INSIDE RM

RM plc Annual report and accounts 2008

Our Company

The RM Group is a leading provider of educational products and services to schools, colleges and universities, local government and central government education departments and agencies. Founded in 1973, RM works closely with educationalists to use new products, processes and technology to improve teaching and learning and is recognised as a leading innovator in the educational information and communications technology (ICT) arena.

Our Vision

RM is about improving the life chances of people – worldwide – by delivering outstanding educational products and services that help teachers to teach and learners to learn.

2008 HIGHLIGHTS

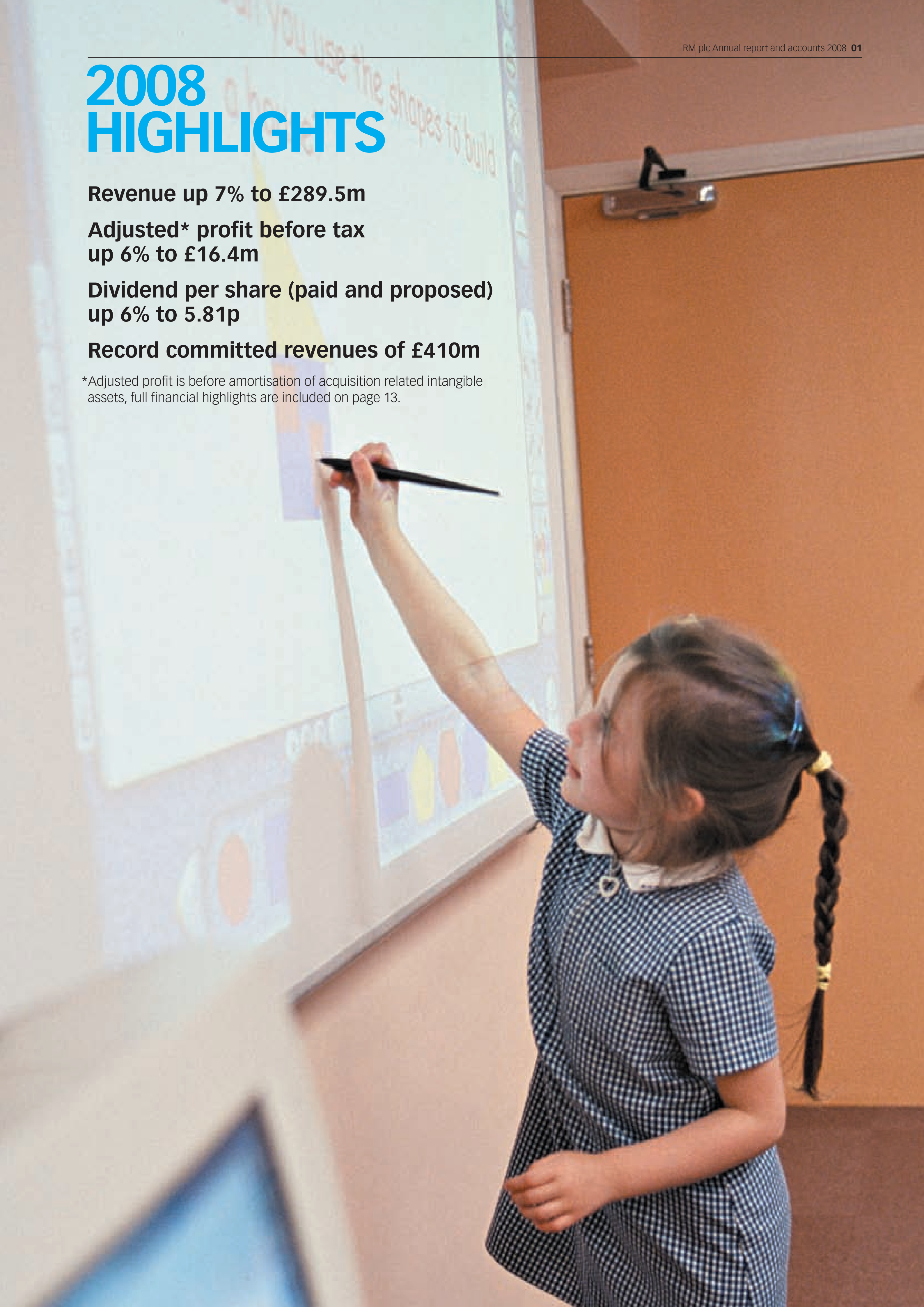
Revenue up 7% to £289.5m

Adjusted* profit before tax up 6% to £16.4m

Dividend per share (paid and proposed) up 6% to 5.81p

Record committed revenues of £410m

*Adjusted profit is before amortisation of acquisition related intangible assets, full financial highlights are included on page 13.



RM AT A GLANCE

Helping teachers to teach and learners to learn

Learning Technologies

including Education Management Systems

Activities
ICT infrastructure software, products and services for schools, colleges and universities

Management, administration and finance software for schools and government education departments

Customers
Individual schools

Local authorities

Government education departments

Group brands
RM
Sentinel
EasyTrace

Products and services
Community Connect®
Network software and support

Kaleidos® Learning Platform
Education workflow; communications and collaboration

Integris G2
Web-delivered, hosted school management and administration software

Internet for Learning
Broadband and Internet services

Hardware

Glow
Scottish schools national intranet

Integrated project delivery

BSF

Education Resources

including Curriculum Software

Activities
General education resources for use in classrooms

Customers
Individual schools

Trade distributors

Channel partners

Group brands
RM
TTS
MES
SpaceKraft
Special Direct
Inclusive (25%)
DACTA
3T Productions
Softease

Products and services
General resources
Teaching materials and education products for classroom use

SEN
Products to support special educational needs

ICT and curriculum software
Technology-based teaching products

Assessment and Data Services

Activities
Outsourced IT services and data analysis for examination boards and government education departments

Customers
Examination boards

Professional associations

Government education departments

Professional associations

Group brands
RM
Forvus

Products and services
On-screen marking
Outsourced 'back-office' services for examination boards and other awarding bodies

On-screen testing
Electronic test delivery for examination boards and other qualification awarding bodies

Data services
Complex data analysis and presentation for central and local government

International

Activities
International sales and channel management for Group products and services

Customers
Individual schools

Government agencies and departments

Trade distributors

Channel partners

Group brands
RM Educational Software
RM Asia-Pacific
DACTA
Computrac
CAZ Software
RM

Products and services
Wide range of Group products and intellectual property

BSF: GROWING COMMITTED REVENUES

1

Building market share

2

Multi-year managed service contracts

Enhancing market share
RM has won 12 BSF projects out of the 26 awarded so far, which in aggregate contribute £191m to committed revenues. This puts us well ahead of our target of winning 38% of the BSF market (by value) and provides excellent revenue visibility over the next five years.

Managed services
BSF changes our relationship with our customers. Technology is delivered as a multi-year managed service for a group of schools. With responsibility for the day-to-day management of the ICT, as well as for supplying products, we're becoming a long-term trusted partner.

Business development opportunities

Strong partnerships with our BSF customers mean that we are well-placed to help them with other educational technology requirements as well. We anticipate that the potential value of our BSF partnerships could be significantly greater than the original contract value.

Major education capital investment

BSF is the largest single education capital investment programme in England for 50 years and will ultimately address all of England's secondary schools. So far, 26 of 140 local authorities have selected their suppliers, so significant opportunities remain.

EDUCATION RESOURCES: ACCESS TO BROADER SCHOOL BUDGETS

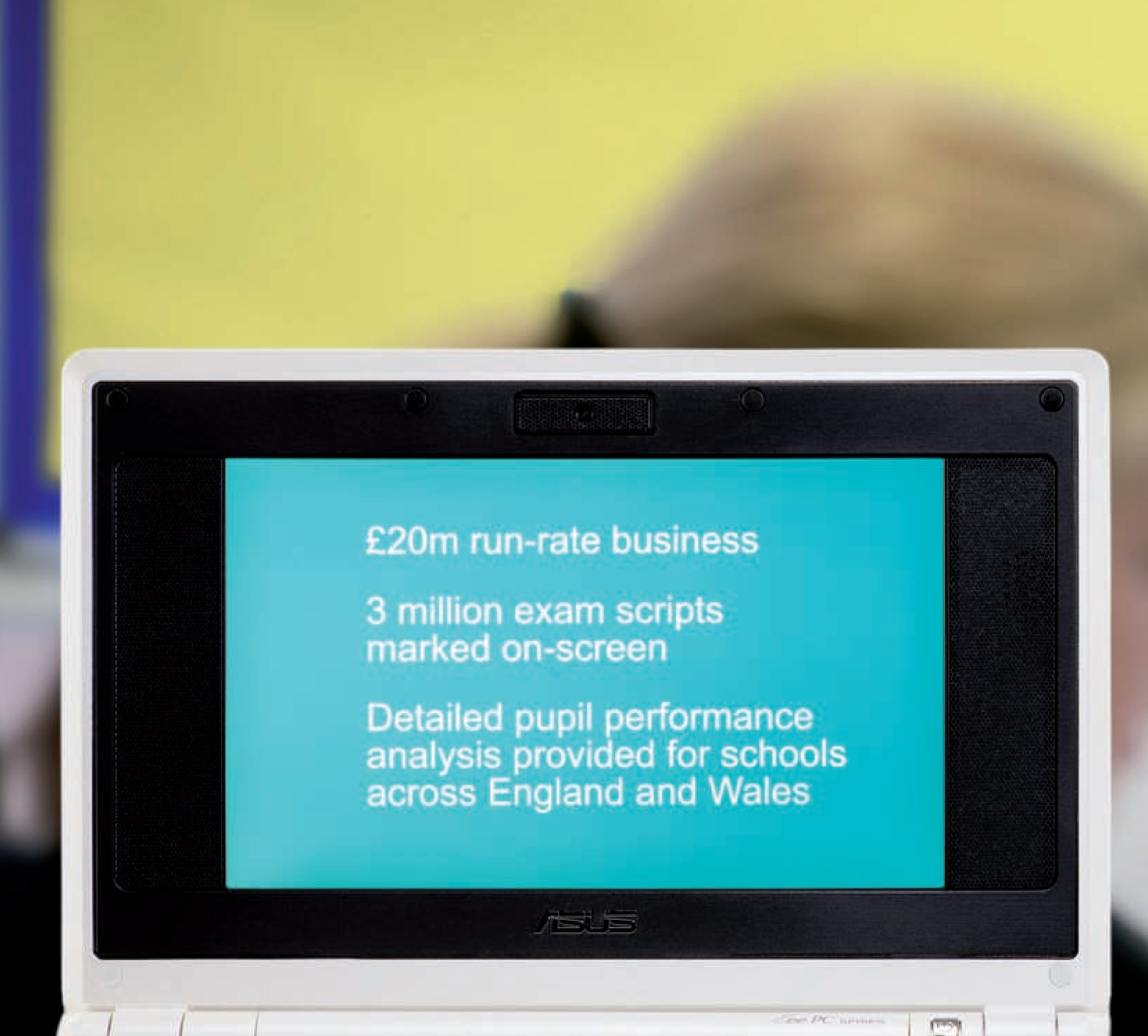
Unique products
The majority of our education resources products are only available from us. We identify educational needs, then design and source products that meet them. Customers recognise the education value of our products, which differentiates us from distributors of commodity items.

Respected brands
TTS is widely recognised as a leading education resources provider. Special Direct, SpaceKraft and Inclusive are well-respected special educational needs specialists. And, through DACTA, we distribute LEGO® Education, TOLO® Education and BRIO® Education products.

Shared customers
Our Education Resources customers are the same schools that other parts of the Group deal with. This allows us to build a deep understanding of their needs and aspirations and provide them with a broad range of products and services.

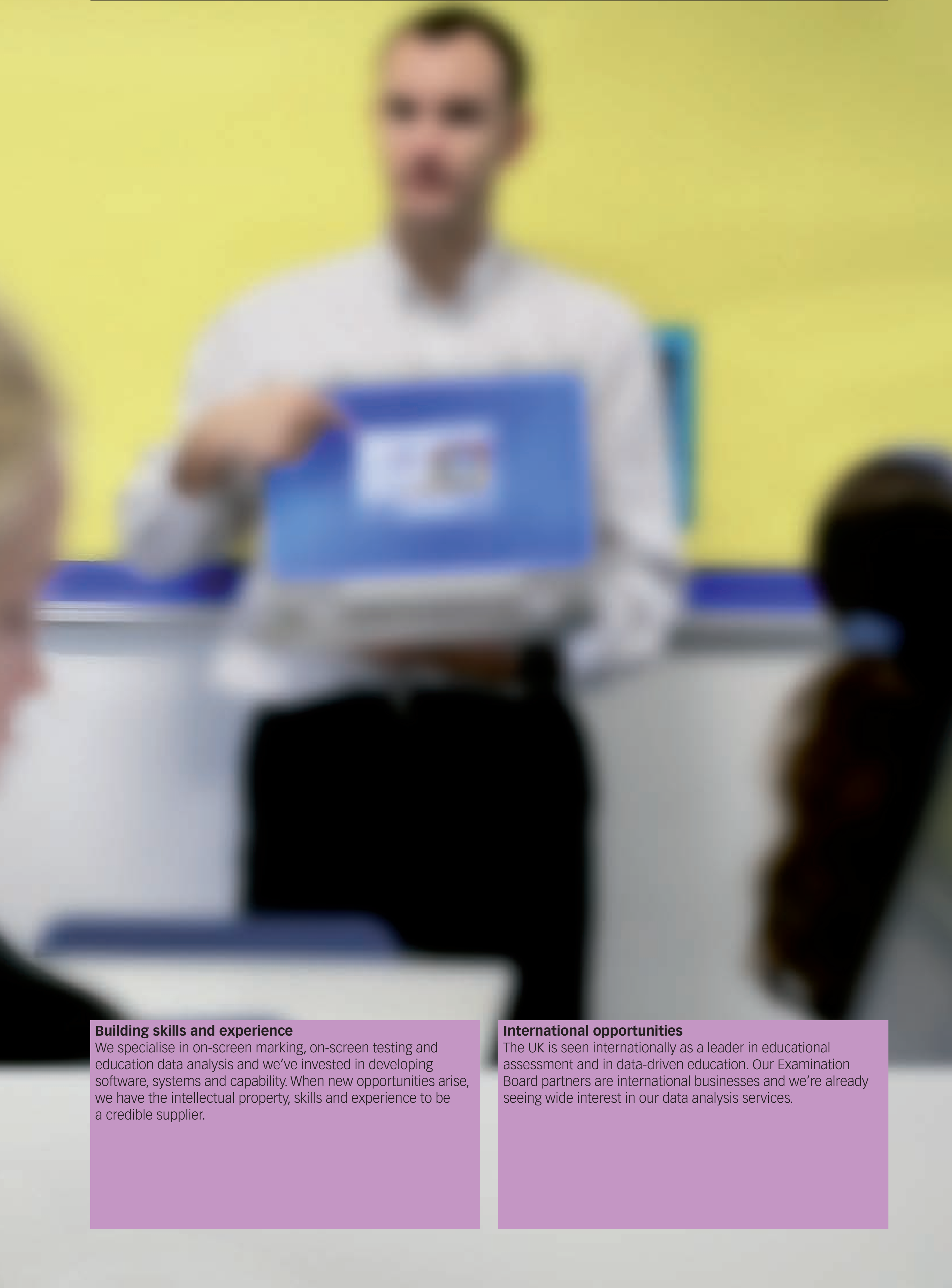
Rapid growth
Since the acquisition of TTS Group in 2004, our Education Resources business has grown rapidly. Through the introduction of innovative products and by addressing new curriculum and interest areas, we've got the opportunity to grow further.

ASSESSMENT AND DATA SERVICES: EDUCATION PROCESS OUTSOURCING



Long-term revenues
Our Assessment and Data Services customers are looking for long-term partnerships. They need a supplier who can outsource an important part of their business and deliver it efficiently and effectively over many years.

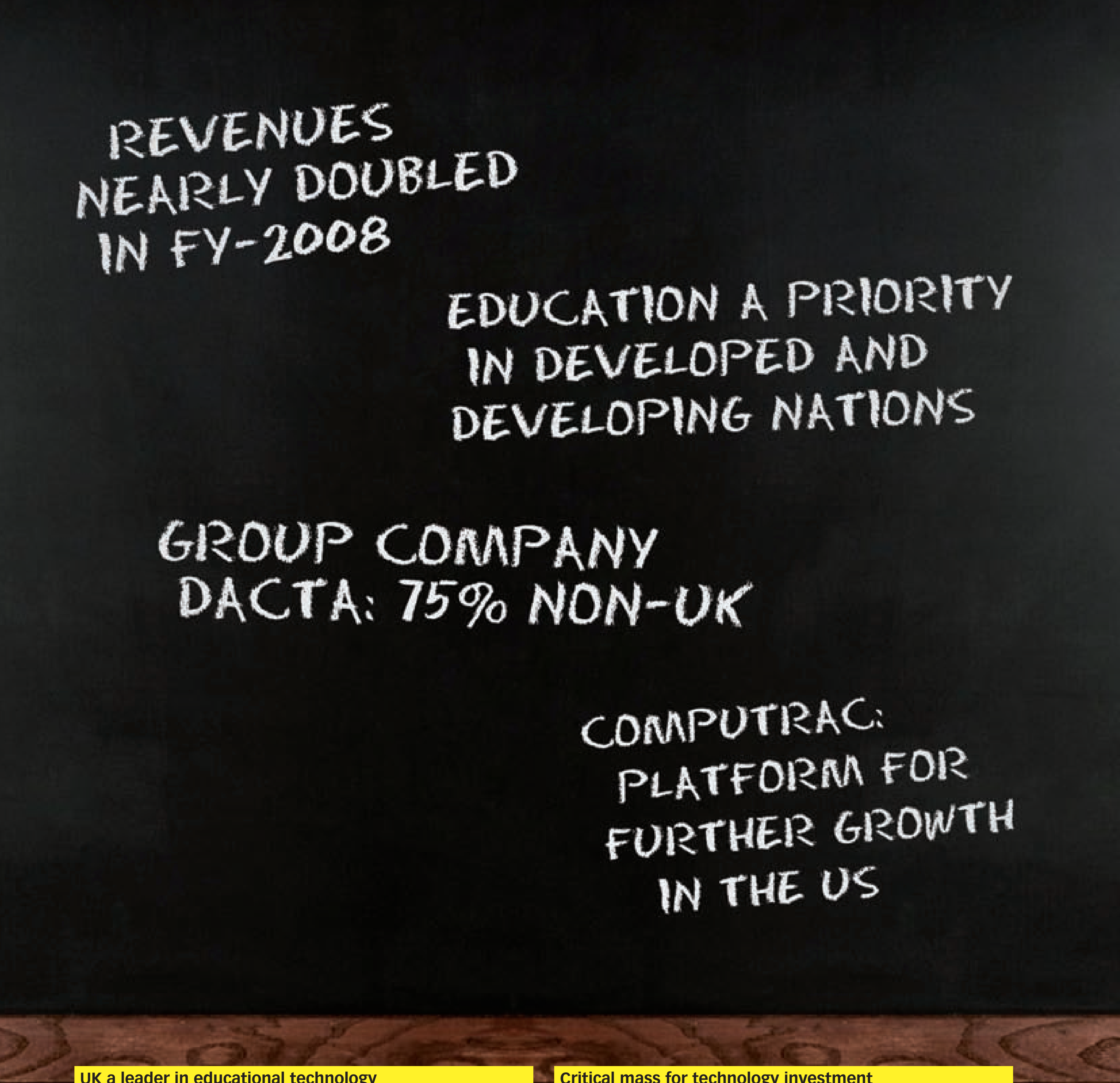
Strong relationships
Our services are becoming an integral part of the way our customers run their operations. We aim to become a trusted partner, providing the operational delivery and technical innovation that our customers need to keep their businesses moving forward.



Building skills and experience
We specialise in on-screen marking, on-screen testing and education data analysis and we've invested in developing software, systems and capability. When new opportunities arise, we have the intellectual property, skills and experience to be a credible supplier.

International opportunities
The UK is seen internationally as a leader in educational assessment and in data-driven education. Our Examination Board partners are international businesses and we're already seeing wide interest in our data analysis services.

INTERNATIONAL: CONTROLLED GROWTH



UK a leader in educational technology
Each year the BETT exhibition in London showcases the UK's educational technology industry and hosts the UK government's Learning and Technology World Forum. Throughout the world, the UK is seen as a leader in educational technology.

Critical mass for technology investment
Technologies such as whole-class teaching software, learning platforms and school management systems have international potential. Increasingly, we are investing in intellectual property for the global market.

Targeted investment
Over five years, we've built a business in the US which is profitable and which has paid back the modest investment we have made in it. We're repeating this model of low-risk growth as we develop businesses in other international territories.

Next steps in the US
With the acquisition of Computrac, we've made a major step forward in the US. As well as being a profitable business in its own right, it provides us with a platform for further growth and development in the Southeast US and beyond.

CHAIRMAN'S STATEMENT

FY-2008 has been a very good year for RM. Revenue and profits were up, and committed revenues are at a new record level of £410m. With an unrivalled BSF (Building Schools for the Future) win rate and good progress across the business, we enter FY-2009 well-positioned to succeed – even in today's uncertain economic conditions.

Results
Results were in line with management's original plan, even though BSF investment was increased during the year. Adjusted profit before tax (before amortisation of acquisition related intangible assets) increased 6% to £16.4m (2007: £15.5m excluding an exceptional pension credit of £3.5m). At the same time we have continued to make significant investments in the future, both by developing innovative new products and by bidding for BSF contracts: indeed, we won half of the BSF projects available during the year.

The Board is recommending an increase in dividend, reflecting RM's performance and our continued confidence in future prospects. RM's dividend has increased, or remained at the same level, every year since the Group floated. A proposed final dividend of 4.55p per share will increase the full-year dividend by 6% to 5.81p (2007: 5.49p).

Strategy
RM comprises a group of education companies, each committed to delivering products and services that help teachers to teach and learners to learn. We have three areas of focus – Learning Technologies, Education Resources and Assessment and Data Services – and offer a broad and diverse range of unique education products and services.

Whilst the majority of RM's revenues come from the UK, we are also gradually building our international presence. RM now has offices in four continents and, in FY-2008, international sales nearly doubled to 6% of total Group revenue.

John Leighfield
Chairman

Chief Executive
In 2007, Tim Pearson told me that he would like to leave RM once a suitable replacement had been identified. Throughout his six years as CEO, Tim has been an inspirational leader, transforming RM from a company that was largely dependent on selling computer hardware, to the diverse, but complementary, group of education businesses we have today. He fostered a culture of innovation, high standards and relentless commitment to customer service that will continue to be a major strength for us – and the educationalists we work with – for the foreseeable future. On behalf of the Board and his colleagues at RM, I offer our thanks to Tim for all he achieved for RM and our best wishes for the future.

We will miss Tim, but I am sure that Terry Sweeney will prove to be a worthy successor. We appointed Terry after a rigorous selection process which considered both internal and external candidates. He is a seasoned RM manager, fully committed to the vision and values that are at the heart of RM's business. He is also a CEO with enormous entrepreneurial drive: earlier in his career with RM, Terry was responsible for building our successful education resources business. Tim has left the business in good shape and well-positioned for the future; Terry's task is to make the most of our opportunities.

Board
Jo Connell joined the Board as a Non-Executive Director in December 2007, succeeding Sherry Coutu, who retired in October 2007 having served three terms. Jo brings with her enormous experience and understanding of the IT industry. As Managing Director of Xansa plc, she gained significant experience in the areas of large projects and outsourcing, which will be invaluable as we further build this area of RM's activities and especially our BSF position.

People
Employee satisfaction, as measured by our annual survey, increased again in 2008 to 75.0% (2007: 74.6%). This is an excellent result; however, quoting a single measure such as this does not do justice to the enterprise, enthusiasm and dedication of our people. As ever, our success – and the contribution RM makes to our customers' successes – is directly due to the talents and commitment of the people who choose to work here. As always, I thank them for their dedication and commitment to delivering success for our customers.

Looking ahead
RM is a resilient business. In the UK, schools have three-year budget visibility and the Government remains committed to major capital expenditure; globally, education is a priority for developed and developing nations, even amid the financial challenges that all economies are facing. As a Group, RM has fundamental strengths: a diverse range of innovative educational products and services, growing committed revenues and a strong balance sheet. I believe we are well-positioned to prosper, even in these uncertain economic conditions, providing success for our customers and good returns for our shareholders.

John Leighfield
24 November 2008

2008 RESULTS

Financial highlights

Year to 30 September	2008	2007
Revenue	**£289.5m**	£270.9m
Adjusted* profit before tax	**£16.4m**	£15.5m
Profit before tax	**£15.4m**	£18.4m
BSF bid costs expensed	**£4.7m**	£3.6m
Adjusted* basic EPS	**13.1p**	12.4p
Basic EPS	**12.3p**	14.6p
Dividend per share – proposed and paid	**5.81p**	5.49p
Operating cash flows before movements in working capital	**£24.0m**	£23.5m
Cash	**£18.3m**	£29.3m
Net funds less deferred consideration	**£12.4m**	£27.4m

*Adjusted profit is before amortisation of acquisition related intangible assets and, in 2007, an exceptional pension credit of £3.5m

Other key performance indicators

	2008	2007
Committed revenues	**£410m**	£330m
Customer satisfaction (on a scale of zero to ten)	**7.67**	7.64
Employee satisfaction	**75.0%**	74.6%

BUSINESS REVIEW: OUR BUSINESS

RM is a world-class education business. We provide a broad and diverse range of products and services that help teachers to teach and learners to learn.

Education focus
Over more than three decades, RM has been at the forefront of developing innovative products for education and has established a deep knowledge and understanding of the education marketplace. Initially focusing on classroom technology solutions, in more recent years we have expanded to provide education resources for schools and outsourced technology services to government education departments and agencies.

Education is the only market RM serves and, with many of our people having direct experience as educationalists, the Company has a good cultural fit with customers.

Diverse group
RM is a group of companies, with activities clustering around three key areas:

- Learning Technologies (inc. Education Management Systems) – reliable and cost-effective ICT infrastructure, software and services – including learning platforms, computer systems, connectivity, networking software, school management software and support services – for schools, colleges and universities.
- Education Resources (inc. Curriculum Software) – curriculum-focused products designed to make classroom learning fun, motivational and effective.
- Assessment and Data Services – process management and outsourcing of educational testing and examinations; data analysis services for teachers, education managers and policy makers in schools, local authorities and government departments & agencies.

Market position
RM has an extremely strong market position in the UK. The Group is the leading provider of educational technology products to individual schools and the clear market leader in the supply of ICT services to the Government's BSF (Building Schools for the Future) programme. We are also a rapidly growing supplier of general education resources and a leading supplier of outsourced services to examination boards and government departments and agencies.

