establishment of individual business unit performance targets and the monthly business review of actual performance;
- the internal financial reporting and review of financial results;
- accounting and financial reporting policies to ensure the consistency, integrity and accuracy of the Group's financial records;
- specific treasury policies and objectives; and
- procedures for the authorisation of capital expenditure.

Independent auditors' responsibilities

Any work undertaken by the Group's auditors outside of the audit engagement is approved by the two independent members of the audit committee in advance of the work being undertaken after enquiries to satisfy themselves that no potential conflict of interest arises from this work.

The Company acknowledges the importance of the Combined Code and has complied with its requirements so far as is appropriate to a Group the size and nature of Raft International plc.

The directors' remuneration report is made voluntarily but complies with the Directors' Remuneration Report Regulations 2002 and describes how the Board has applied the principles of good governance relating to directors' remuneration.

Remuneration Committee

The Remuneration Committee has responsibility for making recommendations to the Board on the Group's general policy on remuneration and for specific packages for individual executive directors.

The membership of the committee is:
B Quinn (Chairman)
L Moir

No director plays any part in any discussions about their own remuneration.

Remuneration policy

The Company's policy is to provide remuneration packages to attract, motivate and retain directors of the right calibre who will make a significant contribution to the performance of the Company. The Board's policy for executive remuneration is designed to:

- ensure that directors' rewards are competitive when compared to similar companies in terms of size and/or industry;
- give executive directors the opportunity to increase their earnings by achieving and exceeding key performance objectives; and
- ensure that the executive directors are fairly rewarded through commissions for their individual sales contribution to the overall performance of the Group.

Basic salary

An executive director's basic salary is set by the committee to reflect the director's responsibility, experience and market conditions. The basic salary is reviewed annually. There were no salary increases and some salary decreases in the current financial year.

Annual bonus payments

The Company operates a performance related bonus scheme for its executive directors who have no direct responsibility for sales. This bonus is based on the Group results before taxation and exceptional items. The bonus is not subject to an upper limit. No bonus payments were earned in the current financial year.

Sales commissions

No sales commissions were earned for sales made in the current year. Executive directors with direct sales responsibility were entitled to receive bonuses based on sales performance within their responsibility on contracts signed prior to 31 October 2004. The amounts paid to C D Priestley in respect of such sales are detailed in the directors' remuneration table on page 13.

Benefits

In addition to basic salary F Møbjerg, A Shah and C D Priestley receive private medical cover and F Møbjerg receives a car allowance.

Pension arrangements

F Møbjerg is entitled to a pension contribution of DKK98,000 (£8,522) per annum. No other director is entitled to a pension contribution.

Service contracts

The Company has entered into the following service contracts with its directors:

	Date of service agreement	Notice period
C D Priestley	3 October 2000	12 months
F Møbjerg	3 October 2000	12 months
A Shah	3 October 2000	12 months

The terms of appointment of L Moir as a non-executive director are detailed in a letter dated 21 February 2000 and these terms include a six month notice period. The terms of appointment of B Quinn as non-executive director are detailed in a letter dated 22 June 2004 and these terms include a six month notice period.

In the event of the termination of employment of any of the directors, compensation amounting to that falling due under the notice period would be payable.

Total shareholder return performance graph

In the opinion of the directors the FTSE Software and Computer Services index is the most appropriate benchmark for total shareholder return comparative purposes. The total shareholder return is the share price plus the cumulative dividends over the period of the graph.

Non-executive directors

The Board determines the level of non-executive directors' remuneration after considering fee levels in comparable businesses. A basic fee is set for normal duties and supplementary fees are paid for additional duties.

Non-executives cannot participate in any of the Company's share option schemes.

Directors' emoluments

	Salary/fees £	Sales commission £	Benefits £	Pension £	2005 Total £	2004 Total £
C D Priestley	161,040	31,704	2,289	—	195,033	259,244
A Shah	125,000	—	1,298	—	126,298	126,107
F Møbjerg	124,050	—	11,000	9,000	144,050	187,354
D Hall (resigned 31 December 2003)	—	—	—	—	—	20,833
L Moir	25,000	—	—	—	25,000	25,000
S Kelly (resigned 31 March 2004)	—	—	—	—	—	39,229
B Quinn	28,600	—	—	—	28,600	8,910
A Mehta (appointed 5 January 2005, resigned 31 August 2005)	66,667	—	—	—	66,667	—
P Pavluk (appointed 5 January 2005, resigned 3 January 2006)	66,667	—	7,248	—	73,915	—
	597,024	31,704	21,835	9,000	659,563	666,677

The fees paid to F Møbjerg include £58,250 (2004 £75,000) paid to FM Investment and Consulting ApS of which F Møbjerg has a 52% shareholding in its parent company Fravis Holding ApS.