The Group also has a rapidly expanding global presence. In 2008, the Group's international business doubled and international revenues now represent 6% of the total. With the recent acquisition of Computrac in the US, and initiatives in Europe and the Middle East, we anticipate this growing further in the next year.

Strategy
RM's strategy has three key elements:

- Focus on education – We focus on education markets, where our domain knowledge and cultural fit make us a strong partner for our customers.
- Broadly-based group – We provide a broad range of education-specific products and services across a shared customer base.
- Global – We will operate on an international basis to provide a resilient business with critical mass for product development.

Together these characteristics provide our shareholders with a diverse, but focused, business, active in a high priority, well-funded public sector market.

Terry Sweeney
Chief Executive Officer

Rob Sirs
Chief Operating Officer

Mike Greig
Group Finance Director

BUSINESS REVIEW: OPERATIONS

FY-2008 saw RM firmly established as the leading ICT supplier to the Government's BSF (Building Schools for the Future) programme, with a substantially enlarged Education Resources business, and well-positioned for international growth.

Results

Results for the year were strong.

Group revenue increased by 6.9% to £289.5m (2007: £270.9m), with growth from Education Resources, international business and BSF more than offsetting decreases in commodity hardware and UK curriculum software.

Committed revenues (order book, deferred revenue and projects at preferred/selected bidder stage) have increased further to a record £410m (2007: £330m), reflecting BSF and other long-term contract wins.

Adjusted profit before tax – our preferred measure, which excludes amortisation of acquisition related intangible assets – increased by 6% to £16.4m (2007: £15.5m excluding an exceptional pension credit of £3.5m). The statutory measure of profit before tax was £15.4m (2007: £18.4m including an exceptional pension credit of £3.5m). Profit is stated after an increase in the level of BSF bid costs expensed during the year to £4.7m (2007: £3.6m).

RM is a cash-generative business. Operating cash flows before movements in working capital in the year were £24.0m (2007: £23.5m). At 30 September 2008, cash balances were £18.3m (30 September 2007: £29.3m).

RM's externally-reviewed customer satisfaction score – the Group's most important non-financial performance indicator – increased for the fifth year in succession to 7.67 (on a scale of zero to ten; 2007: 7.64). The overall employee satisfaction score, determined by a Group-wide survey, increased to 75.0% (2007: 74.6%).

Market

Education is a resilient market. In the UK, schools have three-year budgets and the Government has reinforced its commitment to long-term capital investment in the education sector; globally, education is a priority in developed and developing nations.

RM's customers are not directly affected by current economic conditions. Education is a market where customers expect their suppliers to understand their specific needs and to demonstrate long-term commitment. RM has operated in the education sector for over 30 years. We are confident that there will continue to be excellent opportunities for companies with the expertise and experience to offer products and services that help improve teaching and learning.

Learning Technologies

RM is the leading supplier of educational technology to schools and colleges in the UK. RM's Learning Technologies division has a mix of large multi-year contracts (including BSF) and business from individual schools, colleges and universities. Revenue for 2008 was £213.1m (2007: £215.6m). The reduction in average selling prices for commodity hardware more than offset an increase in BSF revenues. Divisional profit before BSF bid costs was £11.6m (2007: £10.5m).

We continue to build our portfolio of long-term contracts. During the year, in addition to the BSF contracts described below, we won three large multi-year managed service contracts, worth a total of £19.7m. Since year-end, we have won a further project: a £14m extension of our existing ten-year contract to provide the Dudley Grid for Learning.

Our individual school and college business is driven by continuous improvements in our products and services. Key developments in the year include:

- Community Connect 4, the ninth generation of our networking solution for schools, which we launched in the second half. Initial interest in the product has been very positive and we comfortably met sales targets for the year, with 550 schools taking the product. Community Connect 4 is a major strategic upgrade for our customers which will drive infrastructure sales and form the basis of our managed service offer over the next two to five years.
- The RM Asus miniBook, the ground-breaking one-per-pupil computing device, which we launched in October 2007. We have significantly exceeded our target for the year, selling more than 40,000 units. The combination of excellent functionality, low price, ease-of-use and robustness makes it an ideal device for students to carry around with them.
- Kaleidos learning platform, which now has 1.7 million users. Learning platforms are sophisticated software systems supporting communications & collaboration, and are increasingly being used by schools to manage the way they deliver teaching and learning. The Government's increasing focus on providing real-time access to school data for parents will further accelerate the uptake of learning platforms.

RM Asus miniBook – more than 40,000 units sold in FY-2008

Learning Technologies – BSF

BSF, the Government's programme to rebuild or refurbish all secondary schools in England, continues to represent a very large opportunity for the Group. The programme is now rolling forward to plan, and Partnerships for Schools (the government agency responsible for its delivery) is looking for ways to further accelerate progress.

Our net investment in BSF during the year was £4.4m and we have been very successful in securing new contracts, with a win-rate well ahead of our target. We were selected for five contracts during the year (out of ten that were awarded and eight that we bid for), which represent 49.5% of the business that was available in the year. Since year-end we have been selected for a further contract, worth £15m, in Southwark. BSF projects now contribute £191m of committed revenues.

Several of the BSF contracts we have already won are now well into the delivery phase. Our BSF delivery team has grown rapidly and now comprises 80 people, 40 of whom have transferred to us from our local authority customers. Over the summer we successfully commissioned ICT infrastructure in eight schools.

In July 2008 we acquired EasyTrace for a total cost of up to £2.8m. EasyTrace provides identity management systems, which support cashless catering, access control and electronic registration. These technologies are typically required as part of new school builds, in particular as part of BSF projects. We had already worked with EasyTrace on several contracts.

In 2009, we anticipate bidding for BSF contracts at a similar rate. RM's BSF activities are expected to move from net investment to net contribution in FY-2010.

Education Resources

Our Education Resources business has grown significantly since the acquisition of TTS Group in 2004 and now contributes a significant amount of the Group's profit. Revenue for 2008 was £57.0m (2007: £37.8m), the increase reflecting strong growth in general resources offset by a further decrease in UK curriculum software revenue. Divisional profit was £7.1m (2007: £6.6m), again reflecting increased revenue, offset by the decrease in high-margin curriculum software.

Key developments in Education Resources include:

- The successful completion of the delivery of the Tesco Sport for Schools and Clubs scheme in the second half of the year, meeting or exceeding all of the targets set by Tesco. Tesco has subsequently appointed RM to deliver a new scheme in 2009, which combines their existing Computers and Sports schemes.
- The acquisition of SpaceKraft in October 2007 for a net cost of up to £4.6m. SpaceKraft provides special educational needs (SEN) products and services, including sophisticated 'sensory environments' designed to provide multi-sensory stimulation for SEN pupils.
- The acquisition of a 25% stake in Inclusive Technology in April 2008 for a total cost of £1m. Inclusive Technology is the UK market leader in the supply of software, computer access devices and technology for learners with physical disabilities, sensory impairments and learning difficulties. It brings additional critical mass to our existing SEN businesses.

In the UK, the curriculum software market had another tough year. Since year-end we have reorganised our activities accordingly. Our three separate curriculum software activities – Softease, 3T Productions and RM Learning Products – have been rationalised into a single business unit. We expect this to yield annual cost savings of £1m, for a one-off cost of £0.4m in H1-2009.

Until June 2008, our Education Resources division was run by Terry Sweeney. On Terry's appointment as CEO, we recruited Ronan Smith as Group Managing Director – Education Resources. Ronan's key objective is to continue to grow the profit contribution of our Education Resources business.

Assessment and Data Services

Over five years, Assessment and Data Services has moved from a single contract to provide on-screen testing services, to a profitable and growing business with an increasing number of long-term contracted clients. Revenue for 2008 was £19.3m (2007: £17.5m); divisional profit was £2.1m (2007: £1.2m).

Assessment and Data comprises three linked areas of activity:

- On-screen marking. We provide outsourced services to Examination Boards and professional bodies to help them manage the marking of high-stakes examinations and tests. Our service comprises scanning of examination/test scripts; electronic distribution of electronic script images to markers; on-screen marking tools; electronic return of marks; and workflow across the whole system. In 2008 we facilitated the marking of over 3 million exam scripts for our strategic partner Cambridge Assessment, as well as working with a number of other bodies. In UK schools, approximately 40% of examination scripts are currently marked on-screen; we anticipate that this number will grow rapidly over the next five years as on-screen marking becomes the norm.
- On-screen testing. We provide software that allows pupils and students to take tests on-screen, using a computer, rather than using traditional pen and paper techniques. This is an emerging area at the moment and, because of work providing on-screen testing for the Qualifications and Curriculum Authority (QCA) in the UK, we have significant experience. We anticipate a growing proportion of tests will be delivered on-screen.
- Data management and analysis. We provide outsourced services that collect, process and analyse detailed education performance data. The UK has a well-developed capability for using performance data to inform educational practice. RM's Forvus subsidiary provides the National Pupil Database which collects this performance data on behalf of the Department for Children, Schools and Families, and also a number of innovative analysis tools.

There are significant international opportunities for our Assessment and Data Services activities and the Group, with partners Cambridge Assessment, hosted a major international conference during the year in the UAE to gauge the potential for international business. British Examination Boards have strong overseas operations and are already beginning to implement on-screen marking and on-screen testing in their international businesses. The UK is viewed as a leader in data-driven education and we have seen emerging interest from a number of governments in implementing similar services to those we offer in the UK.

International
The Group's objective here is to identify and develop profitable opportunities for its products, services and intellectual property in selected international territories. International revenues in 2008 almost doubled to £16.5m (2007: £8.8m – note international revenues are also included in the divisional revenue numbers given above).

In 2008, international activity came predominantly in three businesses, each of which performed well during the year:

- DACTA, the specialist education distributor of branded products (including LEGO® Education, TOLO® Education and BRIO® Education) which we acquired in 2007 is an international business, with three-quarters of revenues coming from Continental Europe. It is profitable, growing and an excellent channel for a wider range of products – from both other RM Group companies and third parties.
- RM Asia-Pacific is the number one supplier of education management systems in Australia, where we have been active since 1998.
- RM Educational Software Inc is our US subsidiary and sells RM's curriculum software products in North America. The Company was set up in 2003, achieved profitability in 2007, and doubled revenues in 2008.

With this foundation in place, we are now increasing our focus on international activities.

Since year-end, we have substantially increased our footprint in North America through the acquisition of Computrac LLC for a total cost of up to $8.0m (c.£5.0m). Computrac, which specialises in providing interactive whole-class teaching technology to schools in the Southeast US, has been an RM partner for two years, selling our curriculum software. It will be combined with our existing RM Educational Software Inc and the new business makes an excellent platform for further growth in the US. Our American business will be headed by Kevin Pawsey, who has been with the Group for seven years and has led the development of our operations in the US since 2006.

scoris® – RM's on-screen marking software processed over 3 million exam scripts in FY-2008

Prospects
RM has always been a seasonal business, with the majority of revenues and an even larger proportion of profit coming in the second half of the year. This remains the case and it is too early to give any meaningful view of the outlook for FY-2009; however, the further increase in committed revenues to £410m (2007: £330m) provides us with much better visibility than we had five years ago.

BSF continues to be an excellent opportunity for the Group and continues to be a significant investment. We expect to bid for the majority of contracts available during FY-2009; bid costs in FY-2009 will be approximately £4.5m. We anticipate that the in-year profit contribution from BSF will exceed bid costs in FY-2010.

Across the rest of the Group, we continue to make good progress. Education Resources is now a substantial, profitable and rapidly growing business; Assessment and Data Services has achieved critical mass, with a number of long-term contracted clients, and is beginning to explore international opportunities; and we have made a major step in the US with the acquisition of Computrac.

Global economic conditions are clearly challenging. However, RM operates in a resilient market: education is a priority for the developed and developing world and, in our home market, which still represents the majority of revenue, we have seen no indications of a decrease in spending. We are a financially strong group of companies: committed revenues have increased further and we have a strong balance sheet and committed bank facilities in place. With our experience, deep educational knowledge, and good cultural fit, there are opportunities ahead for all of our businesses.

Pudsey Grangefield Maths and Computing College – one of the first BSF schools in Leeds

BUSINESS REVIEW: RESPONSIBLE BUSINESS

As a business, we take our corporate social responsibilities seriously. In our annual staff survey, 79% of our people said RM was a good place to work (which compares with 53% in comparable companies), and 89% said the Group was committed to reducing its environmental impact.

A great place to work

Our goal is to be a great place to work and, in FY-2008, the Corporate Research Foundation named us as one of Britain's Top Employers and as Britain's Top IT Employer. We aim to offer our people compelling professional challenges, opportunities for personal development and the chance to make a difference for our customers.

RM's annual staff survey measures the attitudes and satisfaction of people across the Group; overall employee satisfaction has increased each year since the survey started in 2003. The most recent survey, performed in July 2008, showed an overall employee satisfaction rating of 75.0% (2007: 74.6%). The staff survey is shared with all of our people and used to identify important areas of improvement.

Our open communications policy gives our people easy access to the information they need to understand the Group's activities and the part they play. An annual 'Company Brief', delivered to staff across the Group, sets out performance in the previous year and objectives for the future. Monthly 'Management Brief' sessions are used to provide managers with key business information, which is then disseminated across the organisation. RMi, a Group-wide intranet, provides business updates and information as they happen and also includes a 'CEO Blog', in which Terry Sweeney writes about key issues for the business.

Our people share in the Group's success through an element of performance-related pay and through the allocation of shares under the RM Staff Share Scheme. Performance-related pay is influenced by non-financial performance indicators, notably customer satisfaction, as well as financial measures. Share option schemes and a long-term incentive plan (the RM Co-Investment Plan) are an important factor in recruiting, retaining and motivating senior staff.

Understanding what's important to our education customers

RM endeavours to play a part in the broader educational community, as well as serving our direct customers. We maintain strong relationships with educationalists, education policy makers, relevant non-departmental public bodies and trade associations. This engagement takes the form of direct personal contact, formal surveys and detailed research. Two of the Group's Independent Non-Executive Directors – Sir Mike Tomlinson and Professor Tim Brighouse – are senior educationalists, with extensive experience in central and local government education departments and agencies.

RM is an active member of – and participant in – relevant trade associations. Three of RM's senior managers serve on the Executive Council of BESA (the British Education Suppliers Association) and an RM representative is currently Chairman of the Association. RM is also represented on the Board of Intellect (the trade association for the UK technology industry) and chairs Intellect's Education Working Group. The Group was a founding member of the 21st Century Learning Alliance, a group comprising policy makers and suppliers which aims to encourage the effective use of technology in learning.

We have an active programme of engagement with relevant government departments and agencies. The Board regularly invites senior education policy makers to join Board meetings to provide a perspective on developments in the education service. RM's people also regularly participate in government-run forums aimed at providing information for policy makers. During FY-2008, Tim Pearson, former CEO, represented RM on the DCSF 'Home Access Taskforce' – a high-level Group, chaired by a Government Minister, convened to consider how best to address 'digital divide' issues amongst disadvantaged school pupils. RM is also the only commercial supplier represented on the Harnessing Technology Expert Advisory Group, set up by Becta (the government agency tasked with improving the use of ICT in education).

RM will only be able to deliver educationally effective products and services if the Group's people genuinely understand the needs, challenges and aspirations in the educational community we supply. We aim to build education knowledge and understanding at all levels across the Group and, during FY-2008, one of our corporate objectives was to support our people in increasing and improving their knowledge of our customers' needs. Many staff have specific objectives to spend time in schools with teachers and pupils; and all staff are encouraged to serve as School Governors. We hold regular education lectures, where senior educationalists and leading experts address a wide cross-section of our people on important education issues.

Vision:

RM is about improving the life chances of people – worldwide – by delivering outstanding education products and services that help teachers to teach and learners to learn.

Values:

- Customer Success
- High Standards
- Innovation & Improvement
- Openness
- Respect for Others
- Enjoying Ourselves

Environment – Green RM
In FY-2008, after an environmental audit and a detailed staff survey, RM was named one of The Sunday Times Best Green Companies. This is largely a result of the Green RM programme, which we put in place three years ago and which gives a group of committed employees the responsibility and authority to improve our environmental performance.

During the year Green RM has hosted a number of events designed to encourage our people to take more personal responsibility for their actions. These included:

- Bike week – when more than 100 people cycled into our offices during this week, cycling a combined distance of 2,800 miles.
- Greener driving day – when people were offered the opportunity to test drive lower emission cars.

We continue to work to improve the environmental impact of our car fleet. Estimated average CO_2 emissions in FY-2008 were 147g/km (2007: 145g/km); average fuel consumption was 48.0mpg (2007: 46.2mpg). We currently operate a diesel- and hybrid- only car fleet, and now have nine hybrid vehicles. We regularly review our car fleet policy, with the aim of improving both environmental performance and cost-effectiveness.

The Group now offers a Cycle to Work scheme, which allows staff to purchase bicycles at preferential prices using a salary sacrifice approach. Over 50 employees have already signed up.

The Green RM Web site – www.rm.com/green – acts as a focal point for our environmental activities, providing details of our achievements and future commitments. It sets out our three areas of focus – 'Us', 'Supporting You' and 'Our Products' – providing customers with details of the environmental performance of the company and its products, as well as offering environmentally-relevant educational resources. We have also partnered the Woodland Trust to sponsor their Nature Detectives Web site – an educational resource for teachers and parents.

The Group has in place a process for recording and setting targets for electricity usage across all of the Group's larger facilities. Electricity usage in the Group's main facilities in Milton Park, Abingdon, which account for most of the Group's consumption, was 5,156,525kWh (2007: 4,918,797kWh). This increase is largely attributable to the new data centre we commissioned during the year, which consumed 181,386kWh. We have continued to source 'green' energy for these facilities.

Environment – Products
Wherever possible, we aim to reduce the environmental impact of our products.

As well as being fully compliant with all legislation, we have worked hard to reduce the power consumption of our personal computer products. During FY-2008, 61% of the personal computers we shipped were categorised as lower power (either our ecoquiet® range or RM Asus miniBooks). We met our objective of introducing a sub-50W (including monitor) ecoquiet computer early, and have been shipping this technology since summer 2008. The RM Mobile One was the first notebook computer to achieve the Energy Saving Recommended label.

We are also working to reduce the packaging our products arrive in. We have removed all unnecessary paper content from our notebook and desktop computers, and we've made mice, keyboards and mouse mats optional. We've also introduced a recycling service for the foam end-caps our hardware is shipped in, since they are difficult to recycle through usual channels.

Community
RM aims to engage with and support the communities in which we operate. All employees are encouraged to devote a small amount of work time each year to support one of RM's chosen charities and, in FY-2008, 120 of our people spent time working in the local community.

RM's charitable activities are co-ordinated by the RM Foundation Committee, a group of volunteer employees, which seeks to identify organisations that are local to the areas where our offices are based and where RM's support will make a real difference. All our people are invited to vote annually on a shortlist of local organisations to identify the charities the Group will support that year. Over the past year RM has supported over 21 local charities, schools, clubs and organisations.

TTS established a registered charity, the TTS Foundation, in February 2008. The TTS Foundation aims to support educational activities locally, in Poland and in the developing world. So far £10,000 has been allocated to these activities. TTS has also established the TTS Fair brand, for products sourced from suppliers in Africa and India. 5% of all spend with these suppliers is placed in a social fund for those suppliers to use to support their local schools.

RM Education Solutions India runs a Scholarship Scheme, designed to encourage university education amongst poor and deserving students in Kerala. In FY-2008 we received 34 applications and three students were selected for scholarships and will be funded through computer science and technology degree courses.

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BUSINESS REVIEW: RISK

RM is exposed to risk as an inherent part of creating value for shareholders. The Group has processes in place to identify the principal risks, and to manage and mitigate the effect of them.

In the interests of transparency, the statement of risks given here contains a high level of detail in order to give a thorough analysis of the principal risks the Group is exposed to and to describe the approach it takes to mitigate them.

Public policy
The majority of RM's business is ultimately funded from UK government sources. A change in political administration – or a change in the policy priorities of the current administration – might result in a reduction in education spending or reduced commitment to ICT within education spending. Global economic conditions might result in a reduction in budgets available for public spending generally and education spending specifically. The Government is seeking to improve efficiency in public purchasing and the delivery of public services – this might result in changes to the kinds of products education customers purchase or the procurement methods they adopt (for example, aggregated or centralised purchasing may become more common).

The Group seeks to understand the education policy environment through regular monitoring of the policy positions of the major political parties and through building relationships with education policy makers. The Group has also developed a broad and diverse product portfolio, which provides access to more of the education budget; and is seeking to exploit its products and intellectual property in territories other than the UK.

Market
RM operates in a highly competitive market. Increased market competition – from major multinational ICT suppliers or smaller education specialists – might reduce the margin potential of the market or erode RM's market share. Against a background of difficult global economic conditions, companies not currently active in the education market might move their focus into this area.

The commodity hardware market is subject to intense global competition. RM has to react to continual average selling price reductions and margin pressures, as well as to US Dollar rate fluctuations, which might result in part of the Group's operations becoming unprofitable.

Educational practices may change and, as a result, RM's products and services might no longer meet customer requirements.

The Group seeks to mitigate these general market risks by maintaining a broad and diverse product and service range, by seeking new markets in territories other than the UK, and by investing to enhance the educational value of its products and services.

Technology
The ICT market is subject to rapid, and often unpredictable, change. As a result of inappropriate technology choices, the Group's products and services might become unattractive to its chosen customer base.

The Group provides sophisticated products and services, which require a high level of technical expertise to develop and support, and on which its customers place a high level of reliance. A product failure, or a product which requires a disproportionate amount of support, might result in significant damage to the Group's reputation or high remedial costs.

The Group closely monitors technology developments, invests continually in keeping its products up to date, undertakes extensive testing for new products and services, and maintains strong relationships with key technology providers.

BSF
The BSF initiative might result in a fundamental shift in the way secondary schools procure products and services. The Group has invested significantly in preparing bids for BSF and continues to do so. If funding for this programme were to slow down or stop, then some of this investment might be wasted. The Group closely monitors the activities of education policy makers and regular reviews its BSF strategy in the light of policy changes.

A substantial proportion of BSF bids are likely to require RM to work as part of a wider consortium. This means that the Group might invest in preparing and bidding for the ICT element of a BSF contract, but not be successful despite having the best ICT solution. The Group has put in place stringent criteria for identifying consortium partners and, where possible, seeks to contribute to the effectiveness of the overall bid as well as to the ICT elements.

Some of the contract terms for BSF projects set high standards of performance and high limits of liability. The Group's success in winning these contracts means that cumulatively the potential financial liability is significant. This position is mitigated by the Group's substantial experience of delivering large and complex ICT projects in education environments, and by ensuring that reasonable acceptance tests are in place so that we have a high degree of confidence in delivery.

Execution risk
RM's business is more complex than that of most companies of a similar size – this adds to execution risk (though also offers some strategic advantage). Failing to achieve acceptable levels of customer satisfaction, which includes ensuring that its trading ethics are of the highest standards, might significantly damage the Group's reputation, reducing the likelihood of existing customers continuing to buy from the Group.

The Group has in place a customer satisfaction programme, which provides an externally reviewed customer satisfaction score, and management processes designed to address any causes of customer dissatisfaction.

Education projects
RM bids for high value, multi-year education projects, typically involving the development and integration of complex ICT systems. These projects always carry risk and ultimately one may not go according to plan – this might result in RM being committed to a project that does not achieve acceptable financial returns or that exposes the Group to contract termination or financial penalties.

The Group has a well-developed approach to bidding for large projects and no project is entered into without approval by the Board's Transactions Committee. Strong internal management control processes are in place to govern the delivery of education projects, including regular reviews by the Executive Committee and detailed progress reporting to the Board.

People
RM's business depends on highly skilled employees; the Group might not be able to recruit the employees required to achieve its development plans. The Group seeks to be an excellent employer and has been identified as one of the UK's Top Employers and as the UK's Top IT Employer.

Education resources – physical resources
RM is increasingly involved in the supply of physical education resources that will be to be used by children of all ages and abilities. In particular, the rapid growth in our Education Resources division, including recent acquisitions, has dramatically increased the number of physical products we are shipping.

The Group is reviewing and upgrading its processes for managing its physical resources supply chain.

Data
RM is engaged in storing and processing sensitive educational data (for example, exam papers and scripts, and school and pupil records), where accuracy, privacy and security are very important. The Group's IS function has invested in developing secure Data Centres, and has been successfully certified to ISO/IEC 27001:2005 for the provision of systems, information and hosting services to RM Education plc.

Acquisitions
RM has made and may make further acquisitions. These acquisitions reduce RM's exposure to any single product or market area; however, it is possible that one of them might not make its expected financial contribution to the Group.

The Group carries out a rigorous analysis of all potential acquisitions. Subsequent to acquisition, the business performance of new subsidiary companies is reviewed quarterly by the Executive Committee, and the Group's internal audit function carries out regular reviews to ensure that appropriate controls and management structures are in place.

Financial
RM has introduced procedures to ensure that it is not exposed to bad debt and that its cash reserves are with safe and secure banks. The Group has an exceptionally good record in relation to bad debts because of the good credit standing of most of its customers. Where the Group deals with customers who are not public bodies and those customers constitute significant business, appropriate credit checks are performed and limits are put in place.

In accordance with the recommendations of the Board, no more than one-third of the Group's cash may be held with any one bank.

The Group enters into US Dollar-denominated hedging contracts with approved banking organisations that mitigate transactional dollar exposure. Asset investments in foreign subsidiaries are regularly reviewed, with surplus cash being repatriated to the UK.

Business Recovery
The Group would be significantly impacted if, as a result of a natural disaster, act of God, act of terrorism or other similar event, its buildings, systems and infrastructure could not function for a long period. An RM Group Information Security Committee has been established to oversee the security aspects of the Group's information systems. This covers data integrity and protection, defence against external threats and disaster recovery. The Group has made significant investments in protecting itself against the consequences of a disaster and has piloted its plans for dealing with a disaster.

The Group has comprehensive property insurance covering all of its properties.

Pension
RM operates a defined benefits pension scheme that is closed to new entrants. The deficit calculation is very sensitive to the assumptions used in calculating the present value of future liabilities and returns. Additionally, the recent introduction of the Pension Protection Fund, where contributions vary from year to year, may result in unplanned costs. The Group actively manages the pension deficit, which has reduced significantly during FY-2008 (see Business Review: Finance for further details).

BUSINESS REVIEW: FINANCE

Shareholder return

Total dividend for the year increased by 6% to 5.81p (2007: 5.49p); the dividend payment comprises an interim dividend per share of 1.26p and a proposed final dividend per share of 4.55p, payable on 6 February 2009. The estimated total cost of dividends paid and proposed for FY-2008 is £5.4m; dividend yield for the year is 3.46%, based on the share price at the end of the year. Over the last five years, the total dividend payment has been 25.92p per share, with a total cash cost of £23.7m.

Over the last five years, the Group's TSR (total shareholder return) has outperformed the FTSE Software and Computer Services sector by 24 percentage points. Over the last three years RM's TSR is in the top 20 percent of the sector.

The Group's share price at close of business on 30 September 2008 was 168.0p (28 September 2007: 191.5p); market capitalisation at the same date was £156.4m.

Revenue and profits

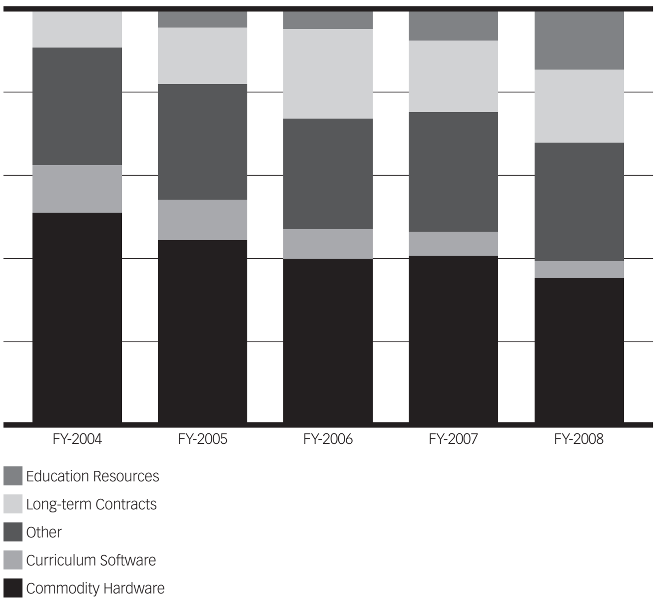
Group revenue increased by £18.6m to £289.5m (2007: £270.9m).

Acquisitions made in FY-2008, and the full-year effect of acquisitions made in FY-2007 contributing for a whole year, accounted for £10.0m of this increase, with organic growth accounting for the balance of £8.6m.

BSF contract revenue in the year was £9.0m (2007: £2.9m); BSF operating profit was £0.3m (2007: £nil).

Over the last five years, the sources of RM's revenue have changed markedly. Growth has come in the area of general Education Resources, which now represents 14% of revenue, and long-term contracts, which have grown from 9% to 18%. Commodity hardware (PCs, electronic whiteboards and 3rd party peripherals) has reduced from 51% of the total to 35%, whilst high-margin UK curriculum software has reduced from 12% of the total to 4%. In both cases the declines reflect market trends.

Revenue: %



International revenues, at £16.5m, now represent 6% of Group turnover, compared with less than 1% in FY-2004.

Adjusted profit before tax (the Group's preferred measure, which excludes amortisation of acquisition related intangible assets) was £16.4m (2007: £15.5m excluding an exceptional pension credit of £3.5m). Profit before tax was £15.4m (2007: £18.4m including the FY-2007 exceptional pension credit).

The Group is structured as three operating divisions: Learning Technologies, Education Resources and Assessment and Data Services. The Operations Review provides information about performance in each of these divisions. To help investors in their analysis of the business, the tables provided below summarise revenue and divisional profit for FY-2008 and FY-2007.

FY-2008	**Learning Technologies (inc. Education Management Systems) £m**	**Education Resources (inc. Curriculum Software) £m**	**Assessment and Data Services £m**	**Total £m**
Revenue	**213.1**	**57.0**	**19.4**	**289.5**
Divisional profit	**11.6**	**7.1**	**2.1**	**20.8**
BSF bid costs	**(4.7)**	**–**	**–**	**(4.7)**
Net interest income				**0.3**
Adjusted profit before tax				**16.4**

FY-2007	Learning Technologies (inc. Education Management Systems) £m	Education Resources (inc. Curriculum Software) £m	Assessment and Data Services £m	Total £m
Revenue	215.6	37.8	17.5	270.9
Divisional profit	10.5	6.6	1.2	18.3
BSF bid costs	(3.6)	–	–	(3.6)
Net interest income				0.8
Adjusted profit before tax				15.5

Operating costs

	FY-2008 £m	FY-2007 £m
Selling & distribution	**35.1**	34.0
Research & development	**13.2**	14.9
Administrative	**14.8**	11.1
Operating costs*	**63.1**	60.0

*Before amortisation of acquisition related intangible assets and FY-2007 exceptional pension credit.

Operating costs increased to £63.1m (2007: £60.0m). Acquisitions made in FY-2008 and the full-year impact of acquisitions made in FY-2007, which contributed an additional £3.2m to operating costs, explain all of the increase and, in particular, most of the increase in administrative costs.

Selling & distribution costs includes BSF bid costs of £4.7m (2007: £3.6m) and costs of £0.5m bidding for the Ultranet project in Australia in H1-2008. All bid costs, prior to appointment as preferred or selected bidder, are expensed in the year.

Research & development costs included in operating costs decreased year-on-year. However, research & development activities directly related to specific projects, which are included in cost of sales for those projects, increased. The Group did not capitalise any research & development expenditure in FY-2008 or prior years, as no material expenditure met the criteria for capitalisation.

Investment income

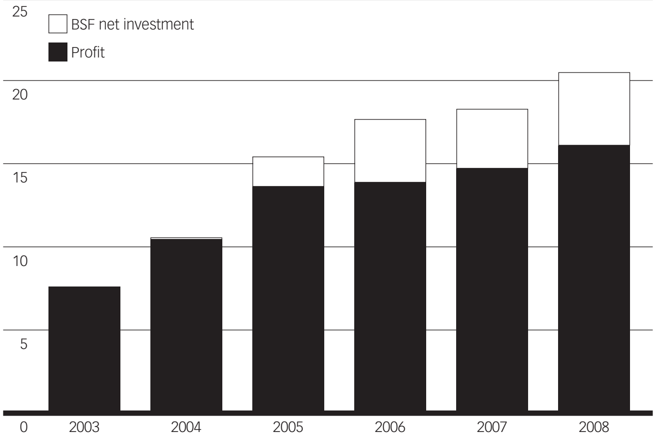
Investment income includes income arising from the sale of leases of £0.7m (2007: £0.7m).

	FY-2008 £m	FY-2007 £m
Bank interest income	**0.5**	0.9
Interest paid	**(0.2)**	(0.1)
Net interest income	**0.3**	0.8
Leasing income	**0.7**	0.7
Pension finance income	**0.6**	0.3
Other	**0.2**	0.2
Total	**1.8**	2.0

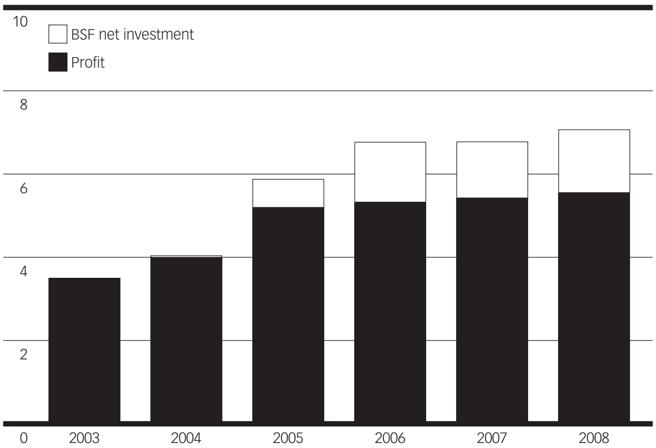
Profit margin

Adjusted divisional operating profit margin (adjusted divisional operating profit as a percentage of total revenue) was 5.6% (2007: 5.4%).

Adjusted operating profit: £m



Adjusted operating profit: %



As has been the case for four years, profit and profit margin have been reduced due to the costs of bidding for BSF projects. BSF is an exceptional investment programme for the Group: projects typically take one to two years to bid and reach financial close; following this, the pay-back period is a further three to four years. Adjusted operating profit before BSF net investment was £20.5m (2007: £18.3m); profit margin before net BSF investment increased to 7.1% (2007: 6.8%).

Balance sheet and cash
Cash generated by operations in the year was £15.4m and adjusted profit from operations was £14.6m, a cash conversion rate of 106%.

The acquisitions of SpaceKraft and EasyTrace for a total net cost of £7.4m resulted in an increase in goodwill and acquisition related intangible assets to £34.6m (2007: £27.9m). In addition the Group acquired a 25% stake in Inclusive Technology for a total net cost of £1.0m.

Net capital expenditure increased to £10.5m (2007: £6.8m), including £3.9m expenditure on computer equipment refresh for the Group's PFI projects, £2.1m investment in hosting including a new data centre and a four-yearly peak in replacement of the car fleet which is on RM's balance sheet.

At 30 September 2008, cash and cash equivalents stood at £18.3m (2007: £29.3m).

The seasonal nature of the Group's business, with high demand from schools in the summer months, results in a peak in working capital during the summer. Average cash balances before acquisition facility borrowing during the year were £7.0m (2007: £16.9m), with maximum borrowings in early September of £9.0m (2007: £1.8m).

Working capital
Excluding the effect of acquisitions, working capital increased by £8.6m, with almost all of the increase attributable to the impact of BSF on the Group's operations:

- Typical invoicing terms for BSF schools are 70% on issue of acceptance certificate, 25% two months later and 5% on completion of a group of schools; eight BSF schools were completed over the summer and these payment terms led to a year-on-year increase of £6.3m in trade receivables.
- Long-term contract balances increased to £8.0m (2007: £6.1m) as a result of BSF.

Bank facilities
The Group has put in place credit facilities to manage its cash requirements. These include a long-term borrowing facility with HSBC entered into in July 2008. This is a £25m, five-year, committed facility, which is intended to provide flexibility to finance acquisitions. In addition, the Group has a £25m facility with HSBC, to finance seasonal cash requirements.

Net funds
The reconciliation of cash to net funds less deferred consideration is shown below.

	30 Sep 2008 £m	30 Sep 2007 £m
Cash & cash equivalents	**18.3**	29.3
Long-term borrowings	**(1.0)**	-
Net cash	**17.3**	29.3
Issued loan notes	**(4.5)**	(0.2)
Net funds	**12.8**	29.1
Issuable loan notes	**–**	(1.7)
Deferred cash consideration	**(0.4)**	–
Net funds less deferred consideration	**12.4**	27.4

Tax
The Group's tax charge, measured as a percentage of adjusted profit, was 26.4% (2007: 26.8%). This rate is below the standard UK corporation tax rate, principally due to benefit the Group gains from enhanced tax deductions on qualifying research & development activities.

In total, RM paid and collected tax on behalf of HMRC amounting to £50.4m (2007: £47.8m). This includes corporation tax of £3.1m (2007: £3.5m), employment taxes of £25.9m (2007: £23.9m) and VAT of £21.4m (2007: £20.4m).

Treasury
The Board approves significant treasury transactions and reviews treasury policy on a regular basis. The treasury activities are controlled and monitored by the Group Finance Director and are carried out in accordance with the approved policies. Surplus cash, which is predominantly held in Sterling, is invested for appropriate periods with institutions that have a high credit rating and have been approved by the Board. The objectives of the Treasury function are largely:

- To provide protection from the effects of foreign currency volatility. The Group's major exposures arise from buying products and components in US Dollars or Euros. These exposures are effectively hedged through the use of forward foreign exchange contracts. The Group has operations in Australia, India and North America although, in relation to the size of the Group, these operations remain relatively small and therefore do not represent a significant foreign exchange risk.
- To provide the Group with cost effective and appropriate liquidity. The Group's cash funds vary throughout the year due to the seasonality of the business and its aim is to maximise returns from surplus cash through very low risk investments with defined institutions. Treasury also works with banks to ensure that cost effective committed borrowing facilities are available to meet any forecast funding requirements that arise from our seasonal trading pattern.

Pensions

At year-end the deficit in the Group's defined benefit pension scheme was £0.6m (30 September 2007: £3.3m). Management actions in the year included a special contribution of £1.5m (paid in October 2007) and the continuation of a funding payment which was £2.1m above the current service charge. Market related movements netted to a £0.9m increase in the deficit, as the reduction in the value of liabilities, due to an increase in discount rate, almost offset the reduction in asset values.

Defined benefit pension scheme valuations remain volatile. The table below provides an analysis of the sensitivity of the Group's pension scheme to changes in key assumptions.

Sensitivity analysis

Current assumption	Change in assumption	Increase/(decrease) in deficit
6.7%	0.1% increase in discount rate	(£1.5m)
3.6%	0.1% increase in inflation	£0.8m
PA92 Medium Cohort	1 year increase in life expectancy	£0.9m

Finance income from pensions in FY-2008 was £0.6m (2007: £0.3m), but is expected to be an expense of approximately £0.4m in FY-2009 as a consequence of the decline in asset values during FY-2008.

Acquisitions

On 1 October 2007, the Group acquired SpaceKraft Ltd for a net cost of up to £4.6m. SpaceKraft is one of the UK's leading suppliers of special educational needs and early years products and services.

On 4 April 2008, the Group acquired a 25% stake in Inclusive Technology Ltd for a net cost of £1m. Inclusive is the UK market leader in the supply of SEN software, computer access devices, simple communications aids and assistive technologies for learners with physical disabilities, sensory impairments or learning difficulties.

On 29 July 2008, the Group acquired Orchard Partners Ltd (which trades as EasyTrace) for a net cost of up to £2.8m. EasyTrace designs, develops and supplies smart card and biometric solutions for identity management in schools.

Subsequent to year-end, on 4 November 2008, the Group acquired Computrac LLC for a net cost of up to $8.0m (c.£5.0m). Computrac provides interactive whole-class teaching technology solutions to schools in the Southeast US.

BOARD OF DIRECTORS

John Leighfield CBE
Chairman (n)

John Leighfield (age 70) was appointed Chairman in 1994, having joined RM as a Non-Executive Director in 1993. Until April 1993 he was Executive Chairman of AT&T ISTEL. He is a Non-Executive Director of Getmapping plc. He is Chairman of the Council and Pro-Chancellor of Warwick University. He is past President of the British Computer Society, the Computer Software and Services Association and the Institute for the Management of Information Systems. He is a Past Master of the Worshipful Company of Information Technologists.

Mike Greig
Group Finance Director

Mike Greig (age 52), FCMA, MA, MSc joined RM and was appointed a Director in 1989. In addition to Finance, Mike also has responsibility for Information Systems and Legal matters. He is the Director with responsibility for Social, Environmental and Ethical matters and is a member of the RM Foundation Committee, which channels the Group's charitable activities. He is Chairman of RM Education Solutions India PVT. Ltd. Prior to joining RM he was Finance Director at Case Group plc. He was Non-Executive Director and Chair of the Audit Committee of CODA plc until March 2008. He attended the Harvard University Business School Program for Management Development. Mike is also a foster carer for children aged 0-7 years.

Terry Sweeney
Chief Executive Officer

Terry Sweeney (age 41) joined the Board in June 2008 and was appointed Chief Executive in October 2008. He joined RM in 1998 and was appointed as Hardware Solutions Director in 2002, and Managing Director – Education Resources and Software in 2006. He has been instrumental in RM's successful entry into the education resources market and has driven the Group's international expansion. Terry has a degree in Electrical and Electronic Engineering from City University, an MBA from Oxford Brookes University and attended the Harvard Business School Advanced Management Program in 2007. Terry is a Governor of Long Wittenham CE Primary School.

Rob Sirs
Chief Operating Officer

Rob Sirs (age 47) was appointed to the Board as a Director in March 2004, having been Group Director – Products & Services since 2002. He joined RM in 1990 and has performed a number of senior services, software development and general management roles, including Head of Procurement, PC Division Director and RM Schools Managing Director. He attended the Harvard University Business School Advanced Management Program. Prior to RM, Rob worked for Andersen Consulting and Mars. Rob is a Governor of John Cabot Academy.

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

Sir Bryan Carsberg (age 69) was appointed to the Board as a Non-Executive Director in September 2002. He was a Non-Executive Director of Nynex Cablecomms/Cable & Wireless Communications plc from 1996 to 2000. He is a Non-Executive Director of Novae Group plc, a Non-Executive Director of Inmarsat plc, an independent member of the Equality of Access Board of BT Group plc, a former Director General of OFTEL and a former Director General of Fair Trading. He is Chairman of Council and Senior Pro-Chancellor of Loughborough University. He served as Secretary General of the International Accounting Standards Committee from 1996 to 2001, is a chartered accountant and has been a Professor of Accounting at the University of Manchester and the London School of Economics.

Sir Mike Tomlinson
Independent Non-Executive Director (r)

Sir Mike Tomlinson (age 66) was appointed to the Board as a Non-Executive Director in February 2004. Mike is one of the UK's leading educationalists and formerly chaired the Department for Education and Skills Working Group on educational reform for 14 to 19-year olds. He was Her Majesty's Chief Inspector for Schools from December 2000 until April 2002, during which time he was responsible for the work of Ofsted. He was, from 2002 to 2007, Chair of The Learning Trust, a not-for-profit body responsible for running the education services for Hackney, and is a member of the Governing Body of the University of Hertfordshire.

Jo Connell DL
Independent Non-Executive Director (a) (r) (n)

Jo Connell (age 60) was appointed to the Board as a Non-Executive Director in December 2007. Until 2003, she was Managing Director of Xansa plc, the outsourcing and technology company, having served on the Board since 1991. She is a former Non-Executive Director of THUS plc and a former Non-Executive Director of @UK plc. Jo is Chair of Governors and Pro-Chancellor of the University of Hertfordshire, Chairman of the charity Help the Aged, and Master of the Worshipful Company of Information Technologists.

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

John Windeler (age 65) was appointed to the Board as a Non-Executive Director in October 2002. He was appointed Senior Independent Director in October 2007. He was Chairman of Alliance & Leicester plc and a Non-Executive Director of BMS Associates Ltd. Previously he was with Irving Trust for 20 years, becoming an Executive Vice President in 1983. He also held several senior positions within National Australia Bank between 1989 and 1994. During July 2006 he joined the Board of Millen Group as Chairman. He is a member of the Board of Governors of De Montfort University and has a BA in English and an MBA in Finance, both from Ohio State University.

Professor Tim Brighouse
Independent Non-Executive Director (n)

Tim Brighouse (age 68) was appointed to the Board as a Non-Executive Director in May 2004. Tim is one of the UK's leading educationalists and chairs the Group's Education Advisory Council. He is the former Chief Education Officer of Birmingham City Council, a member of the Governing Council of the National College for School Leadership and a visiting Professor at the University of London's Institute of Education. He also served on RM's Board between October 2002 and January 2003, but stood down on his appointment as London Schools Commissioner.

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

DIRECTORS' REPORT

The Directors present their Report and the Group's audited financial statements for the year ended 30 September 2008.

Principal activities
The principal activities of the Group are the supply of educational products and services to schools, colleges & universities, local government and central government departments and agencies.

Review of the business and future developments
The Directors are required, under the Companies Act 1985, to present a fair review of the business, its position at the year end, and any likely future developments. This review comprises: this Directors' Report; the Business Review on pages 14 to 25; the Audit Committee Report on pages 36 to 37; and the Remuneration Report on pages 38 to 49.

Dividends
The Directors propose the payment of a final dividend per share of 4.55p, bringing the total dividend for the year to 5.81p per share (2007: 5.49p). Subject to approval at the Annual General Meeting (AGM), the final dividend is payable on 6 February 2009 to shareholders on the register on 9 January 2009.

Directors
The following Directors served during the year and to the date of this Report:

- John Leighfield (Chairman)
- Tim Pearson (CEO until 30 September 2008)
- Terry Sweeney (Executive Director from 6 June 2008; appointed Chief Executive 1 October 2008)
- Rob Sirs (Executive Director)
- Mike Greig (Executive Director)
- John Windeler (Non-Executive Director)
- Tim Brighouse (Non-Executive Director)
- Sir Bryan Carsberg (Non-Executive Director)
- Sir Mike Tomlinson (Non-Executive Director)
- Jo Connell (Non-Executive Director from 20 December 2007)
- Sherry Coutu (Non-Executive Director until 28 October 2007).

Tim Pearson retired from the Board on 30 September 2008 and was succeeded as CEO by Terry Sweeney.

Biographies of the Directors, including details of committee membership are given on pages 26 to 27.

Details of Directors' remuneration and of their interests in the share capital of the Company (including interests in share options and share-based incentive programmes) are set out in the Remuneration Report on pages 38 to 49 of this Report.

The Group holds Directors' and Officers' liability insurance, with an indemnity limit of £10m, covering legal liabilities for wrongful acts committed by them. This insurance was in force throughout the year and remains in force at the date of this Report. The Group has indemnified the Directors against liability relating to proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity was in place throughout the year and remains in place at the date of this Report.

No Director of the Company was materially interested in a contract of significance (other than a service contract) involving the Company or any of its subsidiary undertakings during the year.

Re-election of Directors
The Company's Articles of Association require that one-third of all Directors retire, by rotation, each year. This year, Sir Mike Tomlinson, John Leighfield and Mike Greig will offer themselves for re-election at the Group's AGM.

As required by the Combined Code on Corporate Governance, the Group's Chairman confirms that Sir Mike Tomlinson continues to perform effectively and to demonstrate commitment to his role as a Non-Executive Director. The Senior Independent Director confirms that John Leighfield continues to perform effectively and to demonstrate commitment to his role as Chairman.

The Company's Articles of Association require that newly-appointed Directors offer themselves for election at the next AGM following their appointment. Terry Sweeney and Jo Connell were both appointed during the year and will offer themselves for election at the Group's AGM. As required by the Combined Code on Corporate Governance, the Group's Chairman confirms that Jo Connell has performed effectively and shown commitment to her role as a Non-Executive Director in the period since she was appointed; Jo Connell's experience, as set out in her biography on page 27 of this Report, is extremely valuable to the Company.

The Directors who are proposed for re-election or election have either a letter of appointment or a service contract, details of which can be found in the Remuneration Report. Biographical details for those Directors standing for re-election or election are provided on pages 26 to 27 of this Report.

Directors' statement on disclosure of information to auditors

The Directors having made enquiries to fellow Directors and the Company's auditors, state that:

- So far as they are aware, there is no relevant audit information of which the Company's auditors are unaware.
- They have taken all reasonable steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted with the provisions of S234ZA of the Companies Act 1985.

Research and Development

The Group undertakes an extensive research and development programme, with the objectives of making significant technical advances to enhance the performance of existing product areas, developing new products for markets, and enhancing access to potential new markets. This activity involves considerable innovation.

Expenditure of £13.2m was incurred in 2008 (2007: £14.9m). All research and development costs incurred in 2008 were written off because they did not meet the criteria for capitalisation. In addition, the Group performs research and development activities directly related to specific projects, which are included in cost of sales for these projects.

Employment policies

Objectives

RM's policy is that all staff should work towards agreed job-related objectives and personal development objectives. For all of the Company's people, an element of pay is linked to the achievement of these objectives.

The Executive Committee sets Group-wide Corporate Objectives at the start of each year. These objectives are designed to reinforce the Group's culture as well as drive financial performance. The Corporate Objectives are introduced and explained to all staff through an annual Company Brief programme. Individual employees' personal objectives are cascaded from the Corporate Objectives.

The Executive Committee reports progress against the Corporate Objectives at quarterly senior management meetings. These progress reports are onward briefed to all staff. At the annual Company Brief, the Chief Executive Officer reviews progress against objectives for the previous year and presents an objectives 'scorecard'.

For senior staff the Group has identified a set of preferred management competences, which are used in employee development and recruitment. The Executive Committee and a group of divisional directors and senior managers participate in a '360 degree' feedback process in order to understand the extent to which their work behaviour supports the Group's values.

Appraisal

RM's policy is that all employees should participate in an appraisal process; this involves both regular informal review meetings and a formal half-yearly review of performance to assess progress against personal objectives and to identify personal and professional development needs. In FY-2008, 100% of staff participated in a formal appraisal session. For senior staff, appraisal meetings address the development of the Group's preferred management competences as well as personal objectives. Senior staff are assessed on their management competences and rated relative to their peers. These ratings are used as an input into career development discussions.

Personal Development

Technical and personal skills training are provided for employees at all levels in RM Education plc. Directors and Managers receive training in RM's key management methods. Self-directed learning through teaching manuals and computer programs and formal training courses are used to provide technical training for support employees.

All new RM Education employees attend an induction programme designed to reinforce the Group's commitment to customer satisfaction and behaving in an environmentally responsible manner.

RM also offers a 'Learning for Life' scheme, which provides encouragement and funding to employees below management level who wish to follow personal learning goals outside of those related specifically to their job.

Communications

The Group has an open communications policy designed to involve employees and keep them informed about the performance of the business and about matters affecting them as employees.

Employees receive news about the Group and its operations through formal and informal briefing meetings, the 'CEO Blog', frequent email notices, internal notice boards and through RMi (the Group's corporate intranet).

All RM Education plc office-based employees, including Directors and managers, share open plan office accommodation, which provides good opportunities for informal communication about issues concerning the Group's operations and development.

RM has formally adopted a Communications Charter. This Charter, which was drafted following input from staff, is published on the Group's intranet and sets out in detail the kinds of communication staff can expect and are entitled to. The Communications Charter is a 'pre-existing agreement' that has been approved by the Company's employees under the Information and Communications regulations that came into force on 6 April 2005.

Equal opportunities
RM is an equal opportunities employer. Applications for employment are always fully considered irrespective of gender, ethnic origin, race, age, religion, sexual orientation or disability. In the event of employees becoming disabled, every effort is made to ensure that their employment continues and that appropriate training is arranged. It is RM's policy that the training, career development and promotion of disabled employees should, so far as is possible, be identical to that of other employees.

Other employment policies
RM has a wide range of other written policies, designed to ensure that it operates in a legal and ethical manner. These include policies related to health and safety, 'whistle blowing', business gifts, grievance, career planning, parental leave, sabbatical, systems and network security. All of RM Education plc's employment policies are published on RMi (RM's intranet).

Health and safety
The Board of RM fully recognises its responsibility for the health and safety of the Group's people and of others who may be affected by its activities.

RM has continued to improve health and safety performance across the business. The Group has continued its health and safety audits across its key sites in order to keep track of this progress. These have shown an improvement at its main Abingdon location from 65% last year to 81% this year. All key sites have now had an initial audit and are working towards a target of 75%.

Our accidents for this year were 73 (including two RIDDOR accidents).

Next year the Group plans to continue improvement work on Health and Safety. This includes follow-up audits at all locations, and a robust Corporate Health and Safety plan. The Group has also planned a formal external QSA Audit from RoSPA due in June 2009.

Creditors' payment policy
The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to their being met by the supplier.

Trade creditor days, which have not been adjusted for the seasonal nature of the business of the Group, for the year ended 30 September 2008 were 41 days (2007: 44 days) based on the ratio of trade creditors at the year end to the amounts invoiced by suppliers during the year.

Post balance sheet events
On 4 November 2008, the Group acquired Computrac LLC for a net cost of up to $8.0m (c.£5.0m). Computrac provides interactive whole-class teaching technology solutions to schools in the Southeast US.