Performance related bonuses are determined by the Board, on the recommendation of the Remuneration Committee, based on achievement of targets described above. The Group did not achieve performance levels on which such bonuses become payable.

Directors' share options

Executive directors are eligible to participate in the Company's share option schemes. Details of the scheme are provided in note 16 to the financial statements. The committee ensures that awards are made within the overall limits authorised by the shareholders and at an appropriate level for an individual, taking into account their role, contribution to the business, previous option grants and market practice.

Details of options for directors who served during the year are as follows:

		Options at 1 November 2004	Granted In year	Lapsed In year	**Options at 31 October 2005**	Date of grant	Exercise price	Date first exercisable	Expiry
F Møbjerg	(U)	575,242			**575,242**	16/04/1998	5.20p	April 2002	April 2008
A Mehta [1]	(E)	—	500,000	500,000	**—**	10/01/2005	8.50p	January 2008	January 2008
P Pavluk [2]	(U)	350,000	500,000		**850,000**	10/01/2005	8.50p	January 2008	January 2008

(1) A Mehta appointed 5 January 2005, resigned 31 August 2005
(2) P Pavluk appointed 5 January 2005, resigned 3 January 2006

(U) Share options granted under the Company's unapproved share option scheme.
(E) Share options granted under the Company's EMI share option scheme.

No options were exercised by directors in the year.

The market price of the Company's ordinary shares ranged from a low of 4.75 p to a high of 13.4 p during the year from 1 November 2004 to 31 October 2005.

Resolution

A resolution to shareholders to adopt the directors' remuneration report will be put forward at the annual general meeting.

Approved by the Board and signed on its behalf

B Quinn
Remuneration Committee chairman
18 January 2006

We have audited the financial statements on pages 16 to 26.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 to you if, in our opinion, the report of the directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Executive Chairman's statement, financial review, the report of the directors, the corporate governance statement and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 Group at 31 October 2005 and of the Group loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST
18 January 2006

	Note	2005 £'000	2004 £'000
Turnover	2	8,126	7,261
Cost of sales		(4,931)	(4,564)
Gross profit		3,195	2,697
Administrative expenses		(4,218)	(3,728)
Operating loss before exceptional items	4	(1,023)	(1,031)
Exceptional operating costs	4	(400)	—
Operating loss		(1,423)	(1,031)
Interest receivable and other income		18	41
Interest payable and similar charges	5	(5)	(1)
Loss on ordinary activities before taxation		(1,410)	(991)
Tax on loss on ordinary activities	6	(10)	36
Loss after taxation for the year		(1,420)	(955)
Loss per share (pence)	7	(2.14)	(1.45)
Fully diluted loss per share (pence)	7	(2.14)	(1.45)

All operations are classed as continuing.

	2005 £'000	2004 £'000
Loss for the year	(1,420)	(955)
Currency translation difference on foreign currency net investments	(8)	(4)
Total losses recognised for the year	(1,428)	(959)

	Note	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Tangible fixed assets	8	346	214	—	—
Investments	9	—	—	2,788	2,788
		346	214	2,788	2,788
Current assets					
Debtors	10	1,708	2,855	311	1,703
Cash at bank and in hand		1,123	1,137	694	615
		2,831	3,992	1,005	2,318
Creditors: amounts falling due within one year	11	(2,244)	(1,864)	(236)	(40)
Net current assets		587	2,128	769	2,278
Total assets less current liabilities		933	2,342	3,557	5,066
Provisions for liabilities and charges	13	(24)	(19)	—	—
		909	2,323	3,557	5,066
Capital and reserves					
Called up share capital	14	3,322	3,310	3,322	3,310
Share premium account	15	5,768	5,766	5,768	5,766
Profit and loss account	17	(8,181)	(6,753)	(5,533)	(4,010)
Equity shareholders' funds	18	909	2,323	3,557	5,066

The financial statements were approved by the Board on 18 January 2006.