Charitable donations
During the year the Group made various charitable donations totalling £83,000 (2007: £74,000). A further £15,000 was given to locally based community support projects (2007: £22,000). The Group made no political donations during this year or the previous year.

Significant agreements
The Company enters into long-term contracts to supply ICT products and services to its customers. Wherever possible, these contracts do not have change of control provisions; where they do, the change of control provisions are limited to giving the customer the right to terminate the contract without cost to the Company.

The Company has a five-year £25m credit facility with HSBC dated 29 July 2008. This facility has a change of control provision, and could be cancelled in the event of change of ownership of the Company.

Substantial shareholdings
On 21 November 2008 the Company had notifications that the following were interested in 3% or more of the Company's ordinary share capital:

	Number of shares	Percentage held
Schroders Investment Management	16,416,835	17.64
Ameriprise Financial, Inc.	7,839,350	8.42
Aviva plc	5,904,934	6.35
HBOS plc	4,700,874	5.05
Legal & General	4,294,217	4.61

Share capital
As at 30 September 2008, the Company's share capital comprised a single class of Ordinary Shares of 2p each. Details of the authorised and issued share capital of the Company, together with information about shares issued during the year, is set out in note 23 to the Financial Statements.

The rights and obligations attaching to each Ordinary Share are set out in the Company's Articles of Association, which are available from Companies House in the UK, or by writing to the Company Secretary. None of the Ordinary Shares carries any special rights with regard to control of the Company; none of the Ordinary Shares carries restricted voting rights.

The RM plc Employee Share Trust is a trust for the benefit of RM employees; it acquires and holds shares required for providing awards and grants under the RM Co-Investment Plan and the RM Deferred Bonus Plan. The RM 2002 UK Employee Benefit Trust is a trust for the benefit of RM employees; it acquires and holds shares awarded under the RM plc 2002 Staff Share Scheme. In both cases, voting rights for shares held on behalf of specific employees by these trusts are exercised by the individual employee. Voting rights for other shares held by the trusts are not exercised. Details of share-based payments are included in note 30 to the Financial Statements and in the Remuneration Report.

There are no restrictions on the transfer of Ordinary Shares in the Company, other than those imposed on all employees under the Company's share dealing code. The Company is not aware of any agreements between shareholders which might result in restrictions on the transfer of Ordinary Shares.

Acquisition of Company's own shares
At the end of the year, the Directors had authority to purchase through the market up to 9,265,982 of the Company's ordinary shares, being 10% of the issued share capital, at prices ranging between the nominal value and an amount equal to 5% above the average of the middle-market quotations of the Company's ordinary share for the five business days immediately preceding the day on which such share is contracted to be purchased.

This authority expires at the conclusion of the 2009 Annual General Meeting or on 21 April 2009, whichever is the earlier. The Directors will seek to renew this authority at the next AGM.

No shares were purchased under this authority during the year.

Use of financial instruments
Information about the Company's use of financial instruments is given in note 21 to the Financial Statements.

Articles of Association
The Company's Articles of Association are available from Companies House in the UK, or by writing to the Company Secretary. Amendments to the Articles of Association can only be made by means of a Special Resolution at a general meeting of the shareholders of the Company.

Annual General Meeting
The AGM of the Company will take place at 2pm on Monday 19 January 2009 at 140 Milton Park, Abingdon, Oxfordshire OX14 4RS.

In addition to the routine business of the meeting, there will be four special resolutions proposing that:

- In accordance with Section 80 of the Companies Act 1985, the Directors be granted authority to issue shares in the capital of the Company up to a nominal amount of £620,569 (33.33% of the issued share capital as at 21 November 2008).
- 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 £93,095 (5.0% of the nominal value of the issued share capital as at 21 November 2008). The Directors have no present intention of allotting further ordinary shares other than in connection with employee share schemes.
- The Directors be authorised to make market purchases of up to 10% of the Company's issued share capital.
- The Articles of Association of the Company are amended to allow for the authorisation of Director(s) situational conflicts by the Board of the Company.

In each of the first three resolutions, the authority sought will expire on the date of the next annual general meeting or on 19 April 2010, whichever is the earlier.

By order of the Board

A.J. Robson
Company Secretary
24 November 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group Financial Statements under International Financial Reporting Standards (IFRS) as adopted by the European Union and have also elected to prepare the parent Company Financial Statements in accordance with IFRS. The Financial Statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation is considered to be achieved by compliance with all applicable IFRS. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Directors' responsibilities in accordance with the FSA's Disclosure and Transparency Rules
The Directors confirm that, to the best of their knowledge:

- The Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Directors' Report, Business Review, Audit Committee Report and Remuneration Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

T. Sweeney	M.D. Greig
Chief Executive Officer	Group Finance Director
24 November 2008	24 November 2008

CORPORATE GOVERNANCE REPORT

Compliance

The Group has throughout the year complied with the Combined Code on Corporate Governance June 2006 as published by the Financial Reporting Council.

The Company has applied the Principles of Good Governance set out in Section 1 of the Code. Further explanation of how the principles have been applied is set out in the following text, in connection with Directors' remuneration, in the relevant section of the Remuneration Report and, in connection with internal controls and principal risks in the relevant section of the Audit Committee Report.

Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Board of Directors

The Directors who served on the Board during the year are set out in the Directors' Report on page 28; details of Directors' remuneration are given in the Remuneration Report. Biographical details for currently-serving Directors are provided on pages 26 to 27, showing the wide range of knowledge, skills and experience they provide to the Group.

Until 28 October 2007, the Senior Independent Director was Sherry Coutu. On her retirement, after serving three terms as a Non-Executive Director, she was succeeded as Senior Independent Director by John Windeler.

John Leighfield, the Group's Chairman, is not considered independent either by the Company or under the terms of the Code because he has served on the Board for more than nine years. He was independent at the time of his appointment. The other Non-Executive Directors who served during the year are all considered independent by the Company and under the terms of the Code.

Throughout the year the composition of the Board complied with the Code, with at least half of the Board, excluding the Chairman, consisting of Independent Non-Executive Directors.

The roles of Chairman and Chief Executive Officer are exercised by different individuals and the division of responsibilities between the Chairman and Chief Executive Officer has been formally defined.

The Board has formally adopted a schedule of matters that are brought to it for discussion and decision. This schedule includes overall Group strategy, acquisition policy, internal controls, major capital investment and risk management, and is intended to ensure that the Board maintains full and effective control over appropriate strategic, financial and compliance issues and oversees operational activities.

The Board delegates the operational management of the Group to the Executive Committee.

There is an established procedure for all Directors to take independent professional advice, at the expense of the Group, as necessary in the pursuit of their duties.

Board Committees

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

During the year, the Audit Committee was chaired by Sir Bryan Carsberg; it comprised at least two, and for most of the year three, Independent Non-Executive Directors (note: RM is a 'smaller company' under the terms of the Code). The Audit Committee meets at least three times a year. The Company's external auditors, the Chairman, Group Finance Director, Group Financial Controller and the Head of Internal Audit normally attend part of these meetings. The Audit Committee is responsible for reviewing the accounting policies, internal control assessment and the financial information contained in the annual and interim reports. It provides an opportunity for the Non-Executive Directors to make independent judgements and contributions thus furthering the effectiveness of RM's internal financial controls. Further details of the Audit Committee's activities are given in the Audit Committee Report. The terms of reference for the Audit Committee are published on www.rm.com

During the year the Remuneration Committee was chaired by Sir Mike Tomlinson and comprised four independent Non-Executive Directors. The Remuneration Committee meets at least twice a year. Executive Directors and senior managers may be invited to attend Committee meetings, but will not be present during any discussion of their own pay arrangements. The Remuneration Committee sets the remuneration of RM's Executive Directors and senior management. It also considers grants and performance conditions under RM's share-based payment schemes and reviews RM's employment strategy generally. Further details of the Remuneration Committee's activities are given in the Remuneration Report. The terms of reference for the Remuneration Committee are published on www.rm.com

During the year, the Nominations Committee was chaired by John Leighfield and comprised the Group Chairman and four Independent Non-Executive Directors. The Nominations Committee recommends to the Board candidates for appointment as Directors. It meets at least once a year, with more frequent meetings when the Group is actively selecting Directors. Further details of the Nominations Committee's activities are given in the Nominations Committee section of this Corporate Governance Report. The terms of reference for the Nomination Committee are published on www.rm.com

During the year, the Transactions Committee was chaired by John Leighfield and comprised the Group Chairman plus any one other Independent Non-Executive Director and any one Executive Director. The Transactions Committee meets at such times as the Chairman of the Committee requires. During 2008 it met 18 times. The Transactions Committee approves, enters into and executes all deeds and documents and does everything that is necessary to give effect to any 'substantial transaction' that has already been approved in principle by the Board. The terms of reference for the Transactions Committee are published on www.rm.com

Board meetings

There is a formal schedule of nine Board meetings a year. Board members also receive updates about Group activities by email, and communicate informally by telephone and email.

Directors receive a detailed information pack, one week before each Board meeting, which contains background papers on all the agenda items. Executive managers are regularly invited to Board meetings to present and discuss strategic topics with the Directors.

During the year, the Non-Executive Directors met without the Executive Directors present. The Non-Executive Directors, led by the Senior Independent Non-Executive Director, also met to appraise the Chairman's performance.

Directors' attendance

The number of Board and Committee meetings attended by the Directors during the year was as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Executive				
T.R. Pearson	8/9	–	–	–
M.D. Greig	9/9	–	–	–
R.A. Sirs	9/9	–	–	–
T. Sweeney	2/2	–	–	–
Non-Executive				
J.P. Leighfield	9/9	–	–	1/1
S.L. Coutu	1/1	–	–	–
B. Carsberg	9/9	3/3	4/4	1/1
J.R. Windeler	8/9	3/3	3/4	1/1
M.J. Tomlinson	9/9	–	4/4	–
T.R.P. Brighouse	9/9	–	–	1/1
J. Connell	6/6	2/2	3/3	–

Board effectiveness

The Board has put in place a formal process for annually reviewing its effectiveness and the effectiveness of its Committees. Reviews are led by the Chairman and use a process agreed by the Board as a whole. Each Board member provides an individual evaluation of performance against a series of criteria and general comments on the Board's performance. In 2008, a small number of suggestions for improvement were identified and these will be implemented forthwith.

An assessment of the effectiveness of individual members of the Board was also carried out.

Executive Committee

During the year, the Executive Committee comprised Tim Pearson (Chairman to 6 June 2008), Terry Sweeney (Chairman from 6 June 2008), Mike Greig and Rob Sirs. The Committee met weekly, with the Group's Human Resources Director invited to attend. The Executive Committee is responsible for implementing the strategy set out by the Group Board, preparing strategic proposals to be considered by the Board, and providing day-to-day operational management and control for the business.

Nominations Committee
The Nominations Committee met once during the year, with their main activities being the completion of arrangements to appoint Jo Connell as a Non-Executive Director and the appointment of Tim Pearson's successor as Chief Executive.

The Committee appointed independent search consultants to identify appropriate candidates for the role of Chief Executive. A wide range of candidates was identified and the final shortlist included both internal and external candidates. The candidates were interviewed by a selection panel, comprising John Leighfield, John Windeler and Tim Pearson; Tim was included because of his in-depth understanding of the Group and its strategy. The panel recommended the appointment of Terry Sweeney, which was unanimously agreed by the Nominations Committee and the Board.

Relations with shareholders
RM maintains regular contact with institutional shareholders, fund managers and investment analysts through an active investor relations programme. The Company was nominated in the Grand Prix for Best Smaller Company Investor Relations category in the 2006 and 2008 IR Magazine Awards.

As part of this programme the Group's Chief Executive Officer and Group Finance Director provide detailed briefings for investment analysts and institutional shareholders at the time of the Group's interim and preliminary results announcements; hold regular meetings with analysts, institutional shareholders and fund managers during the year; and typically host two analyst seminars and two investor seminars during the year. The Group Chairman attends at least one group meeting with investment analysts during the year. The Senior Independent Director meets with major shareholders as required. The Chair of the Remuneration Committee consults with major shareholders annually about any significant proposed changes to remuneration policy.

Private investors are encouraged to participate in the Annual General Meeting. In order to improve communications with investors in general and private investors in particular, the Group maintains a detailed investor relations Web site at www.rm.com/investors

The Board is provided with detailed, independently produced reports providing non-attributable feedback from analysts, institutional shareholders and fund managers following results announcements and analyst/investor seminars. Discussion of these reports is included as a formal agenda item at Board meetings. The Board is also provided with regular updates about investor relations activities and receives analysts' notes about RM as they are published.

All Directors are available at the Group's AGM to address any shareholder questions.

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

AUDIT COMMITTEE REPORT

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

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

Composition and qualifications of the Audit Committee

During the year, the Audit Committee comprised Sir Bryan Carsberg MSc(Econ), FCA (Chair), John Windeler BA, MBA, Sherry Coutu BA, MSc(Econ), MBA (until 28 October 2007) and Jo Connell (from 20 December 2007), all of whom are Independent Non-Executive Directors. The Group considers that Sir Bryan Carsberg, as a previous Secretary General of the International Accounting Standards Committee and a former Professor of Accounting, has significant recent technical accounting experience.

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

Schedule of meetings

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

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

Appointment of external auditors

The Audit Committee recommended, and shareholders approved at the Group's AGM on 21 January 2008, the re-appointment of Deloitte & Touche LLP as the Group's external auditors. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Deloitte & Touche LLP be reappointed as auditors of the Company will be proposed at the next AGM.

Oversight of external audit

The Audit Committee has reviewed the scope and results of the audit services, and the cost effectiveness and independence & objectivity of the external auditors.

Internal audit

The Audit Committee has approved the appointment of RM's Group Reporting Manager Edward Warwick MEng, ACA as Head of Internal Audit. The Audit Committee, with the advice and support of the Head of Internal Audit, sets an internal audit plan. The Head of Internal Audit reports on progress against this plan at Audit Committee meetings.

The Group has engaged KPMG LLP to advise it on internal audit matters and to perform review work on certain subsidiaries' accounting and financial controls.

Policy on non-audit work

The Audit Committee has considered the issue of the provision of non-audit work by the external auditors and, in March 2003, agreed a policy intended to ensure that the objectivity of the external auditors is not compromised. The policy states that non-audit work should only be undertaken by the external auditors where there is a clear commercial benefit doing so; any significant activity must be approved, in advance, by at least two Audit Committee Members.

In practice, this policy has resulted in a steady reduction in non-audit work undertaken by the Group's external auditors. In FY-2008, the Group's external auditors also reviewed the Group's interim results and provided an opinion on compliance with banking covenants. No other non-audit work was undertaken.

Internal control

The Combined Code requires the Directors to review, at least annually, the effectiveness of the Group's system of internal control, and to report to shareholders that they have done so. The Audit Committee provides the information required by the Board to do this. The Board attaches considerable importance to the Group's systems of internal control and risk management and confirms that, throughout the period covered by these accounts and up to the date of their approval, it has regularly reviewed these areas in accordance with the Turnbull guidance.

The Board and the Audit Committee review annually the process of risk management and internal control within the Group. The Board carries out an analysis to identify the major risks that affect the Group and the impact of those risks, and considers how those risks are managed. The Group has appointed a Group Risk Manager, who leads this work and has continued to develop the Group's approach towards risk management, which includes taking action to avoid or mitigate the impact of each risk.

The Board recognises that exposure to risk is an inherent part of creating value. The Group's internal controls are designed to meet the particular requirements of the Group and address the risks to which it is exposed. In this context, the controls can provide reasonable but not absolute assurance against material misstatement or loss. The internal controls are designed to manage rather than eliminate risk.

The processes to identify, assess and manage the risks to the Group's continued success are an integral part of the system of internal control. These processes include systems to assess operational risks, linkage with the business planning process, monthly forecasting, appointment of senior managers and controls over capital expenditure. The process of enhancing and improving these processes ensures that business risks and opportunities are effectively managed. Principal risks are identified in the statement of risks section within this report.

Principal risks are formally assessed by the Board during the annual planning process and steps are taken following this process to ensure that these risks are monitored and managed. The Board delegates responsibility for operational risks to the CEO and the Executive Committee, who review the effectiveness of internal controls over such risks on a regular basis.

The key features of the internal control system that operated throughout the period covered by the accounts are described below.

Control environment – The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority to executive management. Individuals are formally made aware of their level of authority and their budgetary responsibility which enables them to identify and monitor financial performance. There are established policies and procedures, which are subject to regular review. The Boards of the operating companies work within strict terms of reference and any matters outside those terms or the agreed business plan are referred to the full Board for approval. The Group's selection and recruitment procedures are set to exacting criteria and the performance management process is supportive of these same criteria.

Identification and evaluation of business risks and control objectives – The Board has the primary responsibility for identifying the principal business risks facing the Group and developing appropriate policies to manage those risks. The Executive Committee meets weekly with an agenda of specific operational measures for review.

Information systems – Executive managers are required to produce a business plan for approval at the beginning of each financial year and detailed financial forecasts are formally compiled quarterly and reviewed by the Board. Consolidated management accounts are produced each month and results measured against plan and previous year to identify any significant variations.

Main control procedures – The financial systems and procedures established lead the Board to a high level of confidence in the completeness and accuracy of financial transactions. The well established processes in place and the level of analytical detail given within the management accounts facilitate the identification of unreliable data. The Group's treasury function operates within a defined policy designed to control the Group's cash and to minimise its exposure to foreign exchange risk.

Monitoring – The Audit Committee meets periodically to review reports from management and the external auditors so as to derive reasonable assurance on behalf of the Board that financial control procedures are in place and operate effectively. An internal audit function reports directly to the Audit Committee and has annual plans agreed by the Audit Committee.

'Whistle blowing' policy

The Group has adopted a formal 'whistle blowing' policy, which allows staff to raise concerns about possible improprieties. No concerns were raised during the year.

Statement of risks

As with any business, RM is exposed to risks to the continued success of the business. As described above, the Group has put in place processes designed to identify these principal risks and to manage and mitigate the effect of them. The Audit Committee is responsible for ensuring that risks are properly considered and the Board is responsible for deciding what risks should be taken and how best to manage and mitigate against the risks.

A review of the most significant risks the Group is exposed to is given in the Business Review on pages 20 to 21 of this Report.

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

Sir Bryan Carsberg
Chairman, Audit Committee
24 November 2008

REMUNERATION REPORT

This report sets out the Group's remuneration policy and principles under which RM's Directors are remunerated. It provides details of remuneration and share interests of all Executive and Non-Executive Directors for the year ended 30 September 2008.

2008 Highlights

- There was an increase in customer satisfaction for the fifth year in succession.
- Improvement in market share measures.
- TSR performance at upper quartile of peer group.

In terms of remuneration:

- Executive Directors (excluding T. Sweeney) achieved bonus awards which totalled £443,000 (62% of the maximum achievable).
- The Co-Investment Plan (CIP) awarded a 1.50 for 1 match for the shares held by the Executives for the criteria set in 2005.

Remuneration review

The Remuneration Committee reviews the Group's remuneration policy and practices annually to ensure continued alignment between the Executive Directors' and shareholders' interests. Advisers from PricewaterhouseCoopers LLP ('PwC') are appointed by the Remuneration Committee to advise on executive remuneration. The Remuneration Committee has not made any changes to the remuneration policies in place since 2004 and the Committee considers the changes made four years ago to be operating effectively. The Remuneration Committee believes that the policies and measures in place remain appropriate and are in line with the Company's circumstances, business outlook and strategy.

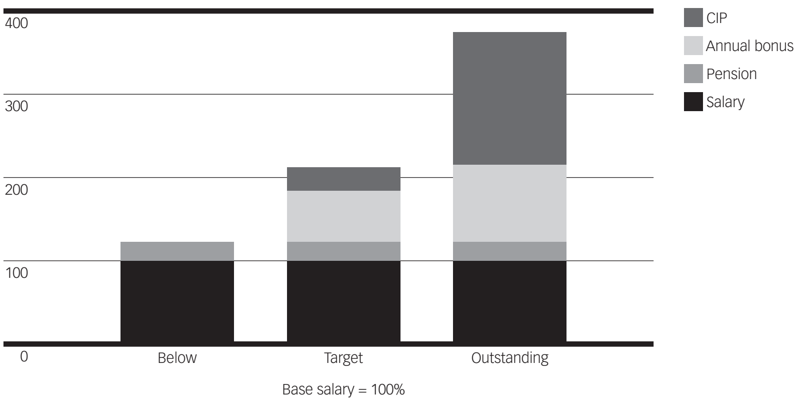
Full details are given in this report.

1 Remuneration policy

RM's remuneration policy is designed to attract, retain and motivate senior executives both to achieve the Group's business objectives and to deliver outstanding shareholder returns. The Committee believes that Executive Directors' total remuneration should be strongly linked to delivering shareholder returns. To do this, RM's remuneration policy aims to provide 'median' reward compared to RM's competitors when acceptable levels of performance have been delivered. For the achievement of outstanding performance, it aims to deliver 'upper quartile' remuneration compared to competitors when outstanding performance has been achieved. The maximum incentive awards are only made when improved business performance, customer satisfaction and superior shareholder returns have been realised. Executive Directors are required to hold shares worth 100% of their base salary and to make a personal commitment in shares from their own resources before participating in the long-term incentive plan.

The graph below shows the way RM structure the total remuneration for the Executive Directors:

Structure of total remuneration for Executive Directors: %



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

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

The Committee supports any Executive Director who wishes to serve as a Non-Executive Director on the board of one other company. The Committee believes that this can offer the executive valuable additional experience, which then benefits RM.

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

- Through the RM plc 2002 Staff Share Scheme all UK employees, who have been in service for at least seven months at the date of the annual award, receive free shares.
- 100% of employees can earn bonuses linked to EPS and/or customer satisfaction, and personal objectives.
- Selected senior executives are invited to participate in the CIP, though at lower levels of commitment than the Executive Directors.

Remuneration policy composition: purpose and measures

Executive Directors' remuneration comprises base salary, annual bonus and a long-term incentive plan linked to the Company's performance over a three-year period. In line with industry practice, Executive Directors are provided with a range of benefits including pension, private medical insurance, life assurance, permanent health insurance and a company car (or equivalent cash allowance). The role, purpose, and performance measures for each of these elements of the package for 2009 are summarised in the table below.

Element	Purpose	Performance targets
Base salary	To attract and retain	Role and contribution
Pension and benefits	Competitive fixed benefits to provide security and protection, and to retain	Role
Annual bonus • 100% of salary maximum (of which 40% paid in shares and deferred for three years)	Provide upside potential to motivate and to reward achievement of short-term business plan Deferral supports retention and shareholder alignment	50% on PBT 20% on customer satisfaction 20% on market indicators 10% personal objectives
Long-term incentives • Maximum investment of 33% of base salary per year • Maximum 3 for 1 match	Provide further upside potential related to long-term goals, and to encourage leadership and strategic actions. Supports retention and strong alignment with shareholders	Relative Total Shareholder Return (TSR) EPS Share price movement
Shareholding requirement • 100% of salary	Ensure alignment between the interests of Executive Directors and shareholders	

A high proportion of Executive Directors' potential total remuneration is, as shown, performance related and a significant proportion provided in the form of shares. Executive Directors have the opportunity to earn high levels of reward, but only if they enhance shareholder returns by meeting the Company's short-term and long-term targets. The Remuneration Committee reserves the flexibility to adjust the performance conditions from time to time, should this be necessary, in the light of market or Company developments.

a) Base salaries

The policy of the Remuneration Committee is that base salary is only one element of the entire package and should be considered within this context. The leverage and alignment of the package comes entirely from the generous bonus and long-term incentives. The Remuneration Committee aims to set base salaries at median in the market to achieve the desired leverage. If the targets are exceeded then the executive has the opportunity to more than treble the value of their remuneration package, but this is delivered by the variable element in the package, not the salary.

The Committee benchmarks remuneration packages with a group of appropriate peers in terms of size, complexity and business field. As a result of the benchmarking exercise, Executive Directors' base salaries have been increased this year.

The Remuneration Committee has recently undertaken a detailed benchmarking review of RM's remuneration levels against a sector focused peer group of 16 UK software and IT companies which are comparable in terms of size and complexity. The comparator group is comprised of companies of a broadly similar size to RM in terms of market capitalisation to which RM might lose talent or recruit from. Following this review, the Committee identified that the salary for the Chief Operating Officer was no longer at the market median. Recognising the need for RM to remain competitive in a market where talent for similar roles is scarce, the Remuneration Committee has agreed to increase the salary of the Chief Operating Officer salary by 19.0% to bring it closer to the market median. The salary of the Finance Director has been increased by 2.6%.

Terry Sweeney was appointed to the Board as CEO Designate on 6 June 2008, at which point he assumed significant operational control of the business. The Remuneration Committee considered external market data provided by its advisors and decided that his salary should be £250,000 for the period 9 June to 30 September, and then increase to £305,000 from 1 October to coincide with his appointment as CEO. This salary is below market median to reflect Terry's recent appointment to the role. The Committee's short-term aim is to advance him to a median salary level in line with the RM policy.

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

b) Annual bonus

The annual bonus potential is 100% of base salary with 40% of any bonus paid deferred into shares for three years calculated by using the RM share price on the date of the bonus payment.

The bonus payment made to the executives depends on the performance conditions, set by the Remuneration Committee at the beginning of the year, being met. The performance targets reflect the factors that the Committee believe to be critical to RM's business success and the Committee is satisfied that the targets set are stretching and aligned to shareholders interests.

The performance measures are set out below. The attainment of the targets is independently audited prior to any rewards being made.

Bonus for 2009

The Remuneration Committee believes that the critical targets for 2009 are increases in profit before taxation (PBT), customer satisfaction, and market share indicators and attainment of personal objectives relating to RM's overall success.

The weighting of the different bonus measures is as follows:

	%
PBT	50
Customer satisfaction	20
Market share and strategic development	20
Personal objectives	10

For each parameter there is a range between 'unacceptable', 'target', and 'outstanding'. These rewards are set so that the remuneration package, as a whole, will be better than most competitors' packages if sufficient benefits have been delivered to shareholders. This ensures that Executive Directors have the opportunity to earn high rewards, relative to competitors, but only for superior performance.

If there is an unacceptable level of PBT, no bonus, other than personal, is awarded even if performance in the customer satisfaction, market share and acquisition areas has been achieved.

Given the nature of the education market, improving customer satisfaction is critical to long-term shareholder returns. Therefore, achieving customer satisfaction targets could result in an annual bonus payment of up to 20% of base salary. If customer satisfaction does not increase, then none of the 20% bonus is paid. The Company measures customer satisfaction on an ongoing basis and sets targets based on the best data available on what outstanding companies achieve in terms of improvement.

The Committee believes that it is in shareholders' interests that bonuses are tied to an increase in market share and consider a variety of measures to inform its judgement on whether or not it is clear that targets have been met. Achieving market share targets could result in an annual bonus payment of 20% of base salary. Personal objectives are set by the CEO with Remuneration Committee approval and related to business critical issues in the executives' specific area. The CEO's personal objectives are set by the Chairman of the Board and approved by the Remuneration Committee.

Bonus for 2008

In 2008 the maximum bonus Executive Directors could earn was 100% of salary. Based on the performance for the year just passed, Tim Pearson, Mike Greig and Rob Sirs each received on average an annual bonus of 62% of their salary (of which 40% was deferred into shares – excluding Tim Pearson). Terry Sweeney received 44% of his salary with nothing deferred into shares. This was based on EPS growth of 6.5% which triggered the customer satisfaction and market share targets to be taken into consideration.

c) Long-term incentives

In order to focus Executive Directors on longer-term performance delivery and value creation, the Remuneration Committee operates a Co-Investment Plan (CIP). For 2009 it is intended that this will be the sole long-term incentive plan for Executive Directors (in years prior to 2005 share options were also granted).

The CIP operates on a three-year cycle. A new cycle is started each year and Executive Directors are invited to commit shares worth up to 33% of their base salary. At the end of the three-year period, up to three matching shares may be awarded for each committed share, subject to the achievement of performance conditions. Therefore the maximum award of matching shares that can be made under any plan cycle is 99% of salary. Committed shares have to be retained throughout the plan cycle to qualify for matching shares.

The Remuneration Committee operates this plan on an annual basis. Each year it will consider the appropriateness of the plan and set performance conditions relevant to the circumstances that the Group faces at the time. It will take into account competitive market practice, consensus expectations for TSR growth, and Group business plans. Such performance conditions will always be established at levels that are demanding in the circumstances and that are aligned with shareholder interests.

As in previous years, there are two performance conditions for the plan cycle starting in 2009. These are based on diluted EPS growth and relative Total Shareholder Return (TSR), both of which will be measured over three years. TSR will be measured relative to the FTSE Software and Computer Services index. EPS will be measured prior to exceptional items and will only come into operation if the share price at vesting is at least equal to 100% of the share price at the date of award. Matching shares will be subject to each condition, as shown in the table below. There is no re-testing of the performance conditions under the plan. Matching awards vary on a sliding scale between the levels shown.

EPS growth		TSR relative to FTSE Software and Computer Services index	
Annual compound growth	**Match**	**Relative ranking**	**Match**
Less than RPI + 3.0%	Nil	Below median	Nil
RPI + 3.0%	0.5 for 1	Median	0.5 for 1
RPI + 8.5%	1.5 for 1	Upper quartile or above	1.5 for 1

The EPS measure is based on audited figures, and the TSR measurement is independently verified by PricewaterhouseCoopers LLP. The Remuneration Committee has the discretion to adjust the base or final year EPS figures to ensure a fair and consistent comparison in light of the introduction of International Financial Reporting Standards. The Committee also reserves the right to exercise discretion to override the share price underpin in circumstances where it determined that the share price performance had been good and the reason that the underpin had not been met was due to circumstances beyond management control.

If a change of control of the Company were to happen, awards will vest in line with the extent to which performance conditions have been met at the point of change of control, and pro-rata in line with the proportion of the performance period that has elapsed.

Long-term incentives for 2008
The 2005 Co-Investment Plan (CIP) award matched shares at 1.50 for 1 given the TSR results over the preceding three years and Nil for 1 for EPS growth over the same period.

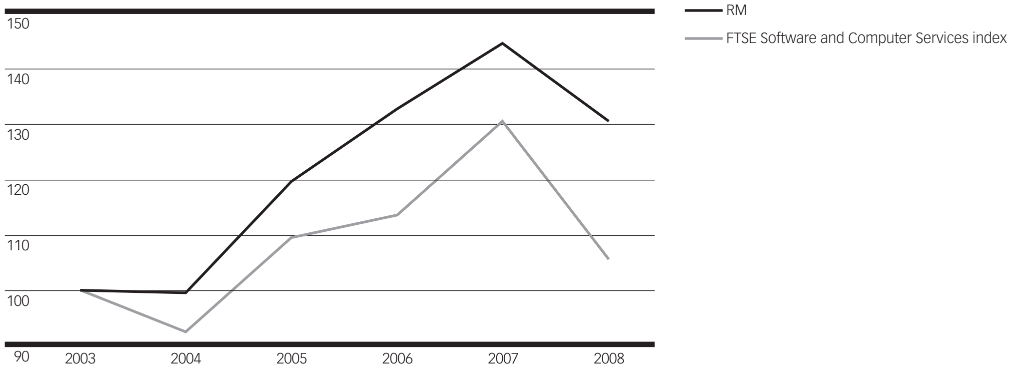
d) Share option scheme
Following a review of Executive Directors' remuneration during 2004, the Remuneration Committee decided that share options would not be granted to Executive Directors (this is kept under review by the Remuneration Committee in light of evolving market practice). The Remuneration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

e) One-off restricted stock award
The Chief Operating Officer is key to delivering a successful outcome to RM's investment in BSF and his retention is seen as critical to the Group's continued growth. As a result of this, the Remuneration Committee has agreed to make a one-off restricted stock award worth 100% of salary to the Chief Operating Officer. This is made following consultation with major shareholders and the Association of British Insurers. The award will vest, subject to continued employment with the Company and subject to the Committee's satisfaction as to the Group's underlying financial performance. It will not be subject to any other performance conditions. The Committee considers that the circumstances surrounding this award are wholly exceptional and that any other awards of restricted stock in future would also only be made in exceptional circumstances.

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

2 Performance graphs
The Group's TSR is compared in the graph below against the TSR of the FTSE Software and Computer Services index. This index has been chosen as the best benchmark of RM's performance as this is the sector within which RM operates. RM is a constituent of this index. £100 invested in RM shares on 1 October 2003 would have been worth £130.27 at 1 October 2008. An investor who had invested the same amount in the FTSE Software and Computer Services index would have seen their investment increase to £106.34 over the same period.

Total shareholder return – cumulative: £



The graph above shows the value over five years of £100 invested in RM shares on 1 October 2003, assuming that all dividend income is reinvested, compared to the FTSE Software and Computer Services index.

3 Directors' service contracts and letters of appointment

The Committee's policy on Executive Directors' service contracts is for them to contain a maximum notice period of one year. All Executive Directors' service contracts can be terminated on one year's notice. Each service contract expires at the respective normal retirement date of the Director, but is subject to earlier termination for cause or if notice is given under the contract. The contracts are designed to allow for flexibility to deal with each case on its own particular merits in accordance with the law and policy as they have developed at the relevant time. In the event that the Company wishes to terminate the employment of a Director, it will take into account the Director's obligation to mitigate their own losses when deciding on an appropriate level of compensation.

a) Terry Sweeney

Terry Sweeney has a service contract, dated 11 August 2008, which provides for 12 months' notice on the part of the Company and six months by the Director. The contract ends automatically when he reaches his retirement age of 60. Under the terms of his contract, the Company may, at its sole and absolute discretion, pay salary in lieu of any required period of notice.

b) Mike Greig

Mike Greig has a service contract, dated 13 February 2002, which provides for 12 months' notice on the part of the Company and six months by the Director. The contract ends automatically when he reaches his retirement age of 65. Under the terms of his contract, the Company may, at its sole and absolute discretion, pay salary in lieu of any required period of notice.

c) Rob Sirs

Rob Sirs has a service contract, dated 13 February 2002, which provides for 12 months' notice on the part of the Company and six months by the Director. The contract ends automatically when he reaches his retirement age of 65. Under the terms of his contract, the Company may, at its sole and absolute discretion, pay salary in lieu of any required period of notice.

e) Chairman and Non-Executive Directors

The Chairman and the Non-Executive Directors do not have service contracts with the Company. Their appointments are governed by letters of appointment, which are for a specified term – copies of which will be available for inspection at the AGM. Each Non-Executive Director's date of appointment as a Non-Executive Director of the Company and most recent date of reappointment are shown below. Following a review of market practice in 2007, annual fees for the basic fiduciary duties of a Non-Executive Director were increased to £25,000 per annum. Additional fees were also introduced to recognise responsibility and time commitment associated with chairing or membership of Board Committees and the role of the Senior Independent Director. These changes mean that the total average annual payment for a Non-Executive Director is just below £37,000, which is broadly in line with the comparator group that is used for benchmarking the salaries of Executive Directors. Non-Executive Directors are also entitled to reimbursement of reasonable business expenses.

	Date of appointment as a Non-Executive Director	Date of last reappointment	Specified term
J.P. Leighfield	3 November 1993	1 May 2007	3 years
B. Carsberg	1 September 2002	1 September 2007	3 years
J.R. Windeler	1 October 2002	1 October 2008	3 years
M.J. Tomlinson	2 February 2004	28 January 2007	3 years
T.R.P. Brighouse	20 May 2004	1 February 2007	3 years
J. Connell	20 December 2007	–	3 years

Audited Information

4 Directors' remuneration

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

	2008 £000	2007 £000
Emoluments	**1,619**	1,418
Gains on exercise of share options	**154**	75
Amounts receivable under long-term incentive schemes	**250**	324
	2,023	1,817

Directors' emoluments in respect of the Directors of the Company who served during the year ended 30 September 2008 were as follows:

Name	Salaries and fees £000	Taxable benefits £000	Annual bonuses*** £000	2008 Total £000	2007 Total £000
Executive					
T. Sweeney (from 6 June 2008)*	**73**	**3**	**84**	**160**	–
T.R. Pearson (until 30 September 2008)	**325**	**12**	**190**	**527**	481
M.D. Greig***	**182**	**12**	**122**	**316**	309
R.A. Sirs	**196**	**11**	**131**	**338**	344
Non-Executive					
J.P. Leighfield	**78**	**23**	**–**	**101**	99
J. Connell (from 20 December 2007)	**25**	**–**	**–**	**25**	–
S.L. Coutu (until 28 October 2007)	**7**	**–**	**–**	**7**	44
B. Carsberg	**40**	**–**	**–**	**40**	40
J.R. Windeler	**34**	**–**	**–**	**34**	34
T.R.P. Brighouse	**33**	**–**	**–**	**33**	33
M.J. Tomlinson	**38**	**–**	**–**	**38**	34
	1,031	**61**	**527**	**1,619**	1,418

*T. Sweeney's salary is from his appointment as main Board Director on 6 June 2008.

**In addition M.D. Greig received and retained fees of £14,250 (2007: £25,875) in respect of his position as a Non-Executive Director at CODA plc until 31 March 2008.

***For M.D. Greig and R.A. Sirs 60% is paid in cash and 40% deferred into shares payable after three years.

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

The highest paid Director received gains on exercise of share options of £Nil (2007: £31,000) and amounts receivable under long-term incentive schemes of £58,000 (2007: £101,000).

The decision of Tim Pearson to resign as CEO and take early retirement was noted with regret by the Committee. The Committee consider Tim to be a "good leaver". As a result, the bonus awards deferred from previous years vested on retirement. In addition, outstanding awards under the CIP will vest on the normal release dates and pro-rated for time and performance.

With effect from 1 October 2008 the Committee agreed the following base salaries (before pension sacrifice) for the Executive Directors:

	£
Terry Sweeney	305,000
Mike Greig	200,000
Rob Sirs	250,000

5 Directors' long-term incentive plan – the Co-Investment Plan

a)

The Co-Investment Plan is described in section 1(c) of this Remuneration Report. The performance conditions for the first operation of the Plan were approved by shareholders at the Group's annual general meeting in January 2003. These conditions were that the grant of matching shares be subject to two performance conditions over a three-year period. A maximum of three matching shares can be awarded for each committed share, with half of the matching shares subject to a condition based on real growth in EPS (excluding goodwill and before exceptional charges) and half subject to a relative TSR measure. For the first grant, the TSR measure was based on the extent to which the Company's TSR outperformed the FTSE 250 (measured in terms of standard deviations).

The performance measure for the plan cycle starting in 2009 has the same structure as the initial award except that relative TSR is measured as a percentile ranking against the FTSE Software and Computer Services index and EPS will only come into operation if the share price at vesting is at least equal to 100% of the share price at the date of award. Previous year Co-Investment Plan performance conditions are summarised in the table below. The committee considers these performance conditions to be challenging, relative to the performance required.

	2008 Grant	2007 Grant	2006 Grant
EPS condition 3-year average annual EPS growth (50% of grant)	**Less than RPI + 3.0% = Nil RPI + 3.0% = 0.5 for 1 match RPI + 8.5% = 1.5 for 1 match (sliding scale)**	Less than RPI + 5.2% = Nil RPI + 5.2% = 0.5 for 1 match RPI + 8.5% = 1.5 for 1 match (sliding scale)	Less than RPI + 2.9% = Nil RPI + 5.2% = 0.5 for 1 match RPI + 8.5% = 1.5 for 1 match (sliding scale)
Relative TSR condition (50% of grant)	**Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)**	Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)	Versus FTSE S&CS Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)

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

Audited Information

b)

The Directors' interests in the long-term incentive plan are listed below:

Date of award	Maximum number of matching shares* at 01/10/07	Market price on award date	Performance period for matching shares	Number of matching shares released	Release date	Market price on release date	Maximum number of matching shares* at 30/09/08
T. Sweeney							
10/12/04	8,946	156.0p	01/10/04-30/09/07	4,892	10/12/07	205.75p	–
20/12/05	35,769	159.0p	01/10/05-30/09/08	–	–	–	35,769
05/01/07	47,673	211.5p	01/10/06-30/09/09	–	–	–	47,673
14/12/07	–	200.0p	01/10/07-30/09/10	–	–	–	44,670
T.R. Pearson							
10/12/04	51,297	156.0p	01/10/04-30/09/07	28,044	10/12/07	205.75p	–
20/12/05	145,698	159.0p	01/10/05-30/09/08	–	–	–	145,698
05/01/07	124,977	211.5p	01/10/06-30/09/09	–	–	–	124,977
14/12/07	–	200.0p	01/10/07-30/09/10	–	–	–	150,975
M.D. Greig							
10/12/04	67,011	156.0p	01/10/04-30/09/07	36,634	10/12/07	205.75p	–
20/12/05	102,735	159.0p	01/10/05-30/09/08	–	–	–	102,735
05/01/07	83,319	211.5p	01/10/06-30/09/09	–	–	–	83,319
14/12/07	–	200.0p	01/10/07-30/09/10	–	–	–	96,525
R.A. Sirs							
10/12/04	95,268	156.0p	01/10/04-30/09/07	52,080	10/12/07	205.75p	–
20/12/05	121,413	159.0p	01/10/05-30/09/08	–	–	–	121,413
05/01/07	94,083	211.5p	01/10/06-30/09/09	–	–	–	94,083
14/12/07	–	200.0p	01/10/07-30/09/10	–	–	–	103,950

*The number of matching shares is the maximum (a match of 3 for 1) that could be received by the Executive Director if performance conditions outlined in the policy section are fully met.

6 Directors' share options

The Remuneration Committee has determined that Executive Directors will not be granted share options in 2009. However, Executive Directors have been granted options in previous years.

a)

The Company operates three executive share option schemes: the RM plc 1994 Executive Share Option Scheme (the '1994 Scheme'), which was adopted at the time of the Group's flotation in December 1994; the RM plc 2001 Executive Share Option Scheme (the '2001 Scheme'), which was adopted at the annual general meeting held on 24 January 2001; and the RM plc 2004 Executive Share Option Scheme (the '2004 Scheme'), which was adopted at the annual general meeting held on 28 January 2004. Performance conditions are set each year in light of the Company's prospects over the coming three-year period including giving consideration to analysts' consensus forecasts for EPS growth. RM share options are not offered at a discount.

1994 Scheme

Under the 1994 Scheme, which is now closed, Ordinary or Super options were granted at market value at the time of grant and are normally exercisable between three and ten years from the date of grant. The proviso is, however, that the increase in the Company's EPS over a three-year period exceeds RPI by 6% for Ordinary options and 10% for Super options. Executive Directors only received Super options with no re-testing of the performance condition on these.

2001 Scheme

Under the 2001 Scheme, options were granted at the market value at the time of grant and were exercisable three years after the date of the grant, provided performance conditions were met. The performance conditions related to the Group's EPS (excluding goodwill and before exceptional charges) growth relative to RPI, with the number of options exercisable varying on a sliding scale depending on the extent to which EPS exceeds RPI. The 2001 Scheme had a life of three years, and closed in 2004.

The performance conditions for share options granted under the 2001 Scheme are summarised in the following table:

Grant date	Performance condition	% of options vesting (with sliding scale)
November 2001 and March 2002	3-year growth EPS	
	RPI + 3%	25
	RPI + 22%	100
June 2002	2003 EPS = 5.51p + RPI	37.5
	2003 EPS = 6.12p + RPI	50
	2004 EPS = 7.96p + RPI	37.5
	2004 EPS = 8.84p + RPI	50
December 2002	3-year growth EPS	
	RPI + 3%	25
	RPI + 22%	100
December 2003	3-year growth EPS	
	RPI + 7.5%	33
	RPI + 17.5%	100

There is no re-testing of the performance conditions.

2004 Scheme

Shareholder approval was obtained in January 2004 for an extension of the 2001 Scheme with a reduced overall dilution limit of 13% (down from 15% in the 2001 Scheme). RM has also committed to keep future years' annual option grants to less than 1% pa dilution. Maximum grants under the scheme are 200% of basic salary. No options have been granted to Executive Directors under the 2004 Scheme. No options will be granted to Executive Directors under this scheme during 2009.

As described elsewhere in this report, it is intended that the 2004 Scheme will only be used at Director level in exceptional circumstances (for example, recruitment). In the event that the scheme is used for grants up to 100% of salary, vesting will require EPS growth of RPI + 3% pa (from the November 2007 grant) over the fixed three-year performance period. For larger grants, a sliding scale would be applied, requiring more stretching levels of performance for full vesting. Following advice on the potential profit and loss impact the Committee have decided that future awards granted under this scheme will be subject to a cap on the potential gain at vesting – which will be set at the time of each award. There will be no re-testing of performance conditions.

The performance conditions for share options granted under the 2004 Scheme are summarised in the following table:

Grant date	Performance condition	% of options vesting (with sliding scale)
December 2004	3-year growth EPS RPI + 5%	100
November 2005	3-year growth EPS RPI + 5%	100
December 2006	3-year growth EPS RPI + 5%	100
June 2007	3-year growth EPS RPI + 5%*	100
November 2007	3-year growth EPS RPI + 3%*	100
1 August 2008	3-year growth EPS RPI + 3%*	100
19 August 2008	3-year growth EPS RPI + 3%*	100

*The gain on the option will be restricted to 2.5 times the exercise price of the option.

The total number of options currently outstanding is 5,451,513 which represents 5.86% of RM's shares in issue at 30 September 2008.

Audited Information
b)
The Directors' interests in share options are listed below.

At 01/10/07	Granted in year	Exercised in year	Lapsed in year	At 30/09/08	Exercise price*	Market price at date of exercise	Dates from which exercisable	Expiry dates
T. Sweeney								
Options with an exercise price equal to or above £1.68								
27,252	100,000	Nil	Nil	127,252	£2.711	–	04/12/01-28/11/10	04/12/08-28/11/17
Options exercised during the year								
12,000	Nil	12,000	Nil	Nil	£1.445	£2.000	01/12/06	01/12/13
M.D. Greig								
Options with an exercise price equal to or above £1.68								
146,919	Nil	Nil	31,667	115,252	£5.474	–	04/12/01-24/05/03	04/12/08-24/05/10
Options with an exercise price below £1.68								
190,039	Nil	Nil	Nil	190,039	£0.786	–	21/06/05-01/12/06	21/06/12-01/12/13
Options exercised during the year								
33,340	Nil	33,340	Nil	Nil	£1.635	£1.974	03/12/00	03/12/07
R.A. Sirs								
Options with an exercise price equal to or above £1.68								
124,252	Nil	Nil	25,000	99,252	£5.487	–	04/12/01-24/05/03	04/12/08-24/05/10
Options with an exercise price below £1.68								
122,350	Nil	Nil	Nil	122,350	£0.846	–	05/03/05-01/12/06	05/03/12- 01/12/13
Options exercised during the year								
6,400	Nil	6,400	Nil	Nil	£0.735	£2.150	05/03/05	05/03/12
50,000	Nil	50,000	Nil	Nil	£0.785	£2.150	04/12/05	04/12/12
50,000	Nil	50,000	Nil	Nil	£0.785	£1.954	04/12/05	04/12/12

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

Following Tim Pearson's retirement on 30 September 2008 all his outstanding options were lapsed on that date.

The gains on exercise of options were as follows:

	£
Tim Pearson	Nil
Terry Sweeney	6,660
Mike Greig	11,300
Rob Sirs	135,735

A significant proportion of Executive Directors' share options have exercise prices significantly above current share price levels. Many of these also have performance conditions that are now unlikely to be achieved.

There have been no changes in the Directors' interests in the shares of the Company during the period 1 October 2008 to 21 November 2008.

The market price of the ordinary shares at 30 September 2008 was 168p per share and the range during the year was 165p to 220p per share.

7 Directors' shareholdings

The beneficial interests of the Directors in the ordinary shares of RM plc as at 30 September 2008 or at their date of appointment, if later, were:

	30 September 2008	30 September 2007
J.P. Leighfield	**150,000**	150,000
T. Sweeney	**55,217**	40,251
T.R. Pearson	**217,670**	185,052
M.D. Greig	**190,313**	179,999
R.A. Sirs	**127,206**	127,138
J. Connell	**–**	–
B. Carsberg	**–**	–
J.R. Windeler	**32,000**	32,000
M.J. Tomlinson	**–**	–
T.R.P. Brighouse	**15,000**	10,000

In addition to the interests listed above, Tim Pearson had a non-beneficial interest as a trustee of the RML Staff Share Scheme in 1,361 shares (2007: 1,361).

8 Directors' pensions

a)

All Executive Directors are members of the Group's principal pension scheme, the Research Machines plc 1988 Pension Scheme. This scheme provides a pension of 1/60ths of a member's final pensionable salary for each year of service, subject to HMRC limits. Only base salary is pensionable. Following the lifetime allowance introduced with the April 2006 pensions changes Tim Pearson elected to cease accruing pension from February 2007 and receive a cash supplement in lieu of the employer contributions instead.

Normal retirement age is 60 in respect of benefits accrued prior to 1 May 2002. For benefits accrued after 1 May 2002 normal retirement age is 65, but members were able to choose to maintain the normal retirement age at 60 subject to paying a higher rate of contributions:

Member contributions % salary	Normal retirement age (Pre 1 May 2002 benefits)	Normal retirement age (Post 1 May 2002 benefits)
6.3%	60	65
12.10%	60	60

Terry Sweeney pays contributions at the higher rate whilst Mike Greig and Rob Sirs pay at the lower rate. Tim Pearson paid contributions at the higher rate.

The scheme also provides life insurance cover and dependant pensions. Member contributions are notionally held in individual accounts that are increased in line with the fund's investment returns. Benefits received under the scheme are guaranteed to have a value at least as high as the value of these individual accounts at retirement.

Audited Information

b)

The table below shows at the year-end: the accrued pension should the Directors leave employment; the increase in the accrued pension during the year; the increase excluding inflation, and the transfer value of that increase less member contributions and any increase/(decrease) in this value assessed on the transfer value basis of the scheme.

	T. Sweeney (age 41) £000	T.R. Pearson (age 48) £000	M.D. Greig (age 52) £000	R.A. Sirs (age 47) £000
Accrued annual pension at 30 September 2008	17	78	55	59
Increase in accrued pension during the year	3	3	5	6
Increase in accrued pension (net of inflation)	2	(1)	3	4
Transfer value of increase (net of inflation and Director's contributions)	12	(10)	32	28
Transfer value of accrued pension at 30 September 2008	168	1,062	748	665
Transfer value of accrued pension at 30 September 2007	119	881	577	503
Increase in transfer value (net of Director's contributions)	49	181	171	162

As from 1 June 2006 all four Directors opted to join the SMART Scheme (pension salary sacrifice) and as such, ceased employee contributions from that date.

No money purchase scheme contributions were paid by the Company in respect of any Directors during the year.

9 Compliance with regulations

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the UK Listing Authority and illustrates how the principles of the Combined Code relating to directors' remuneration are applied by the Company.

This report has been approved by the Board, and shareholders will be asked to consider and approve it at the Annual General Meeting to be held on 19 January 2009.

The Group's auditors are required to comment on whether certain parts of the Group's Remuneration Report have been prepared in accordance with the Companies Act 1985 (as amended by the Regulations). Accordingly, sections 4, 5(b), 6(b) and 8(b) have been audited by Deloitte & Touche LLP.

10 Remuneration Committee

The Remuneration Committee operates under terms of reference approved by the Board with the purposes of determining, on behalf of the Board and shareholders, all elements of the remuneration of the Company's Executive Directors and of overseeing major changes to the overall reward policy structure throughout the Group. These terms of reference can be found on the Group's Web site at www.rm.com/investors The Remuneration Committee undertakes an annual appraisal and addresses any areas that have been highlighted for improvement.

None of the members of the Committee has any personal financial interest in the Company other than through fees received or as a shareholder. They are not involved in the day-to-day running of the business and have no personal conflicts of interest.

The Committee believes in regular dialogue with shareholders on remuneration matters and actively meets with leading shareholders to discuss the Company's reward programmes.

The fees of Non-Executive Directors are a matter for the consideration of the Board as a whole. Each Director receives a fee for being a Director. If Committee work requires additional time commitment, then the Directors are paid on a per diem basis.

a) Composition of the Remuneration Committee

RM's Remuneration Committee comprises Sir Mike Tomlinson (Chair), Sir Bryan Carsberg, John Windeler and Jo Connell (joined December 2007), all of whom are Independent Non-Executive Directors. Sherry Coutu served until her retirement in October 2008.

b) Schedule of meetings

The Remuneration Committee met four times during the year.

Details of attendance at Remuneration Committee meetings are as follows: Mike Tomlinson, four meetings; Sir Bryan Carsberg, four meetings; John Windeler, three meetings; and Jo Connell, three meetings.

c) Advisers to the Remuneration Committee

During 2008, the Committee asked a number of Group employees and external consultants for their views and advice.

Terry Sweeney, RM's CEO, attends meetings of the Remuneration Committee by invitation to provide background and context on matters relating to the remuneration of the other Executive Directors, but does not participate in discussions relating to his own remuneration. The Committee also received views and advice from Mike Greig (Group Finance Director), Rob Sirs (Chief Operating Officer), Russell Govan (Human Resources Director) and John Leighfield (Chairman).

PricewaterhouseCoopers LLP, who were appointed by the Committee, provided advice on the Executive Directors' remuneration and information on market practice. PricewaterhouseCoopers LLP were also employed by the Group to audit RM's internal customer satisfaction measure and perform due diligence work on the Computrac acquisition.