F Møbjerg
Director

D Priestley
Director

	Note	2005 £'000	2004 £'000
Net cash inflow/(outflow) from operating activities	a	196	(1,106)
Return on investments and servicing of financing			
Interest received		18	41
Interest paid		(5)	(1)
		13	40
Taxation		60	1
Capital expenditure			
Purchase of tangible fixed assets		(297)	(67)
Net cash outflow before financing		(28)	(1,132)
Financing			
Issue of equity shares		14	23
Decrease in cash in the year		(14)	(1,109)

a) Reconciliation of operating result to net cash flow from operations

	2005 £'000	2004 £'000
Operating loss	(1,423)	(1,031)
Depreciation	143	119
Loss on disposal of assets	29	6
Decrease/(increase) in debtors	1,078	(704)
Increase in creditors	369	504
	196	(1,106)

b) Reconciliation of net cash flow to movement in net funds

	2005		2004	
	£'000	£'000	£'000	£'000
Decrease in cash in the year	(14)		(1,109)	
Translation difference	—		(4)	
Change in net funds arising from cash flow		(14)		(1,113)
Movement in funds in the year		(14)		(1,113)
Net funds at the start of the year		1,137		2,250
Net funds at the end of the year		1,123		1,137

c) Analysis of net funds

	1 November 2004 £'000	Cash flow £'000	31 October 2005 £'000
Cash at bank	1,137	(14)	1,123

1 Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards and the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings and have been prepared using merger accounting principles.

The Company has not presented its own profit and loss account as permitted by Section 230 (3) of the Companies Act 1985.

Revenue recognition

Turnover represents amounts invoiced to customers, excluding value added tax, adjusted for opening and closing accrued income.

The Group has four types of revenue stream:

a) implementation and development income is recognised over the period of delivery of the services, and is based upon the percentage completion of the Group's contractual obligations;

b) licence fee income is recognised either over the period of delivery of the system in conjunction with associated implementation and development income and contractual obligations, or in the case of no associated contractual obligations, upon acceptance by the client;

c) maintenance fee and recurring licence fee income is recognised evenly over the period of the contract; and

d) professional services income is recognised as the service is performed.

Tangible fixed assets

Depreciation is provided on a straight-line basis over the following periods in order to write off each asset over its estimated useful life or over the lease term, whichever is the shorter.

Leasehold property	– Over the period of the lease
Improvements to property	– Over the period of the lease
Fixtures, fittings and computer equipment	– Four years
Computer software	– Two years

Investments

Investments held as fixed assets are stated at cost, less any provision for impairment in value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are only recognised where recovery is more likely than not. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Foreign currencies

Differences on exchange arising from the retranslation at closing rates of the opening net investment in overseas subsidiary companies, and from the translation of the results of those companies, are taken to reserves and are reported in the statement of total recognised gains and losses. All other exchange differences are taken into account in arising at the operating result.

Leasing commitments

Rentals paid under operating leases are charged to the profit and loss account as incurred.

2 Turnover and geographical segmental analysis

Turnover is analysed by sales into the following geographical markets:

By destination	Turnover		(Loss)/profit before tax		Net assets/ (liabilities)	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
United Kingdom	**3,033**	3,183	**(1,303)**	(1,055)	**1,117**	2,424
Rest of Europe	**3,040**	2,774	**68**	287	**308**	240
United States of America	**1,784**	1,304	**359**	214	**483**	124
Rest of World	**269**	—	**(534)**	(437)	**(999)**	(465)
	8,126	7,261	**(1,410)**	(991)	**909**	2,323

By origin	Turnover		(Loss)/profit before tax		Net assets/ (liabilities)	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
United Kingdom	**5,510**	4,952	**(206)**	(44)	**3,471**	3,681
Rest of Europe	**2,616**	2,309	**40**	20	**(45)**	(85)
United States of America	**—**	—	**(710)**	(530)	**(1,518)**	(808)
Rest of World	**—**	—	**(534)**	(437)	**(999)**	(465)
	8,126	7,261	**(1,410)**	(991)	**909**	2,323

3 Staff costs

	2005 £'000	2004 £'000
Wages and salaries	**2,938**	2,583
Social security costs	**193**	180
Pension costs	**41**	44
	3,172	2,807

The average number of employees (including executive directors) during the year was as follows:

	2005 Number	2004 Number
Computer programmers	**62**	51
Administration	**25**	18
	87	69

4 Operating loss

	2005 £'000	2004 £'000
Operating loss is stated after charging:		
Operating leases – rent of land and buildings	217	201
Depreciation – owned assets	143	119
Auditors' remuneration – audit[1]	32	29
Auditors' remuneration – other[2]	7	14
Exceptional operating costs – provision for impairment of fixed assets	176	—
– professional fees in relation to corporate strategic review	224	—
Research and development	594	323

Other fees payable to auditors principally related to local and international tax advice.