This report has been approved by the Board of Directors and signed on its behalf by:

Sir Mike Tomlinson
Chair, Remuneration Committee
24 November 2008

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF RM PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of RM plc for the year ended 30 September 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 September 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom
24 November 2008

If you have obtained this document as a .pdf download from RM's investor relations Web site (www.rm.com/investors), please note the following:

Neither an audit nor a review provides assurance on the maintenance and integrity of the Web site, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

for the year ended 30 September 2008

	Notes	Before amortisation of acquisition related intangible assets £000	Amortisation of acquisition related intangible assets £000	2008 Total £000	Before amortisation of acquisition related intangible assets and exceptional pension credit £000	Amortisation of acquisition related intangible assets and exceptional pension credit £000	2007 Total £000
Revenue	3	**289,473**	**–**	**289,473**	270,910	–	270,910
Cost of sales		**(211,713)**	**–**	**(211,713)**	(197,376)	–	(197,376)
Gross profit		**77,760**	**–**	**77,760**	73,534	–	73,534
Selling and distribution costs		**(35,131)**	**–**	**(35,131)**	(33,979)	–	(33,979)
Research and development expenses		**(13,180)**	**–**	**(13,180)**	(14,886)	–	(14,886)
Administrative expenses		**(14,813)**	**(1,026)**	**(15,839)**	(11,174)	(580)	(11,754)
Share of results of associates		**(36)**	**(14)**	**(50)**	–	–	–
Exceptional pension credit	31	**–**	**–**	**–**	–	3,500	3,500
		(63,160)	**(1,040)**	**(64,200)**	(60,039)	2,920	(57,119)
Profit from operations	5	**14,600**	**(1,040)**	**13,560**	13,495	2,920	16,415
Investment income	7	**1,994**	**–**	**1,994**	2,047	–	2,047
Finance costs	8	**(167)**	**–**	**(167)**	(27)	–	(27)
Profit before tax		**16,427**	**(1,040)**	**15,387**	15,515	2,920	18,435
Tax	9	**(4,331)**	**270**	**(4,061)**	(4,153)	(877)	(5,030)
Profit for the period attributable to equity holders of the parent		**12,096**	**(770)**	**11,326**	11,362	2,043	13,405
Earnings per ordinary share:	10						
Basic		**13.1p**	**(0.8)p**	**12.3p**	12.4p	2.2p	14.6p
Diluted		**13.0p**	**(0.8)p**	**12.2p**	12.3p	2.2p	14.5p
Paid and proposed dividends per share:	11						
Interim				**1.26p**			1.19p
Final				**4.55p**			4.30p

All activities relate to continuing operations. The accompanying notes are an integral part of this consolidated income statement.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 30 September 2008

	Notes	2008 £000	2007 £000
Exchange (losses)/gains on translation of foreign operations		**(23)**	194
Actuarial (losses)/gains on defined benefit pension scheme	31	**(1,532)**	7,565
Current tax on items taken directly to equity		**147**	198
Deferred tax on items taken directly to equity	9	**398**	(2,294)
Net (loss)/income recognised directly in equity		**(1,010)**	5,663
Profit for the year		**11,326**	13,405
Total recognised income and expense for the year attributable to equity holders of the parent		**10,316**	19,068

Total tax credited to equity was £545,000 (2007: charge of £2,096,000).

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

CONSOLIDATED BALANCE SHEET

as at 30 September 2008

	Notes	2008 £000	2007 £000
Non-current assets			
Goodwill	12	**29,662**	24,626
Acquisition related intangible assets	13	**4,941**	3,267
Other intangible assets	13	**2,242**	2,395
Property, plant and equipment	14	**19,882**	21,125
Interests in associates	16	**964**	–
Deferred tax assets	9	**1,532**	2,739
		59,223	54,152
Current assets			
Inventories	17	**18,254**	13,701
Trade and other receivables	19	**70,303**	58,803
Cash and cash equivalents	21	**18,291**	29,321
		106,848	101,825
Non-current assets held for sale	14	**2,580**	–
Total assets		**168,651**	155,977
Current liabilities			
Trade and other payables	20	**(93,200)**	(86,006)
Tax liabilities	20	**(920)**	(1,221)
		(94,120)	(87,227)
Net current assets		**12,728**	14,598
Non-current liabilities			
Retirement benefit obligation	31	**(561)**	(3,269)
Bank loans	21	**(1,000)**	–
Deferred tax liabilities	9	**(83)**	(135)
Other payables	20	**(9,112)**	(5,182)
Provisions	22	**(488)**	(2,252)
		(11,244)	(10,838)
Total liabilities		**(105,364)**	(98,065)
Net assets		**63,287**	57,912
Equity attributable to equity holders of the parent			
Share capital	23	**1,863**	1,854
Share premium account		**26,578**	25,727
Own shares	24	**(1,323)**	(998)
Capital redemption reserve		**94**	94
Translation reserve		**167**	190
Retained earnings		**35,908**	31,045
Total equity	25	**63,287**	57,912

These financial statements were approved and authorised for issue by the Board of Directors on 24 November 2008.

T. Sweeney
Director

M.D. Greig
Director

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

COMPANY BALANCE SHEET

as at 30 September 2008

	Notes	2008 £000	2007 £000
Non-current assets			
Investments	15	**64,117**	55,297
		64,117	55,297
Current assets			
Trade and other receivables	19	**1,429**	4,812
Cash and cash equivalents		**–**	11
		1,429	4,823
Total assets		**65,546**	60,120
Current liabilities			
Trade and other payables	20	**(2,036)**	(1,009)
Tax liabilities	20	**(82)**	(90)
		(2,118)	(1,099)
Net current assets		**(689)**	3,724
Non-current liabilities			
Other payables	20	**(2,152)**	–
Provisions	22	**–**	(1,710)
		(2,152)	(1,710)
Total liabilities		**(4,270)**	(2,809)
Net assets		**61,276**	57,311
Equity attributable to equity holders of the parent			
Share capital	23	**1,863**	1,854
Share premium account		**26,578**	25,727
Own shares	24	**(1,323)**	(998)
Capital redemption reserve		**94**	94
Retained earnings		**34,064**	30,634
Total equity	25	**61,276**	57,311

These financial statements were approved and authorised for issue by the Board of Directors on 24 November 2008.

T. Sweeney
Director

M.D. Greig
Director

The accompanying notes form an integral part of this Company balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 September 2008

	Notes	2008 £000	2007 £000
Profit from operations		**13,560**	16,415
Adjustments for:			
(Gain)/loss on derivatives		**(653)**	55
Amortisation of acquisition related intangible assets		**1,040**	580
Depreciation of property, plant and equipment		**8,869**	8,793
Amortisation of other intangible assets		**912**	1,010
Gain on disposal of property, plant and equipment		**(300)**	(657)
Decrease in provisions		**–**	(195)
Share-based payment charge		**600**	1,038
Exceptional pension credit		**–**	(3,500)
Operating cash flows before movements in working capital		**24,028**	23,539
Increase in inventories		**(3,813)**	(1,934)
Increase in receivables		**(9,736)**	(6,492)
Increase in payables		**4,965**	4,508
Cash generated by operations		**15,444**	19,621
Defined benefit pension contribution in excess of current service cost		**(3,627)**	(3,573)
Tax paid		**(3,103)**	(3,470)
Income on sale of finance lease debt	7	**651**	688
Interest paid		**(167)**	(27)
Net cash inflow from operating activities		**9,198**	13,239
Investing activities			
Interest received		**521**	872
Proceeds on disposal of property, plant and equipment		**663**	2,004
Purchases of property, plant and equipment		**(10,458)**	(7,482)
Purchases of other intangible assets		**(691)**	(1,303)
Acquisition of investment in associate		**(1,014)**	–
Acquisition of subsidiaries, net of cash acquired		**(3,999)**	(2,767)
Net cash used in investing activities		**(14,978)**	(8,676)
Financing activities			
Dividends paid		**(5,126)**	(4,801)
Proceeds from share capital issue, net of share issue costs		**460**	1,280
Repayment of borrowings assumed in acquisitions		**(554)**	–
Borrowings		**1,000**	–
Purchase of own shares		**(874)**	(559)
Repayment of loan notes and deferred consideration		**(246)**	(1,316)
Net cash used in financing activities		**(5,340)**	(5,396)
Net decrease in cash and cash equivalents		**(11,120)**	(833)
Cash and cash equivalents at the beginning of year		**29,321**	30,092
Effect of foreign exchange rate changes		**90**	62
Cash and cash equivalents at the end of year		**18,291**	29,321

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

GROUP NET FUNDS

for the year ended 30 September 2008

	2007 £000	Cash flow £000	Non-cash movements £000	**2008 £000**
Cash and cash equivalents	29,321	(11,120)	90	**18,291**
Borrowing	–	(1,000)	–	**(1,000)**
Loan notes	(246)	246	(4,464)	**(4,464)**
Net funds	29,075	(11,874)	(4,374)	**12,827**
Issuable loan notes	(1,710)	–	1,710	**–**
Deferred consideration	–	–	(440)	**(440)**
	27,365	(11,874)	(3,104)	**12,387**

COMPANY CASH FLOW STATEMENT

for the year ended 30 September 2008

	2008 £000	2007 £000
Loss from operations and operating cash flows before movements in working capital	**(466)**	(463)
(Increase)/decrease in receivables	**(4,484)**	2,415
Increase in payables	**1,094**	86
Cash (used)/generated by operations	**(3,856)**	2,038
Dividends received	**9,423**	3,230
Interest paid	**(38)**	–
Net cash inflow from operating activities	**5,529**	5,268
Financing activities		
Dividends paid	**(5,126)**	(4,801)
Proceeds from share capital issue, net of share issue costs	**460**	1,281
Purchase of own shares	**(874)**	(559)
Repayment of loan notes	**–**	(1,213)
Net cash used in financing activities	**(5,540)**	(5,292)
Net decrease in cash and cash equivalents	**(11)**	(24)
Cash and cash equivalents at the beginning of year	**11**	35
Cash and cash equivalents at the end of year	**–**	11

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

NOTES TO THE REPORT AND ACCOUNTS

1 General information

RM plc is a company incorporated in the United Kingdom under the Companies Act 1985. It is the parent company of a group of companies, the nature of whose operations and its principal activities are set out in the Business Review.

The accounting policies are drawn up in accordance with those International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted for use in the EU and therefore comply with Article 4 of the EU IAS Regulation applied in accordance with the provisions of the Companies Act 1985.

Income statement presentation
The income statement for the year ended 30 September 2008 has been presented in three columns. This presentation is intended to give a better guide to business performance by separately identifying the amortisation charge relating to acquisition related intangible assets and, for 2007, the exceptional pension credit. The columns extend down the income statement to allow the tax and earnings per share impacts of these transactions to be understood.

Adoption of new and revised International Financial Reporting Standards
In the current financial year, the Group has early adopted IFRS 8 Operating Segments. This is in order to present relevant information, improving the transparency of the Group's reported results and financial position. Segmental information is also provided for the comparative period. There has been no impact on reported profit or net assets.

The Group has also adopted IFRS 7 Financial Instruments: Disclosures, and the related amendment to IAS 1 Presentation of Financial Statements. This has increased disclosures concerning financial instruments and the management of capital, IFRS 7 and the amendment to IAS 1 but has had no impact on reported profit or net assets.

At the date of approval of these financial statements the following standards and interpretations were issued but not yet mandatory for the Group and have not been adopted:

International Financial Reporting Interpretations Committee (IFRIC) interpretations:
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programmes
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15 Arrangements for the Construction of Real Estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Amendments to existing standards:
IAS 16 Property, Plant and Equipment
IAS 19 Employee Benefits
IAS 23 Borrowing Costs
IAS 27 Consolidated and Separate Financial Statements
IAS 28 Investments in Associates
IAS 32 Financial Instruments: Presentation
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The Directors are finalising their analysis and do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial adoption.

The principal IFRS accounting policies adopted by the Group are listed on pages 58 to 61.

Notes to the report and accounts continued

2 Principal accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, share-based payments and pension assets and liabilities which are measured at fair value. The preparation of financial statements, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Consolidation

The Group financial statements incorporate the financial statements of the Company and all its subsidiaries for the periods during which they were members of the Group. Associates are incorporated within the financial statements by equity accounting, taking the Group's share of their results and net assets.

Inter-company balances between Group companies are eliminated on consolidation. On acquisition, assets and liabilities of subsidiaries are measured at their fair values at the date of acquisition with any excess of the cost of acquisition over this value being capitalised as goodwill.

Investment in subsidiaries and associates

In the Company accounts investments in subsidiaries and associates are stated at cost less any provision for impairment where appropriate.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed in exchange for control, plus any costs directly attributable to the business combination. The acquired company's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date.

Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee.

The acquisition of interests in associates is accounted for using the equity method. Investments in associates are carried at cost, adjusted by post-acquisition changes in the Group's share of the associate's net assets. Where the Group's share of losses of an associate equal or exceed its interest in the associate the Group does not recognise any further losses unless it has incurred obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue

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

Revenue from the sale of goods and services is recognised upon transfer to the customer of the significant risks and rewards of ownership. This is generally when goods are despatched to, or services performed for, customers. Revenue on hardware and perpetual software licences is recognised on shipment providing there are no unfulfilled obligations that are essential to the functionality of the delivered product. If such obligations exist, revenue is recognised as they are fulfilled. Revenue from term licences is spread over the period of the licence, reflecting the Group's obligation to support the relevant software products or update their content over the term of the licence. Revenue from contracts for maintenance, support and annually and other periodically contracted products and services is recognised on a pro-rata basis over the contract period. Revenue from installation, consultancy and other services is recognised when the service has been provided.

Appropriate provisions for returns, trade discounts and other allowances are deducted from revenue.

Revenue on long-term contracts is recognised while contracts are in progress. Revenue is recognised proportionally to the stage of completion of the contract, based on the fair value of goods and services provided to date, taking into account the sign-off of milestone delivery by customers.

Long-term contracts

Long-term contracts represent those accounted for in accordance with the principles of IAS 11 Construction Contracts and related linkage with IAS 18 Revenue.

Profit on long-term contracts is recognised when the outcome of the contract can be assessed with reasonable certainty, including assessment of contingent and uncertain future expenses. Thereafter profit is recognised based upon the expected outcome of the contract and the revenue recognised at the balance sheet date as a proportion of total contract revenue.

2 Principal accounting policies continued

If the outcome of a long-term contract cannot be assessed with reasonable certainty no profit is recognised. Any expected loss, on a contract as a whole, is recognised as soon as it is foreseen. The loss is calculated using a discounted cash flow model utilising a discount rate that reflects an estimate of the markets' assessment of the time value of money and the risks specific to the liability. Any unwinding of the discount is included in the income statement in finance costs.

Where the cumulative fair value of goods and services provided exceeds amounts invoiced the balance is included within trade and other receivables as long-term contract balances. Where amounts invoiced exceed the fair value of goods and services provided the excess is first set off against long-term contract balances and then included in amounts due from long-term contract customers within trade and other payables.

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

Property, plant and equipment
Property, plant and equipment assets are stated at cost, less depreciation and provision for impairment where appropriate.

Property, plant and equipment are depreciated by equal annual instalments to write down the assets to their estimated disposal value at the end of their useful lives as follows:

Freehold property	Up to 50 years
Leasehold building improvements	Up to 25 years
Plant and equipment	3-10 years
Computer equipment	2-5 years
Vehicles	2-4 years

Computer units produced by the Group which are used for the purposes of administration, research and development and customer demonstrations are capitalised and carried at cost less accumulated depreciation.

Intangible assets
All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill
Goodwill represents the amount by which the fair value of the cost of a business combination exceeds the fair value of net assets acquired. Goodwill is not amortised and is stated at cost less any accumulated impairment losses. For business combinations occurring before 1 October 2004, the Group's transition date to IFRS, the cost of goodwill is deemed to be the UK GAAP net book value at this date.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognised immediately in profit or loss. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Research and development costs
Research and development costs associated with the development of software products or enhancements and their related intellectual property rights are expensed as incurred until all of the following criteria can be demonstrated, in which case they are capitalised as an intangible asset:

a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
b) an intention to complete the intangible asset and use or sell it.
c) ability to use or sell the intangible asset.
d) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
f) an ability to measure reliably the expenditure attributable to the intangible asset during its development.

The technological feasibility of the Group's software products is assessed on an individual basis and is generally reached shortly before the products are released to manufacturing, and late in the development cycle. Capitalised development costs are amortised on a straight-line basis over their useful lives, once the product is available for use. Useful lives are assessed on a project-by-project basis.

2 Principal accounting policies continued

Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of hardware and the costs of internally generated software for the Group's use, are capitalised at cost and amortised over their useful lives of 2-5 years.

For business combinations occurring after 1 October 2004, net assets acquired includes an assessment of the fair value of separately identifiable intangible fixed assets, in addition to other assets, liabilities and contingent liabilities purchased. These are amortised over their useful lives which are individually assessed.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Trade and other receivables

Trade and other receivables are not interest bearing and are stated at their original invoiced value reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. Bank overdrafts are included in cash and cash equivalents only to the extent that the Group has the right of set-off.

Trade and other payables

Trade payables on normal terms are not interest bearing and are stated at original invoiced amount.

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and then for reporting purposes re-measured to fair value at subsequent balance sheet dates. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of forecast transactions are recognised directly in equity. Amounts deferred in this way are recognised in the income statement in the same period in which the hedged firm commitments or forecast transactions are recognised in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss, on the hedging instrument recognised in equity, is retained there until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Inventories

Finished goods and work-in-progress are valued at weighted average cost, including appropriate labour costs and other overheads. Raw materials and bought-in finished goods are valued at purchase price. All inventories are reduced to net realisable value where lower than cost. Provision is made for obsolete, slow moving and defective items where appropriate.

Leasing activity

The Group offers customers the option to finance lease assets. Where these transactions are entered into, the lease debt is subsequently sold to a finance institution. At this stage profit on sale of the lease debt is recognised as a financing item within investment income.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. This is only when management is committed to the sale and the asset is expected to be sold within one year.

2 Principal accounting policies continued

Share-based payments
The Group operates a number of executive and employee share schemes. For all grants of share-based payments, the fair value as at the date of grant is calculated using a pricing model and the corresponding expense is recognised over the vesting period. At vesting the cumulative expense is adjusted to take into account the number of awards actually vesting as a result of survivorship and where this reflects non-market-based performance conditions.

Employee benefits
The Group has both defined benefit and defined contribution pension schemes. For the defined benefit plan, based on the advice of a qualified independent actuary at each balance sheet date and using the projected unit method, the employers' portion of past and current service cost is charged to operating profit, with the interest cost, net of expected return on assets in the plan, reported as a financing item. Actuarial gains or losses are recognised directly in equity such that the balance sheet reflects the scheme's surplus or deficit as at the balance sheet date.

Contributions to defined contribution plans are charged to operating profit as they become payable.

An accrual is maintained for paid holiday entitlements which have been accrued by employees during a period but not taken during that period.

Employee share trusts
Employee share trusts, which hold ordinary shares of the Company in connection with certain share schemes, are consolidated into the financial statements where the Company controls the trust. Any consideration paid to the trusts for the purchase of the Company's own shares is shown as a movement in shareholders' equity.

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

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences except in respect of investments in subsidiaries where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax is measured on an undiscounted basis, and at the tax rates that are expected to apply in the periods in which the asset or liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis.

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

Foreign currencies
The Group presents its financial statements in Sterling because this is the currency in its primary operating environment. Balance sheet items of overseas companies are translated into Sterling at the year-end rates of exchange. Income statement items and the cash flows of overseas subsidiary undertakings are translated at the average rates for the year. Exchange differences on the translation of overseas subsidiary opening net assets at closing rates of exchange and the differences arising between the translation of profits at average and closing exchange rates are recorded as movements in the currency translation reserve.

Transactions denominated in foreign currencies are translated into Sterling at rates prevailing at the dates of the individual transactions. Foreign currency monetary assets and liabilities are translated at the rates prevailing at the balance sheet date. Exchange gains and losses arising are charged or credited to the income statement within operating costs. Foreign currency non-monetary amounts are translated at rates prevailing at the time of establishing the fair value of the asset or liability.

Dividends
Dividends are recognised as a liability in the period in which the shareholders' right to receive payment has been established.

Key sources of estimation uncertainty and critical accounting judgements
In applying the Group's accounting policies the Directors are required to make judgements, estimates and assumptions. Actual results may differ from these estimates. The following areas are considered key, with relevant estimations and judgements being disclosed within the relevant note to the Report and Accounts:

- Goodwill valuation and impairment – see note 12
- Long-term contract outcome – see note 18
- Acquisition related intangible asset valuation – see note 26
- Retirement benefit scheme valuation – see note 31

3 Revenue

An analysis of the Group's revenue is as follows:

	2008 £000	2007 £000
Revenue from supply of products and services to education	**289,473**	270,910
Investment income	**1,994**	2,047
Total revenue	**291,467**	272,957

4 Business segments

The Group's business is supplying products and services to education. During 2008 the operational structure of the Group has developed, with the results of three operating divisions being reported internally. These operating divisions are Learning Technologies which includes Education Management Systems; Education Resources; and Assessment and Data Services. Further details of products and services provided by each division are given in the Business Review: Our Business. Although an International division is emerging and will form part of the Group's future strategy, its results are not yet analysed separately by management and are included below on the basis of the nature of the products and services provided.

The following disclosure shows the result and net assets of these divisions, with the result being shown before Building Schools for the Future (BSF) bid costs:

Divisional result

	Learning Technologies £000	Education Resources (and Curriculum Software) £000	Assessment and Data Services £000	Total £000
2008				
Revenue	**213,094**	**57,032**	**19,347**	**289,473**
Divisional profit	**11,613**	**7,070**	**2,140**	**20,823**
BSF bid costs (note 5)	**(4,750)**	**–**	**–**	**(4,750)**
	6,863	**7,070**	**2,140**	**16,073**
Net bank and loan note interest receivable (note 7)				**354**
Profit before tax*				**16,427**
Amortisation of acquisition related intangible assets				**(1,040)**
Profit before tax				**15,387**
Group profit before tax				**15,437**
Share of associate result				**(50)**
				15,387
2007				
Revenue	215,635	37,819	17,456	270,910
Divisional profit	10,549	6,586	1,169	18,304
BSF bid costs (note 5)	(3,634)	–	–	(3,634)
	6,915	6,586	1,169	14,670
Net bank and loan note interest receivable (note 7)				845
Profit before tax*				15,515
Amortisation of acquisition related intangible assets				(580)
Exceptional pension credit				3,500
Profit before tax				18,435

*Before amortisation of acquisition related intangible assets and 2007 exceptional pension credit.

4 Business segments continued

Divisional assets

Divisional assets include all assets and liabilities except for tax balances, the defined benefit pension scheme deficit and net funds less deferred consideration, which are shown as non-divisional balances:

	Learning Technologies £000	Education Resources (and Curriculum Software) £000	Assessment and Data Services £000	Total £000
2008				
Non-current assets				
– Divisional	**29,444**	**26,715**	**4,112**	**60,271**
– Other				**1,532**
				61,803
Current assets (notes 17 and 19)				
– Divisional	**69,768**	**15,853**	**2,936**	**88,557**
– Other				**–**
				88,557
Current liabilities (note 20)				
– Divisional	**(77,284)**	**(9,782)**	**(5,453)**	**(92,519)**
– Other				**(920)**
				(93,439)
Non-current liabilities (notes 20 and 31)				
– Divisional	**(5,360)**	**(17)**	**–**	**(5,377)**
– Other				**(644)**
				(6,021)
Net funds less deferred consideration				
– Divisional	**–**	**–**	**–**	**–**
– Other				**12,387**
				12,387
Net assets				
– Divisional	**16,568**	**32,769**	**1,595**	**50,932**
– Other				**12,355**
				63,287
2007				
Non-current assets				
– Divisional	25,117	21,826	4,470	51,413
– Other				2,739
				54,152
Current assets (notes 17 and 19)				
– Divisional	56,894	13,530	2,080	72,504
– Other				–
				72,504
Current liabilities (note 20)				
– Divisional	(73,020)	(7,872)	(4,868)	(85,760)
– Other				(1,221)
				(86,981)
Non-current liabilities (notes 20 and 31)				
– Divisional	(5,710)	(14)	–	(5,724)
– Other				(3,404)
				(9,128)
Net funds less deferred consideration				
– Divisional	–	–	–	–
– Other				27,365
				27,365
Net assets				
– Divisional	3,281	27,470	1,682	32,433
– Other				25,479
				57,912

Notes to the report and accounts continued

5 Profit for the year

Profit is stated after charging/(crediting):

	2008 £000	2007 £000
Depreciation of property, plant and equipment:		
– charged in cost of sales	**6,334**	6,185
– charged in administrative expenses	**2,535**	2,608
	8,869	8,793
Amortisation:		
– other intangible assets	**912**	1,010
– acquisition related intangible assets – associate	**14**	–
– acquisition related intangible assets	**1,026**	580
	1,952	1,590
Administrative expenses	**14,813**	11,174
Amortisation of acquisition related intangible assets	**1,026**	580
Exceptional pension credit	**–**	(3,500)
Total administrative expense	**15,839**	8,254
Research and development costs	**13,180**	14,886
Profit on sale of property, plant and equipment	**(300)**	(657)
Staff costs (see note 6)	**98,721**	94,017
Operating lease expense	**4,389**	4,274
Foreign exchange gain	**(55)**	(289)
Building Schools for the Future:		
– bid costs	**4,750**	3,634
– operating profit	**(330)**	(70)
– net investment	**4,420**	3,564
Movement in stock obsolescence provision	**544**	345
Trade receivables impairment	**164**	3

The Group undertakes a programme of research and development, in which advancement of technical knowledge and innovative solutions are used to substantially improve the performance of product areas, to develop new products related to existing markets and to enhance access to potential new markets. During the periods reported the Group has reviewed its research and development expenditure against the criteria outlined in the Accounting Policies. No material expenditure is considered to have met the capitalisation criteria. Consequently capitalised research and development expenditure is £nil (2007: £nil).

Building Schools for the Future net investment represents the pre-preferred bidder expenditure incurred by the Group in bidding for these contracts less operating profit from contracts in delivery. Profit before tax, amortisation of acquisition related intangible assets, the 2007 exceptional pension credit and BSF net investment was £20.8m (2007: £19.1m).

5 Profit for the year continued

Auditors' remuneration:

	2008 £000	2007 £000
Fees payable to the Company's auditor and its associates for:		
– the audit of the Company's annual accounts	**15**	27
– the audit of the Company's subsidiaries, pursuant to legislation	**261**	220
	276	247
Fees payable to the Company's auditor and its associates for other non-audit services:		
– review of the interim financial statements	**16**	14
– other services pursuant to legislation	**2**	–
	18	14
Fees payable in respect of the audit of the defined benefit pension scheme	**7**	5
	301	266

A description of the work of the Audit Committee is set out in their report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

6 Staff costs

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

	2008 Number employed	2007 Number employed
Research and development, products and services	**1,760**	1,654
Marketing and sales	**327**	317
Corporate services	**286**	259
	2,373	2,230

Their aggregate employment costs comprised:

	2008 £000	2007 £000
Wages and salaries	**85,063**	80,775
Social security costs	**7,029**	6,290
Other pension costs	**6,029**	5,914
Share-based payment charge – equity settled	**600**	1,038
	98,721	94,017

There are no staff (2007: nil) employed by the Company.

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

Note 30 contains details of the share-based payments to employees, including share options, co-investment schemes, deferred bonus and staff-share schemes.

An accrual is maintained for employees' holiday entitlements which have accrued to them but have not been taken at the period end. As at 30 September 2008 the accrual stood at £0.7m (2007: £0.9m).

Notes to the report and accounts continued

7 Investment income

	2008 £000	2007 £000
Bank interest	**521**	872
Income from sale of finance lease debt	**651**	688
Net finance income on defined benefit pension scheme	**613**	300
Other finance income	**209**	187
	1,994	2,047

Net bank and loan note interest income is £354,000, being £521,000 bank interest less finance costs of £167,000 (2007: £845,000 income, being £872,000 bank interest less £27,000 finance costs).

8 Finance costs

	2008 £000	2007 £000
Interest on bank overdrafts and loans	**155**	21
Interest on loan notes	**12**	6
	167	27

9 Tax

a) Income statement

Analysis of tax charged in income statement:

	2008 £000	Restated 2007 £000
Current taxation		
UK corporation tax at 29% (2007: 30%) based on the profit for the year	**3,078**	3,365
Adjustment in respect of prior years	**(232)**	109
Overseas tax – current year	**171**	–
Total current tax	**3,017**	3,474
Deferred taxation		
Temporary differences	**907**	1,953
Adjustment in respect of prior years	**137**	(397)
Total deferred tax	**1,044**	1,556
Total income statement tax charge	**4,061**	5,030

The disclosure for the comparative period has been restated to correct the allocation of tax charged between current and deferred tax. As deferred tax had already been provided on the retirement benefit obligation and on acquisition related intangible assets, the movements relating to these items through income, as a result of the exceptional pension credit and amortisation respectively, gave rise to a deferred tax charge of £877,000 rather than a current tax charge of £877,000 as previously disclosed.

In addition to the amount charged to the income statement, £545,000 of tax has been credited to equity through the statement of recognised income and expense (2007: charge of £2,096,000). The credit comprises a tax credit on the equity component of share-based payments of £74,000 (2007: £239,000) and a tax credit on actuarial gains and losses of £471,000 (2007: debit of £2,335,000). The 2007 entries include £89,000 of debit arising from the change in tax rate.

Further analysis of the Group's deferred tax assets and liabilities is shown on the following pages.

9 Tax continued

b) Reconciliation to standard UK tax rate

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows:

	2008 £000	2007 £000
Profit on ordinary activities before tax	**15,387**	18,435
Tax at 29% (2007: 30%) thereon:	**4,462**	5,532
Effects of:		
– impact of change in tax rate on brought forward deferred tax asset	**–**	62
– other expenses not deductible for tax purposes	**37**	59
– other temporary timing differences	**233**	278
– research and development tax credit	**(495)**	(502)
– effect of overseas profits	**(81)**	(111)
– prior period adjustments	**(95)**	(288)
Tax	**4,061**	5,030

The UK tax rate of 29% is calculated on the basis of half a year at 30% and half a year at 28%, following changes announced in the March 2007 budget statement.

c) Effective tax rate

The Group's effective tax rate of 26.4% (2007: 26.8%) has been calculated excluding the impact of acquisition related intangible amortisation and the exceptional pension credit from profit before tax:

	Before amortisation of acquisition related intangible assets £000	**Amortisation of acquisition related intangible assets £000**	**2008 Total £000**	Before amortisation of acquisition related intangible assets and exceptional pension credit £000	Amortisation of acquisition related intangible assets and exceptional pension credit £000	2007 Total £000
Profit before tax	**16,427**	**(1,040)**	**15,387**	15,515	2,920	18,435
Tax charge/(credit)	**4,331**	**(270)**	**4,061**	4,153	877	5,030
Effective rate	**26.4%**	**26.0%**	**26.4%**	26.8%	30.0%	27.3%

The tax credit on the amortisation of acquisition related intangible assets of £270,000 (2007: charge of £877,000 including tax charge on exceptional pension credit) comprises a deferred tax credit of £231,000 and current tax credit of £39,000 (2007: deferred tax charge of £877,000).

The tax rate on the amortisation of acquisition related intangible assets is different from the standard rate of UK corporation tax of 29%. This results from the tax impact of the equity investment in associate Inclusive Group Ltd (note 26) being incorporated within the share of results of associates.

9 Tax continued

d) Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Share-based payment £000	Short-term timing differences £000	Tax losses US operations £000	Acquisition related intangible assets £000	Total £000
At 1 October 2006	158	5,612	893	850	–	(353)	7,160
(Charge)/credit to income	787	(2,362)	(25)	(212)	83	173	(1,556)
(Charge)/credit to equity	–	(2,335)	41	–	–	–	(2,294)
Acquisition of subsidiaries in the year	–	–	–	–	–	(818)	(818)
Adjustments to provisional fair values on acquisition of subsidiaries	–	–	–	31	–	81	112
At 1 October 2007	945	915	909	669	83	(917)	2,604
(Charge)/credit to income	184	(1,229)	3	(150)	(83)	231	(1,044)
(Charge)/credit to equity	–	471	(73)	–	–	–	398
Acquisition of subsidiaries in the year	–	–	–	93	–	(811)	718
Adjustments to provisional fair values on acquisition of subsidiaries	–	–	–	–	–	209	209
At 30 September 2008	**1,129**	**157**	**839**	**612**	**–**	**(1,288)**	**1,449**

The disclosure for the comparative period has been updated to correct the allocation of deferred tax between income, equity and other categories of the balance sheet. This includes reallocating the impact of the change in UK corporation tax rate between income and equity and separately identifying the adjustments to deferred tax as a result of finalising provisional fair values on the acquisition of subsidiaries.

In addition to the deferred tax credit to equity of £398,000 (2007: charge of £2,294,000) there is a current tax credit of £147,000 (2007: £198,000) which resulted from schedule 23 gains on share-based payments. The total tax credit through equity, as disclosed in the Statement of Recognised Income and Expense is therefore £545,000 (2007: charge of £2,096,000).

Deferred tax assets and liabilities have been calculated using the rate of UK Corporation Tax expected to apply when the relevant timing differences reverse. In the prior year a number of changes to the UK tax system were announced in the March 2007 Budget Statement. The changes relating to the decrease in the corporation tax rate from 30% to 28% from 1 April 2008 are included within the comparative figures. The impact of this change in rate on Group deferred tax balances was a debit to the tax charge in the income statement of £62,000 and a debit to the equity reserve of £89,000.

Certain deferred tax assets and liabilities have been offset above. The following analysis shows the deferred tax balances before offset, as shown in the balance sheet:

	2008 £000	2007 £000
Deferred tax assets	**1,532**	2,739
Deferred tax liabilities	**(83)**	(135)
	1,449	2,604

At the balance sheet date, the Group has unused tax losses of £0.4m (2007: £0.4m) which are available for offset against future profits. A deferred tax asset has been recognised in respect of none (2007: £0.2m) of this amount.

No liability has been recognised on the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing and method of the reversal of these differences and it is not probable that such differences will give rise to a tax liability in the foreseeable future.

10 Earnings per ordinary share

The calculation of basic and diluted earnings per ordinary share is shown below. As explained in note 1, earnings per share have also been presented which remove the impact of the amortisation of acquisition related intangible assets and also the exceptional pension credit. Additionally, to understand the impact of the Group's net investment (bid costs expensed less profit recognised) in the Building Schools for the Future programme, adjustment for this expenditure is shown.

Basic earnings per ordinary share:

	2008 Profit after tax £000	**2008 Weighted average number of shares '000**	**2008 Pence per share**	2007 Profit after tax £000	2007 Weighted average number of shares '000	2007 Pence per share
Basic earnings per ordinary share	**11,326**	**92,297**	**12.3**	13,405	91,780	14.6
Effect of amortisation of acquisition related intangible assets and 2007 exceptional pension credit	**770**	**–**	**0.8**	(2,043)	–	(2.2)
Basic earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and 2007 exceptional pension credit	**12,096**	**92,297**	**13.1**	11,362	91,780	12.4
Effect of BSF net investment, net of tax	**3,138**	**–**	**3.4**	2,495	–	2.7
Basic earnings per ordinary share adjusted for BSF net investment, amortisation of acquisition related intangible assets and 2007 exceptional pension credit	**15,234**	**92,297**	**16.5**	13,857	91,780	15.1

Diluted earnings per ordinary share:

	2008 Profit after tax £000	**2008 Weighted average number of shares '000**	**2008 Pence per share**	2007 Profit after tax £000	2007 Weighted average number of shares '000	2007 Pence per share
Basic earnings per ordinary share	**11,326**	**92,297**	**12.3**	13,405	91,780	14.6
Effect of dilutive potential ordinary shares: share options	**–**	**409**	**(0.1)**	–	505	(0.1)
Diluted earnings per ordinary share	**11,326**	**92,706**	**12.2**	13,405	92,285	14.5
Effect of amortisation of acquisition related intangible assets and 2007 exceptional pension credit	**770**	**–**	**0.8**	(2,043)	–	(2.2)
Diluted earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and 2007 exceptional pension credit	**12,096**	**92,706**	**13.0**	11,362	92,285	12.3
Effect of BSF net investment, net of tax	**3,138**	**–**	**3.4**	2,495	–	2.7
Diluted earnings per ordinary share adjusted for BSF net investment, amortisation of acquisition related intangible assets and 2007 exceptional pension credit	**15,234**	**92,706**	**16.4**	13,857	92,285	15.0

Notes to the report and accounts continued

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2008 £000	2007 £000
Final dividend for the year ended 30 September 2007 of 4.30p (2006: 4.05p) per share	**3,964**	3,688
Interim dividend for the year ended 30 September 2008 of 1.26p (2007: 1.19p) per share	**1,162**	1,113
	5,126	4,801

The proposed final dividend of 4.55p per share was approved by the Board on 21 November 2008. The dividend is subject to approval by shareholders at the Annual General Meeting and the expected cost of £4.2m has not been included as a liability as at 30 September 2008.

12 Goodwill

	£000
Cost	
At 1 October 2006	24,801
Additions	2,128
Exchange differences	74
Restatement of provisional fair values	92
At 1 October 2007	27,095
Additions (note 26)	4,615
Exchange differences	60
Change in estimated loan notes payable	361
At 30 September 2008	**32,131**
Accumulated impairment losses	
At 1 October 2006, 1 October 2007 and 30 September 2008	(2,469)
Carrying amount	
At 30 September 2008	**29,662**
At 30 September 2007	24,626

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2008 £000	2007 £000
Learning Technologies:		
– Education Management Systems	**1,557**	1,497
– Infrastructure	**6,049**	4,241
Assessment and Data Services	**2,956**	2,956
Education Resources	**19,100**	15,932
	29,662	24,626

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on internal growth forecasts of between 3% and 12%.

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by the management for the next year and extrapolates cash flows for the following three to ten years based on forecast growth rates of the CGUs.

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

13 Intangible assets

	Acquisition related intangible assets					
	Customer relationships £000	Brands £000	Intellectual property and database assets £000	Sub-total £000	Other software assets* £000	Total £000
Cost						
At 1 October 2006	498	382	175	1,055	16,648	17,703
Additions	–	–	–	–	1,303	1,303
Restatement of provisional values	275	(237)	80	118	(358)	(240)
Acquired on acquisition of subsidiary/ business combination	1,935	332	460	2,727	–	2,727
At 1 October 2007	2,708	477	715	3,900	17,593	21,493
Additions	–	–	–	–	691	691
Transfers	–	–	–	–	68	68
Restatement of provisional values	(72)	–	(137)	(209)	–	(209)
Acquired on acquisition of subsidiary/ business combination	1,713	603	593	2,909	–	2,909
At 30 September 2008	**4,349**	**1,080**	**1,171**	**6,600**	**18,352**	**24,952**
Amortisation						
At 1 October 2006	25	19	9	53	14,188	14,241
Charge for the year	382	54	144	580	1,010	1,590
At 1 October 2007	407	73	153	633	15,198	15,831
Charge for the year	791	135	100	1,026	912	1,938
At 30 September 2008	**1,198**	**208**	**253**	**1,659**	**16,110**	**17,769**
Carrying amount						
At 30 September 2008	**3,151**	**872**	**918**	**4,941**	**2,242**	**7,183**
At 30 September 2007	2,301	404	562	3,267	2,395	5,662

*Purchased and internally developed software assets amounted to a net book value of £1.9m and £0.3m respectively (2007: £2.1m and £0.3m). This included respective additions of £0.7m and £nil (2007: £0.9m and £0.4m).

Restated provisional values of £209,000 relate to a change in the value of deferred tax recognised on the 2007 acquisition of SERAP.

Notes to the report and accounts continued

14 Property, plant and equipment

The movement in the year was as follows:

	Freehold land and buildings £000	Short leasehold improvements £000	Plant and equipment £000	Computer equipment £000	Vehicles £000	Total £000
Group						
Cost						
At 1 October 2006	–	2,719	6,126	32,429	6,142	47,416
Additions	2,287	27	1,260	2,849	1,059	7,482
Acquired on acquisition of subsidiaries/ business combinations	–	–	–	180	–	180
Transfer	383	–	–	–	–	383
Exchange differences	–	5	29	56	5	95
Disposals	–	(5)	(43)	(688)	(1,339)	(2,075)
At 1 October 2007	2,670	2,746	7,372	34,826	5,867	53,481
Additions	133	110	603	6,917	2,695	10,458
Acquired on acquisition of subsidiaries/ business combinations (note 25)	–	–	10	45	148	203
Assets reclassified as held for sale	(2,803)	–	–	–	–	(2,803)
Transfer	–	–	(250)	182	–	(68)
Exchange differences	–	(8)	(28)	(31)	(8)	(75)
Disposals	–	(1)	(30)	(416)	(2,011)	(2,458)
At 30 September 2008	**–**	**2,847**	**7,677**	**41,523**	**6,691**	**58,738**
Accumulated depreciation						
At 1 October 2006	–	1,351	3,807	17,044	2,731	24,933
Charge for the year	66	172	961	6,150	1,444	8,793
Transfer	114	–	–	–	–	114
Exchange differences	–	3	16	49	1	69
Eliminated on disposals	–	(5)	(26)	(385)	(1,137)	(1,553)
At 1 October 2007	180	1,521	4,758	22,858	3,039	32,356
Charge for the year	43	181	895	6,235	1,515	8,869
On assets reclassified as held for sale	(223)	–	–	–	–	(223)
Transfer	–	–	(91)	91	–	–
Exchange differences	–	(3)	(23)	(20)	(5)	(51)
Eliminated on disposals	–	–	(27)	(356)	(1,712)	(2,095)
At 30 September 2008	**–**	**1,699**	**5,512**	**28,808**	**2,837**	**38,856**
Carrying amount						
At 30 September 2008	**–**	**1,148**	**2,165**	**12,715**	**3,854**	**19,882**
At 30 September 2007	2,490	1,225	2,614	11,968	2,828	21,125

Non-current assets held for sale

During the year the Group reclassified a building owned by Education Resources company TTS Group Ltd to held for sale. The building, which is used by TTS Group Ltd for warehousing and offices, is being actively marketed by a commercial estate agent and the Directors expect that a sale will be completed within the next financial year. The building's value is considered to be in excess of its carrying value. Depreciation on the building ceased on reclassification.

15 Investment in subsidiary undertakings

All principal subsidiaries of the Group are involved in the education market and are consolidated into the financial statements. At 30 September 2008 these were as follows:

	Principal activity	Country of incorporation (and operation)	Proportion of voting rights and shares held %
3T Productions Ltd	Software	England (UK)	100
Caz Software Pty Ltd*	Software, services and systems	Australia	100
DACTA Ltd	Resource supply	England (UK)	100
Orchard Partners Ltd (t/a EasyTrace)	Software	England (UK)	100
RM Education plc (formerly Research Machines plc)	Software, services and systems	England (UK)	100
RM Asia-Pacific Pty Ltd	Software, services and systems	Australia	100
RM Educational Software Inc	Software	USA	100
RM Education Solutions India Pvt Ltd*	Software	India	100
Sentinel Products Ltd	Software, services and systems	England (UK)	100
SIR (UK) Ltd (t/a Forvus)	Data analysis and reporting	England (UK)	100
Softease Ltd	Software	England (UK)	100
SpaceKraft Ltd	Resource supply	England (UK)	100
SpaceKraft (International) Ltd*	Resource supply	England (UK)	100
TTS Group Ltd	Resource supply	England (UK)	100

*Held through subsidiary undertaking.

In the Company, equity investments in subsidiary undertakings are held at cost less provision for impairment:

	Investment in share capital £000	Capital contribution – Share-based payments £000	Loan £000	Total £000
Company				
Cost				
At 1 October 2006 (restated)	36,083	3,060	7,077	46,220
Acquisition of subsidiaries	4,523	–	–	4,523
Investment in subsidiaries	7,000	–	–	7,000
Share-based payments	–	1,038	–	1,038
At 1 October 2007	47,606	4,098	7,077	58,781
Acquisition of subsidiaries	6,845	–	–	6,845
Acquisition of investment in associate	1,014	–	–	1,014
Increase in fair value of issuable loan notes	361	–	–	361
Share-based payments	–	600	–	600
At 30 September 2008	**55,826**	**4,698**	**7,077**	**67,601**
Impairment				
At 1 October 2006, 1 October 2007 and 30 September 2008	(3,484)	–	–	(3,484)
Carrying value				
At 30 September 2008	**52,342**	**4,698**	**7,077**	**64,117**
At 30 September 2007	44,122	4,098	7,077	55,297

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

Notes to the report and accounts continued

16 Interests in associates

During the year the Group acquired a 25% holding in Inclusive Group Limited, which is equity accounted for. Details of the acquisition are included in note 26. The Group's associates at 30 September 2008 are as follows:

	Most recent year end	Country of incorporation (and operation)	Proportion of voting rights and shares held %
Inclusive Group Ltd	30 June 2008	England (UK)	25

Summary financial information for associates accounted for under the equity method, extracted on a 100% basis from a consolidation of Inclusive Group Limited for the year ended 30 June 2008:

	2008 £000
Revenues	**5,726**
Profit	**125**
Total assets	**1,973**
Total liabilities	**(1,231)**
Net assets	**742**

At 30 September the Group's interests in associates was stated at £964,000 being the Inclusive purchase price of £1,014,000 less the post-investment loss of £50,000.

17 Inventories

	2008 £000	2007 £000
Group		
Components	**11,319**	8,989
Work in progress	**285**	250
Finished goods	**6,650**	4,462
	18,254	13,701

18 Long-term contracts

As explained within the accounting policies, the following disclosure relates to long-term contracts accounted for under the principles of IAS 11 Construction contracts and related linkage to IAS 18 Revenue. These contracts do not represent the Group's only long-duration business.

	2008 £000	2007 £000
Group		
Contracts in progress at the balance sheet date:		
Contract cost incurred plus recognised profits less recognised losses to date	**217,266**	196,423
Less: progress billings	**(209,230)**	(190,344)
	8,036	6,079
Amounts due from contract customers included in trade and other receivables	**8,036**	6,079
Amounts due to contract customers included in trade and other payables	**–**	–
	8,036	6,079

Total revenue recognised from long-term contracts amounted to £50.9m (2007: £55.4m).

At 30 September 2008, £0.2m (2007: nil) amounts due from contract customers are due for settlement after more than 12 months.

Long-term contract outcome – estimation uncertainty
The Group's long-term contracts represent a significant part of the Group's business. As a result of the accounting for these contracts, as outlined in note 2, it is necessary for the Directors to assess the outcome of each contract and also estimate future costs and revenues to establish ultimate contract profitability. Profit is then recognised based on these judgements and therefore, depending on the maturity of the contract portfolio, a greater or lesser proportion of Group profit will arise from long-term contracts.

19 Other financial assets

a) Trade and other receivables

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Current				
Trade receivables	**54,423**	47,943	**–**	–
Long-term contract balances (note 18)	**8,036**	6,079	**–**	–
Other receivables	**208**	432	**–**	50
Prepayments and accrued income	**7,636**	4,349	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1,429**	4,762
	70,303	58,803	**1,429**	4,812
Currency profile of receivables:				
Sterling	**67,237**	56,023	**1,429**	4,812
US Dollar	**1,167**	646	**–**	–
Euro	**879**	939	**–**	–
Australian Dollar	**465**	747	**–**	–
New Zealand Dollar	**5**	–	**–**	–
Danish Krona	**208**	234	**–**	–
Indian Rupee	**342**	214	**–**	–
	70,303	58,803	**1,429**	4,812

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

The average credit period taken on sales of goods is 43 days (2007: 47 days). An allowance has been made for estimated irrecoverable amounts of trade receivables of £0.2m (2007: £0.1m) based on management's knowledge of the customer, externally available information and expected payment likelihood. This allowance has been determined by reference to specific receivable balances and past default experience. New customers are subject to credit checks, using third-party databases prior to orders being accepted.

Analysis of type of customer:

	2008 £000	2007 £000
Group		
Government customers	**51,320**	40,797
Commercial customers	**3,103**	7,146
	54,423	47,943

Analysis of allowance for estimated irrecoverable amounts of trade receivables:

	2008 £000	2007 £000
Group		
At 1 October	**112**	142
Charge to income statement	**164**	3
Utilised	**(37)**	(33)
At 30 September	**239**	112

19 Other financial assets continued

Ageing of trade receivables:

	2008 £000	2007 £000
Group		
Neither impaired nor past due	**34,477**	33,152
Not impaired but overdue by less than 60 days	**15,810**	12,177
Not impaired but overdue by between 60 and 90 days	**2,395**	1,502
Not impaired but overdue by more than 90 days	**1,867**	1,224
Impaired	**113**	–
Allowance for estimated irrecoverable amounts	**(239)**	(112)
	54,423	47,943

Included within trade receivables are £3.2m (2007: £3.0m) of receivables relating to finance lease debt awaiting sale to a financial institution, which is expected to complete shortly after the balance sheet date. Upon sale the margin implicit will be recognised as a financing item within investment income.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. The currency profile and interest profile of cash and cash equivalents are disclosed in note 21.

20 Other financial liabilities

a) Trade and other payables

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Current				
Trade payables	**30,173**	26,520	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**1,355**	1,009
Other taxation and social security	**10,408**	11,046	**–**	–
Other payables – other	**692**	793	**–**	–
Accruals	**29,054**	24,873	**–**	–
Deferred income	**22,192**	22,528	**–**	–
Loan notes	**681**	246	**681**	–
	93,200	86,006	**2,036**	1,009
Tax liabilities	**920**	1,221	**82**	90
Non-current				
Deferred income:				
– due after one year but within two years	**3,392**	3,660	**–**	–
– due after two years but within five years	**1,450**	1,492	**–**	–
– due after five years	**47**	30	**–**	–
	4,889	5,182	**–**	–
Other payables – deferred consideration	**440**	–	**440**	–
Loan notes	**3,783**	–	**1,712**	–
	9,112	5,182	**2,152**	–

20 Other financial liabilities continued

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Currency profile of payables:				
Sterling	**95,323**	80,562	**4,270**	1,099
US Dollar	**5,824**	9,793	**–**	–
Australian Dollar	**733**	649	**–**	–
Euro	**179**	34	**–**	–
New Zealand Dollar	**24**	–	**–**	–
Indian Rupee	**229**	150	**–**	–
	102,312	91,188	**4,270**	1,099

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2007: 45 days).

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

During the year deferred cash consideration estimated at £440,000 was accrued on the acquisition of Orchard Partners Ltd (trading as EasyTrace). Loan notes were issued on the acquisitions of EasyTrace at £1,315,000 and SpaceKraft Ltd at £1,078,000 of which £681,000 is payable within a year of the balance sheet date. Loan notes were also issued on the 2007 acquisition of Dacta Ltd which included an upward estimate of £361,000 to the value payable to £2,071,000. Loan notes of £246,000 were repaid in relation to the 2006 acquisition of Music Education Supplies Ltd. Loan notes are not secured on assets of the Group and are repayable when performance conditions relating to the acquisition are met.

The maturity profile of payables is presented below:

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Maturity profile of payables:				
– due within one year	**93,200**	86,006	**4,188**	1,009
– due after one year but within two years	**5,324**	3,660	**–**	–
– due after two years but within five years	**3,741**	1,492	**–**	–
– due after five years	**47**	30	**–**	–
	102,312	91,188	**4,188**	1,009

b) Non-current liabilities – other payables

At 30 September 2008 the Group had a committed acquisition borrowing facility of £25.0m (2007: £nil) which expire in July 2013, of which £1.0m was drawn down at the balance sheet date. The facility can be repaid before expiry, at the discretion of the Group, on a quarterly basis.

In addition, the Group had uncommitted borrowing facilities in respect of working capital of £15.0m (2007: £15.0m) expiring in December 2008 and £5.0m (2007: £5.0m) expiring in February 2009. Subsequent to the year end the Group has renewed the £15.0m working capital facility at £25.0m expiring in November 2009.

c) Guarantees

The Company has entered into guarantees relating to the performance and liabilities of its subsidiaries' major contracts. The Directors are not aware of any circumstances that would give rise to any liability under such guarantees and consider the possibility of any arising to be remote. A fair value of nil (2007: £nil) has been applied to these guarantees.

21 Financial instruments

Carrying of financial assets and financial liabilities:

	Notes	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Financial assets					
Loans and receivables:					
Long-term contract receivables	18	**8,036**	6,079	**–**	–
Other trade and other receivables	19a	**61,614**	52,724	**1,429**	4,812
Derivative financial instruments:					
Forward foreign exchange contracts	21b	**653**	–	**–**	–
		70,303	58,803	**1,429**	4,812
Cash and cash equivalents		**18,291**	29,321	**–**	11
		88,594	88,124	**1,429**	4,823

The Directors consider that the carrying amount of financial assets approximates their fair value.

	Notes	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Financial liabilities					
Loans and payables:					
Trade and other payables	20	**93,200**	85,724	**4,188**	1,009
Derivative financial instruments:					
Forward foreign exchange contracts		**–**	282	**–**	–
		93,200	86,006	**4,188**	1,009
Bank loans		**1,000**	–	**–**	–
Other non-current payables	20	**9,112**	5,182	**–**	–
		103,312	91,188	**4,188**	1,009

Included within financial instruments is an asset balance of £653,000 (2007: liability of £282,000) representing the fair value of the Group's open foreign exchange contracts.