1 Includes £19,000 (2004: £16,000) payable to the Group auditors
2 Includes £5,500 (2003: £7,300) payable to the Group auditors

Detailed information concerning directors' emoluments, share options and consideration payable to third parties for making available the services of the directors is disclosed in the directors' remuneration report.

5 Interest payable and similar charges

	2005 £'000	2004 £'000
Bank interest	5	1

6 Taxation

Tax on the loss on ordinary activities for the year was as follows:

	2005 £'000	2004 £'000
UK corporation tax	—	(49)
Overseas taxation	5	6
Current tax charge/(credit) for the year	5	(43)
Deferred taxation charge	5	7
	10	(36)

Tax reconciliation

	2005 £'000	2004 £'000
Loss before taxation	(1,410)	(991)
Tax at 20%	(282)	(198)
Disallowed expenses	35	6
Timing differences	52	1
Research and development	—	(8)
Addition to tax losses	202	152
Profits arising overseas that are subject to rates of tax other than the UK small companies' rate	3	4
Current tax charge/(credit) for the year	10	(43)
Tax losses available in future years	4,489	3,507

7 Loss per share

The loss per share is calculated on a net basis using the loss on ordinary activities after taxation and the weighted average number of shares detailed below:

	2005 £'000	2004 £'000
Basic and diluted loss attributable to ordinary shareholders	(1,420)	(955)
Weighted average number of ordinary shares	66,215,217	66,004,527
Dilutive share options	—	—
Adjusted weighted average number of ordinary shares	66,215,217	66,004,527
Loss per share (pence)	(2.14)	(1.45)
Diluted loss per share (pence)	(2.14)	(1.45)

8 Tangible fixed assets

	Leasehold property £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment and software £'000	Total £'000
Group					
Cost					
As at 1 November 2004	23	183	—	683	889
Differences on exchange	1	4	—	2	7
Additions	64	108	6	119	297
Disposals	—	(52)	—	(38)	(90)
As at 31 October 2005	**88**	**243**	**6**	**766**	**1,103**
Depreciation					
As at 1 November 2004	13	65	—	597	675
Depreciation for the year	21	38	2	82	143
Disposals	—	(24)	—	(37)	(61)
As at 31 October 2005	**34**	**79**	**2**	**642**	**757**
Net book value					
As at 31 October 2005	**54**	**164**	**4**	**124**	**346**
As at 31 October 2004	10	118	—	86	214

9 Fixed asset investments

	£'000
Company	
Cost as at 31 October 2005 and 31 October 2004	**2,788**

The Company's investment in subsidiary undertakings comprises 100% of the issued share capital of the following companies:

	Country of incorporation	Principal activity
Raft International A/S	Denmark	Computer software services
Raft International (UK) Limited*	England	Computer software services
Raft Software Private Limited**	India	Computer software services
Raft (Overseas) Limited*	England	Intermediate holding company
Raft International Inc	USA	Computer software services
R.a.f.t. International AB	Sweden	Dormant

* Directly owned by Raft International plc.
** Owned by Raft International (UK) Limited.

All other subsidiary undertakings are owned by Raft (Overseas) Limited.

10 Debtors

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Amounts falling due within one year:				
Trade debtors	**1,214**	2,060	**—**	—
Amounts due from Group undertakings	**—**	—	**290**	1,680
Corporation tax recoverable	**68**	101	**—**	—
Other debtors	**84**	109	**13**	—
Prepayments and accrued income	**342**	585	**8**	23
	1,708	2,855	**311**	1,703

11 Creditors

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Amounts falling due within one year:				
Trade creditors	**808**	794	**88**	22
Amounts due to Group undertakings	**—**	—	**8**	—
Social security and other taxes	**133**	175	**8**	5
Other creditors	**178**	—	**—**	—
Accruals	**661**	382	**132**	13
Deferred income	**464**	513	**—**	—
	2,244	1,864	**236**	40

12 Obligations under operating leases

	Land and buildings	
	2005 £'000	2004 £'000
Leases expiring:		
Within one year	**15**	—
Between one and five years	**98**	155
	113	155

13 Provisions for liabilities and charges

	Deferred tax	
	2005 £'000	2004 £'000
As at 1 November 2004	**19**	12
Charge to profit and loss account	**5**	7
As at 31 October 2005	**24**	19
The deferred taxation provision comprises:		
Accelerated capital allowances	**24**	19

14 Share capital

	Ordinary shares of 5p each			
	2005		2004	
	Number	**£'000**	Number	£'000
Authorised	**200,000,000**	**10,000**	200,000,000	10,000
Allotted, called up and fully paid	**66,434,372**	**3,322**	66,200,243	3,310

During the year 31,864 share options were exercised at 5.25 pence per share and 202,265 shares were issued at 6.18 pence per share.

15 Share premium

	2005 £'000
As at 1 November 2004	5,766
Issue of shares (see note 14)	2
As at 31 October 2005	**5,768**

16 Share options

At 31 October 2005 the following options to subscribe for ordinary shares were outstanding:

	Ordinary shares of 5p each				
Exercise period	Exercise price	Unapproved share option scheme Number	EMI scheme Number	**2005 Total Number**	2004 Total Number
April 2001 – April 2008	5.20 p	575,242	—	**575,242**	1,246,358
February 2005 – February 2012	10.00 p	—	—	—	150,000
June 2005 – June 2012	5.00 p	167,000	—	**167,000**	167,000
June 2005 – June 2012	5.25 p	119,278	1,280,832	**1,400,110**	2,085,752
December 2005 – December 2012	5.00 p	—	—	—	25,000
June 2006 – June 2013	12.50 p	350,000	—	**350,000**	350,000
February 2007 – February 2014	17.00 p	184,000	125,000	**309,000**	—
January 2008 – January 2015	8.50 p	500,000	—	**500,000**	—
January 2008 – January 2015	9.95 p	605,000	850,000	**1,455,000**	—
March 2008 – March 2015	11.50 p	350,000	—	**350,000**	—
		2,850,520	2,255,832	**5,106,352**	4,024,110

During the year 3,209,000 share options were issued to employees, 2,094,894 share options were cancelled following the departure of certain employees from the Group and 31,864 share options were exercised at 5.25 pence per share.

17 Profit and loss account

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
As at 1 November	**(6,753)**	(5,794)	**(4,010)**	(2,816)
Loss for the year	**(1,420)**	(955)	**(1,523)**	(1,194)
Exchange adjustments on foreign currency investments	**(8)**	(4)	—	—
As at 31 October	**(8,181)**	(6,753)	**(5,533)**	(4,010)

18 Reconciliation of movements in equity shareholders' funds

	2005 £'000	2004 £'000
Loss for the year	(1,420)	(955)
Exchange adjustments on foreign currency investments	(8)	(4)
Issue of shares including premium	14	23
As at 1 November 2004	2,323	3,259
As at 31 October 2005	**909**	2,323

19 Financial instruments and risk profile

Trade debtors and trade creditors are excluded from the following disclosures, as permitted by Financial Reporting Standard 13.

The main objective of the Group's treasury policy is to protect post-tax cash flows of the core business from the adverse effects of financial risks.

The main risks arising from the Group's operations are interest rate and foreign exchange risk. The Board reviews and agrees policies for managing each of these risks.

The Group is risk adverse and is therefore only concerned with avoiding actual losses or cost increases and not with the opportunity costs of potential gains.

The Group's financial assets and liabilities comprise cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations. The Group has no undrawn borrowing facilities.

No financial instruments were held for the purpose of dealing or other financial instrument trading activities.

Interest rate risk

The Group has financed its operations through funds raised at the time of the Initial Public Offering. The Group's cash position is exposed to falling interest rates. The Group uses a combination of fixed and floating deposits for its cash balances. The Group has not hedged the exposure to interest rate fluctuations through the use of derivative instruments. Funds on deposit at the balance sheet date bear interest at rates based on LIBOR.

Foreign exchange risk

Financial instruments for foreign exchange are limited to forward currency agreements. No forward contracts or hedging transactions were entered into during the year.

Translation exposure arising from the translation of the profits, losses, assets or liabilities of non-sterling businesses is not hedged.

Raft international offices

United Kingdom
91-93 Farringdon Road, London EC1M 3LN
+44 207 067 5999

Denmark
Ryttermarken 2A, DK-3520 Farum
+45 44 34 23 00

United States
1500 City West, Houston, Texas, TX 77042
+1 713 520 5770

www.raftinternational.com

External advisers

Nominated adviser and broker
Charles Stanley
25 Luke Street, London EC2A 4AR

Solicitors
Nabarro Nathanson
Lacon House, Theobald's Road, London WC1X 8RW

Independent auditors
Baker Tilly
2 Bloomsbury Street, London WC1B 3ST

Principal bankers
Barclays Bank plc
50 Pall Mall, London SW1Y 5AX

Registrars
Capita IRG plc
Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Financial public relations
Biddicks
Mercury House, Triton Court, 14-18 Finsbury Square, London EC2A 1BR

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