The main risks arising from the Group's financial assets and liabilities are market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Board reviews and agrees policies on a regular basis for managing the risks associated with these assets and liabilities.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken and the Group does not hold or issue derivative financial instruments for speculative purposes.

Foreign currency risk

a) Translation

The Group has operations in Australia, the United States of America and India, hence exposing the Group to foreign exchange risk on non-Sterling assets, liabilities and cash flows. The Group does not currently hedge this risk.

The Group also maintains foreign currency denominated cash accounts, but only holds balances required to settle its payables.

b) Transaction

Operations are also subject to foreign exchange risk from committed transactions in currencies other than their functional currency and, once recognised, the revaluation of foreign currency denominated assets and liabilities. Specifically these arise from the Group purchasing significant amounts of its components in US dollars. In order to manage these risks the Group enters into derivative transactions in the form of forward foreign currency contracts which are designed to cover 80-90% of forecast currency denominated purchases. These contracts are renewed on a revolving basis of approximately three months.

21 Financial instruments continued

At the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group has committed to is below:

	2008 Nominal value £000	2008 Fair value £000	2007 Nominal value £000	2007 Fair value £000
Forward foreign currency exchange contracts	**16,044**	**653**	16,589	(282)

These fair value amounts are based on market values of equivalent instruments at the balance sheet date and are included within trade and other receivables (2007: Trade and other payables).

These instruments have not been designated as effective hedges in accordance with IAS 39 Financial Instruments. Changes in the fair value of currency instruments amounting to £0.7m have therefore been credited (2007: £0.1m charge) to income. Commercially effective hedges may continue to lead to income statement volatility in the future.

c) Foreign exchange rate sensitivity

The following table details how the Group's income and equity would increase if there was a 10% increase in the respective currency against sterling (assuming all other variables remain constant), for example from $1.81:£1 to $1.99:£1 at the balance sheet date. A 10% decrease would have the equal and opposite effect.

	2008 Income sensitivity £000	2008 Equity sensitivity £000	2007 Income sensitivity £000	2007 Equity sensitivity £000
10% increase in foreign exchange rates against sterling				
US Dollar	**(791)**	**(776)**	(541)	(502)
Australian Dollar	**–**	**171**	–	159
Indian Rupee	**–**	**(227)**	–	(181)
Other	**(99)**	**(99)**	(106)	(106)

Interest rate risk

The only interest bearing financial assets held by the Group are cash and cash equivalents. Surplus sterling balances are invested in the money market, or with financial institutions on maturing terms from within 24 hours up to a period of three months with interest earned based on the relevant national inter-bank rates available at the time of investing. During the year, the average cash and cash equivalents was £7.0m (2007: £16.9m), and the maximum bank overdraft was £9.0m (2007: £1.8m), excluding amounts drawn under the acquisition facility. The interest and currency profile of cash and cash equivalents is shown below:

	2008 Floating rate £000	2008 Interest free £000	2008 Total £000	2007 Floating rate £000	2007 Interest free £000	2007 Total £000
Sterling	**12,399**	**2,536**	**14,935**	21,409	5,242	26,651
US Dollar	**818**	**786**	**1,604**	1,461	180	1,641
Australian Dollar	**282**	**541**	**823**	96	215	311
Euro	**–**	**443**	**443**	1	220	221
Danish Krona	**136**	**1**	**137**	2	84	86
Indian Rupee	**150**	**179**	**329**	78	333	411
New Zealand Dollar	**–**	**19**	**19**	–	–	–
South African Rand	**–**	**1**	**1**	–	–	–
	13,785	**4,506**	**18,291**	23,047	6,274	29,321

The Group's interest bearing financial liabilities are loan notes and an acquisition facility. A working capital overdraft facility has been used during the year but was not drawn-down at 30 September. Loan notes issued on acquisitions carry interest linked to national inter-bank rates. The interest rate risk on these instruments is not considered significant.

Interest payable on the acquisition facility is linked, normally on a quarterly basis, to either national inter-bank rates or HSBC base rates, with the chosen rate being at the Group's discretion. In addition a commitment fee and £0.1m arrangement fee are also payable, spread on a quarterly basis over the duration of the facility.

21 Financial instruments continued

The weighted average effective interest rates at the balance sheet date were as follows:

	2008 Floating rate £000	2008 Weighted average interest rate %	2007 Floating rate £000	2007 Weighted average interest rate %
Financial assets:				
Cash and cash equivalents	**18,291**	**5.34**	29,321	5.23
Financial liabilities:				
Bank loans	**(1,000)**	**5.85**	–	–
Issued loan notes	**(4,464)**	**5.12**	(246)	5.88
Net funds	**12,827**		29,075	

Interest rate risk sensitivity (assuming all other variables remain constant):

	2008 Income sensitivity £000	2008 Equity sensitivity £000	2007 Income sensitivity £000	2007 Equity sensitivity £000
1% increase in interest rates	**63**	**63**	150	150
1% decrease in interest rates	**(63)**	**(63)**	(150)	(150)

Credit risk

The Group's principal financial assets are bank balances and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. Credit checks are performed on new customers and before credit limits are increased. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group's maximum exposure to credit risk at 30 September 2008 is £70.3m (2007: £58.8m). The Group does not hold any collateral.

Liquidity risk

Cash is managed to ensure that sufficient liquid funds are available with a variety of counterparties, through short-, medium- and long-term cash flow forecasting.

Capital risk management

The Group manages capital employed as shareholders' equity less net funds less deferred consideration:

	2008 £000	2007 £000
Group		
Shareholders' equity	**63,287**	57,912
Less: net funds less deferred consideration	**(12,387)**	(27,365)
Capital employed	**50,900**	30,547

At the balance sheet date the Group has limited borrowings on an acquisition facility (see note 20b) which was obtained and drawn-down from in the year. Over the course of the year the Group has also utilised a seasonal working capital facility. The financial covenants relating to the acquisition facility, including earnings before interest, tax, depreciation and amortisation to senior net debt and to senior net debt interest multiples are regularly reviewed by management and have been complied with in full.

The Group's risk management policies, including financial and market risks, are explained in the Audit Committee Report.

22 Provisions

	Issuable loan notes £000	Group Restructuring provision £000	Total £000	Company Issuable loan notes £000
At 1 October 2006	–	737	737	–
Release of provision	1,710	–	1,710	1,710
Utilisation of provision	–	(195)	(195)	–
At 1 October 2007	1,710	542	2,252	1,710
Issue of loan notes	(1,710)		(1,710)	
Transfer of loan note obligation to Group company	–	–	–	(1,710)
Utilisation of provision	–	(54)	(54)	–
At 30 September 2008	**–**	**488**	**488**	**–**

The £1.7m issuable loan notes relate to the acquisition of DACTA Limited and were issued in the year.

The restructuring provision principally relates to onerous lease contracts identified during the rationalisation of facilities undertaken in the year ended 30 September 2002, and will be utilised over the remaining life (eight years on average) of the leases.

The above balances are included within non-current liabilities.

23 Share capital

Authorised ordinary shares of 2p each:

	2008 Number '000	2008 £000	2007 Number '000	2007 £000
	125,000	**2,500**	125,000	2,500

Allotted, called-up and fully paid ordinary shares of 2p each:

	Number '000	£000
At 1 October 2006	91,730	1,836
Issued on options	930	18
At 1 October 2007	92,660	1,854
Issued on options	423	9
At 30 September 2008	**93,083**	**1,863**

422,892 (2007: 929,903) ordinary shares of 2p each were allotted in the year, for consideration of £0.5m (2007: £1.3m). These shares have a nominal value of £0.01m (2007: £0.02m).

The Company has the authority to repurchase 9,265,982 shares (2007: 9,172,991) and repurchased no shares during the year (2007: nil).

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

24 Own Shares

The RM plc Employee Share Trust (EST) was established in March 2003 to hedge the future obligations of the Group in respect of shares awarded under the RM plc Co-Investment Plan and Deferred bonus plan. The trustee of the EST, Computershare Trustees (C.I.) Limited, purchases the Company's ordinary shares in the open market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share-based payment liabilities of the Group. The EST has waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's ordinary shares. The EST's waiver of dividends may be revoked or varied at any time.

	Number	Cost £000
At 1 October 2006	648,185	954
Acquired in period	275,000	559
Disposed of on exercise of Co-Investment Plan	(348,147)	(515)
At 1 October 2007	575,038	998
Acquired in period	374,265	734
Disposed on exercise of Co-Investment Plan	(226,186)	(409)
At 30 September 2008	**723,117**	**1,323**

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

25 Reconciliation of shareholder's equity and reserves

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Group							
At 1 October 2006	1,836	23,877	(954)	94	(4)	17,426	42,275
Profit for the year	–	–	–	–	–	13,405	13,405
Exchange differences on translation of foreign operations	–	–	–	–	194	–	194
Actuarial gains and losses on defined benefit scheme	–	–	–	–	–	7,565	7,565
Tax charge on items taken directly to equity	–	–	–	–	–	(2,096)	(2,096)
Purchase of shares (note 24)	–	–	(559)	–	–	–	(559)
Transfer in respect of issue of shares to employee trusts	–	588	–	–	–	(588)	–
Share-based payment awards exercised in year	–	–	515	–	–	(904)	(389)
Share-based payment transactions (note 5)	–	–	–	–	–	1,038	1,038
Dividends paid (note 11)	–	–	–	–	–	(4,801)	(4,801)
Share issues	18	1,262	–	–	–	–	1,280
At 1 October 2007	1,854	25,727	(998)	94	190	31,045	57,912
Profit for the year	–	–	–	–	–	11,326	11,326
Exchange differences on translation of foreign operations	–	–	–	–	(23)	–	(23)
Actuarial gains and losses on defined benefit scheme	–	–	–	–	–	(1,532)	(1,532)
Tax charge on items taken directly to equity	–	–	–	–	–	545	545
Purchase of shares (note 24)	–	–	(734)	–	–	–	(734)
Transfer in respect of issue of shares to employee trusts	–	400	–	–	–	(400)	–
Share-based payment awards exercised in year	–	–	409	–	–	(550)	(141)
Share-based payment transactions (note 5)	–	–	–	–	–	600	600
Dividends paid (note 11)	–	–	–	–	–	(5,126)	(5,126)
Share issues	9	451	–	–	–	–	460
At 30 September 2008	**1,863**	**26,578**	**(1,323)**	**94**	**167**	**35,908**	**63,287**

25 Reconciliation of shareholder's equity and reserves continued

Transfers in respect of issue of shares to employee trusts represents transactions between Retained earnings and Share premium on share options exercised in the year at the difference between the option exercise price and the market value at the date of exercise. The exercise of options represents the only issuance of share capital.

Share-based payment awards exercised in the year represents the impact on Retained earnings of releasing the fair value charge accrued under IFRS 2 Share-based payment, which for the Co-Investment scheme is partially matched by the release of own-shares held.

In addition to the £734,000 purchase of own-shares held, a further £140,000 was spent on own-shares during the year in respect of the Group's obligations under the RM plc Staff Share Scheme (note 30). These shares are for the benefit of employees and are not shown in the Group's balance sheet. The total amount spent on own shares was therefore £874,000.

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Company						
At 1 October 2006	1,836	23,877	(954)	94	32,534	57,387
Profit for the year	–	–	–	–	2,767	2,767
Share issues	18	1,850	–	–	–	1,868
Purchase of shares (note 24)	–	–	(559)	–	–	(559)
Share-based payment awards exercised in year	–	–	515	–	(904)	(389)
Dividends paid (note 11)	–	–	–	–	(4,801)	(4,801)
Share-based payment transactions	–	–	–	–	1,038	1,038
At 1 October 2007	1,854	25,727	(998)	94	30,634	57,311
Profit for the year	–	–	–	–	8,906	8,906
Share issues	9	851	–	–	–	860
Purchase of shares (note 24)	–	–	(734)	–	–	(734)
Share-based payment awards exercised in year	–	–	409	–	(950)	(541)
Dividends paid (note 11)	–	–	–	–	(5,126)	(5,126)
Share-based payment transactions	–	–	–	–	600	600
At 30 September 2008	**1,863**	**26,578**	**(1,323)**	**94**	**34,064**	**61,276**

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

The capital redemption reserve relates to the Company's repurchase of its own share capital from the market.

As permitted by section 230 of the Companies Act 1985, no separate income statement is presented in respect of the Parent Company. The Company made a profit for the year amounting to £8.9m (2007: £2.8m).

26 Acquisition of subsidiaries and business combinations

SpaceKraft Limited

On 1 October 2007, the Group acquired 100% of the issued share capital of SpaceKraft Limited and SpaceKraft (International) Limited (together SpaceKraft) for an initial cash consideration of £3.0m and issuable loan notes estimated at £1.1m. SpaceKraft is a distributor of special educational needs products. This transaction has been accounted for by the purchase method of accounting.

	Book value £000	Provisional fair value adjustments £000	Provisional fair value £000
Net assets acquired:			
Acquisition related intangible assets	–	1,409	1,409
Property, plant and equipment	114	–	114
Inventory	1,182	(500)	682
Trade and other receivables	686	(27)	659
Cash and cash equivalents	1	–	1
Trade and other payables	(674)	–	(674)
Bank loans and overdrafts	(490)	–	(490)
Deferred tax asset/(liability)	30	(391)	(361)
Other non-current payables	(57)	–	(57)
	792	491	1,283
Goodwill			2,807
Total consideration			4,090
Satisfied by:			
Initial cash consideration			3,000
Estimated loan note consideration			1,077
Directly attributable costs			13
			4,090

Net cash outflow arising on acquisition:

	£000
Initial cash consideration	3,000
Acquisition costs	13
	3,013
Cash acquired	(1)
Repayment of debt acquired	490
	3,502

The goodwill arising is attributable to the anticipated future profit from the acquired business operating as part of the Group. Fair value adjustments have been recognised for acquisition related intangible assets and related deferred tax and an inventory provision. Acquisition related intangibles relate to the valuation of brands at £0.4m and customer relationships at £1.0m and are being amortised over twenty years. An inventory provision has been made for obsolete and slow moving inventory and brings the accounting policies of SpaceKraft in line with those of the Group.

SpaceKraft contributed £4.8m revenue and £0.3m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. SpaceKraft was owned for the whole financial year, with results included in full.

26 Acquisition of subsidiaries and business combinations continued

Inclusive Group Ltd

On 4 April 2008, the Group acquired 25% of the issued share capital of Inclusive Group Limited (Inclusive) for an initial cash consideration of £1.0m. The Group includes Inclusive Technology Ltd, which is a leading supplier of special educational needs (SEN) and early years products and services. This transaction has been accounted for by the purchase method of accounting.

	Book value £000	Provisional fair value adjustments £000	Provisional fair value £000	25% acquired £000
Net assets acquired:				
Acquisition related intangible assets	–	1,101	1,101	275
Intangible assets	114	(114)	–	–
Property, plant and equipment	200	–	200	50
Inventory	217	–	217	54
Trade and other receivables	1,033	–	1,033	258
Trade and other payables	(1,463)	(10)	(1,473)	(368)
Deferred tax liabilities	(6)	(308)	(314)	(78)
	95	669	764	191
Goodwill				823
Total consideration				1,014
Satisfied by:				
Initial cash consideration				1,000
Acquisition costs				14
				1,014

Net cash outflow arising on acquisition:

	£000
Initial cash consideration	1,000
Acquisition costs	14
	1,014

The goodwill arising is attributable to the anticipated future profit from the acquired business operating as an associate of the Group. Fair value adjustments have been recognised for acquisition related intangible assets and to fully write-down the value of intangible assets in the books of the acquired group. Acquisition related intangibles relate to the valuation of brands and customer relationships and are being amortised over ten years.

Inclusive's business is highly seasonal and as a result it contributed a loss of £50,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition of Inclusive had been completed on the first day of the financial year, Group profit attributable to equity holders of the parent would have risen to £11.4m.

The Group has pre-emptive purchase rights, at fair value, over any shares of Inclusive sold or issued in the future.

26 Acquisition of subsidiaries and business combinations continued

EasyTrace

On 29 July 2008, the Group acquired 100% of the issued share capital of Orchard Partners Limited (trading as EasyTrace) for an initial cash consideration of £1.0m, loan notes of £1.3m and estimated deferred consideration of £0.4m. EasyTrace designs, develops and supplies biometric and smartcard solutions to educational establishments. This transaction has been accounted for by the purchase method of accounting.

	Book value £000	Provisional fair value adjustments £000	Provisional fair value £000
Net assets acquired:			
Acquisition related intangible assets	–	1,500	1,500
Property, plant and equipment	89	–	89
Inventory	58	–	58
Trade and other receivables	486	(241)	245
Trade and other payables	(460)	(128)	(588)
Deferred tax liabilities	–	(357)	(357)
	173	774	947
Goodwill			1,808
Total consideration			2,755
Satisfied by:			
Initial cash consideration			1,000
Deferred consideration			440
Loan notes			1,315
			2,755

Net cash outflow arising on acquisition:

	£000
Initial cash consideration	1,000
Repayment of debt acquired	64
	1,064

The goodwill arising is attributable to the anticipated future profit from the Company being part of the Group. Fair value adjustments have been recognised for acquisition related intangible assets, a provision for doubtful debts, an adjustment to amounts recoverable on long-term contracts and unrecognised payables. Acquisition related intangibles relate to the valuation of brands at £0.1m, intellectual property rights at £0.6m and customer relationships at £0.8m and are being amortised over seven to twenty years.

EasyTrace contributed £0.7m revenue for the period between the date of acquisition and the balance sheet date and nil to the Group's profit before tax. If the acquisition of EasyTrace had been completed on the first day of the financial year, Group revenues would have been £290.9m and Group profit attributable to equity holders of the parent would have been £11.5m.

Prior year acquisitions

In 2007 the Group acquired DACTA Ltd and SERAP. The fair values disclosed in the prior year were provisional and have been subsequently updated. There were no material adjustments in finalising these values, with the adjustments made being shown in note 13.

27 Post year end acquisitions

On 4 November 2008 the Group purchased the entire issued share capital of Computrac Inc for an estimated total consideration of \$8.0m (£5.0m), comprising \$3.0m (£1.9m) initial cash consideration, estimated deferred consideration of \$0.7m (£0.4m) and acquired debt of \$4.3m (£2.7m) which has been repaid. Computrac is a provider of interactive classroom technology solutions. It has not been practicable to calculate the fair value of assets acquired, including accounting policy alignment, owing to the time elapsed.

28 Operating lease arrangements

The Group leases certain assets under operating leases and recognised expenses in the year of:

	2008 £000	2007 £000
Minimum lease payments under operating leases recognised as an expense in the year	**4,389**	4,274

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £000	2007 £000
Within one year	**3,018**	2,775
In the second to fifth years inclusive	**9,914**	9,312
After five years	**7,832**	7,636

Operating lease payments represent rentals payable by the Group for certain of its office properties. The terms of these leases are subject to renegotiation on an average term of 12.2 years (2007: 12.9 years) and rentals are fixed for an average of 4.0 years (2007: 4.1 years).

Minimum expected sub-lease payments receivable, until earliest termination, are £0.1m (2007: £0.2m).

29 Capital commitments

The Group has the following capital expenditure commitments:

	2008 £000	2007 £000
Contracted for but not provided for	**3,243**	5,866

30 Share-based payments

The Group operates a number of executive and employee equity settled share-based payment schemes including co-investment and deferred bonus plans, share options and staff share schemes. The fair values of these schemes have been assessed using Black-Scholes and Monte Carlo models, as appropriate to the scheme, at the date of grant. The fair values of the schemes are expensed over the period between grant and vesting.

Charges for share-based payments under IFRS have been recognised only for issues that were made after 7 November 2002 and had not vested at the transition date as prescribed by IFRS 1 First-time Adoption and IFRS 2 Share-based Payment.

a) Employee share option schemes

The Group has in place share option schemes which issue options over shares in the Company. Options are exercisable at a price equal to the average quoted market price of the Company's shares over a five working day period up to the date of grant. The vesting period for options is three years. There are various performance conditions attaching to share option grants, including EPS related conditions. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

30 Share-based payments continued

Details of share options outstanding during the year are as follows:

	Number of share options	Weighted average exercise price £	Exercise price range £
Outstanding at 1 October 2006	5,728,295	3.01	0.72-7.62
Granted during the period	1,150,000	1.88	
Lapsed during the period	(237,699)	2.92	
Exercised during the period	(929,903)	1.38	
Outstanding at 1 October 2007	5,710,693	3.06	0.72-7.62
Granted during the period	1,023,000	1.92	
Lapsed during the period	(859,288)	3.26	
Exercised during the period	(422,892)	1.08	
Outstanding at 30 September 2008	**5,451,513**	**2.96**	**0.72-7.62**

The options outstanding at 30 September 2008 had a weighted average contractual life of 5.3 years (2007: 4.5 years).

Included within the above balances are options over 2,024,687 shares (2007: 2,920,259 shares) for which a charge has not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002.

In the year to 30 September 2008, options were granted on 28 November 2007, 1 August 2008 and 19 August 2008 (2007: 6 December 2006 and 15 June 2007). The estimated fair value of the options granted is £0.47 per option (28 November 2007), £0.38 per option (1 August 2008) and £0.42 per option (19 August 2008) (2007: £0.56 per option for December 2006, £0.58 per option for June 2007). These fair values are determined using a Black-Scholes model and are charged to income evenly over the vesting period. Inputs to the model are as follows:

	19 August 2008	**1 August 2008**	28 November 2007	15 June 2007	6 December 2006
Share price at grant	**1.77**	**1.73**	1.98	2.06	1.87
Exercise price	**1.75**	**1.82**	1.97	2.05	1.74
Expected volatility	**30%**	**30%**	29%	30%	33%
Expected life	**5 years**	**5 years**	5 years	5 years	5 years
Risk free rate	**4.8%**	**4.8%**	4.6%	5.6%	4.8%
Expected dividends	**3.1%**	**3.2%**	2.8%	2.5%	2.8%

Expected volatility was determined by calculating the historic volatility of the Company's share price over the previous five years, excluding two time periods of extraordinary volatility. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

b) Co-Investment Plans

The Group has in place Co-Investment Plans for the remuneration of senior management. Plan participants commit shares worth up to 33% of their base salary which are matched by the Group with up to three matching shares per committed share provided subject to various vesting conditions, including EPS and total shareholder return conditions. The vesting period for the plan is three years. If the vesting conditions are not met or the participants leave the Group's employment then the participant's co-invested shares are returned to them. Details of co-invested shares during the year are included below:

	Maximum number of matching shares	Market price on grant £
Outstanding at 1 October 2006	2,234,308	
Granted during the period	975,018	2.12
Exercised during the period	(591,373)	
Outstanding at 1 October 2007	2,617,953	
Granted during the period	916,908	2.00
Lapsed during the period	(275,952)	
Exercised during the period	(413,733)	
Outstanding at 30 September 2008	**2,845,176**	

The weighted average market price at the date of vesting of co-investment matching shares during the year was £2.06 (2007: £1.77). The plans outstanding at 30 September 2008 had a weighted average contractual life of 1.1 years (2007: 1.4 years).

30 Share-based payments continued

In the year to 30 September 2008 co-investment rights were granted on 14 December 2007 (2007: 5 January 2007). The fair values are determined using the Black-Scholes model for EPS vesting conditions, giving £0.92 per committed share (2007: £1.25 per committed share) and a Monte Carlo model for TSR vesting conditions, giving £0.78 per committed share (2007: £0.65 per committed share) and are charged to income evenly over the vesting period with adjustments made for non-market based vesting conditions. Inputs to the models are as follows:

	14 December 2007		5 January 2007	
	EPS	TSR	EPS	TSR
Share price at grant	2.00	2.00	2.12	2.12
Exercise price	Nil	Nil	Nil	Nil
Expected life	3 years	3 years	3 years	3 years
Expected dividends	2.7%	2.7%	2.4%	2.4%

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Comparator company volatility is assessed using annualised, daily historic TSR growth assessed over a period prior to the date of grant that corresponds to the performance period of three years. The company correlation uses historic pairwise correlations of the companies over a three-year period. The fair value of the TSR element is based on a large number of stochastic projections of Company and comparator TSR.

In March 2003 the Company established the RM plc Share Trust to hedge the future obligations of the Group in respect of shares awarded under the RM plc Co-Investment Plan. The trustees periodically purchase shares on the open market using funds provided by the Group. These shares are used to hedge the estimated liability but until vesting represent own shares held – see note 23.

c) Deferred bonus plan

The Group has in place a deferred bonus plan for the remuneration of Executive Directors. Under the plan 40% of their annual cash bonus will be deferred in ordinary shares for a period of three years and vest at the expiry of the same period. Any unvested shares will lapse immediately if the Executive Director ceases to be an employee of the Group in circumstances where they would not be considered to be a "good leaver" under the rules of the plan.

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

	Number of bonus shares	Market price on setting entitlement £	Market price on grant £
Outstanding at 1 October 2006	72,655	–	–
Granted during the period in relation to 2006	72,120	1.82	2.12
Outstanding at 1 October 2007	144,775	–	–
Granted during the period in relation to 2007	93,802	1.97	2.00
Outstanding at 30 September 2008	**238,577**		

The number of shares outstanding at 30 September 2008 had a weighted average contractual life of 1.3 years (2007: 1.7 years).

In the year to 30 September 2008 awards were granted under the deferred bonus plan on 14 December 2007 (2007: 5 January 2007). The estimated fair value of the grant is £1.83 per bonus share (2007: £1.97 per share). This fair value is determined using a Black-Scholes model and charged to income evenly over the vesting period adjusted for expected survivorship. Inputs to the model are as follows:

	14 December 2007	5 January 2007
Share price at grant	£2.00	£2.12
Exercise price	Nil	Nil
Expected life	3 years	3 years
Risk free rate	4.6%	5.1%
Expected dividends	2.7%	2.4%

The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

In order to hedge the Group's liability to provide shares in the Company under the deferred bonus plans the trustees periodically purchase shares on the open market using funds provided by the Group. These shares are used to hedge the estimated liability but until vesting represent own shares held – see note 23.

30 Share-based payments continued

d) Staff share schemes

The RM plc 2002 Staff Share Scheme annually grants shares in RM plc to almost all employees. The shares vest to the employees after a minimum of three years, but normally after five years. The scheme is an HMRC approved employee share scheme constituted under a trust deed and was introduced to replace the RML Staff Share Scheme.

In the year to 30 September 2008 staff shares were granted on 25 March 2008 (2007: 23 March 2007). The fair value of the shares granted is equal to the market value of £2.00 per share (2007: £2.14 per share).The expected life used in the model has been set at three years being the minimum vesting period.

At grant the Trustees of the scheme purchase shares on the open market and hold these in trust on behalf of the employees. The schemes hold the following shares in RM plc:

	Number of shares	Weighted average cost £000
RM plc 2002 Staff Share Scheme	316,306	501
RML Staff Share Scheme	1,361	1
At 1 October 2006	317,667	502
Purchased	69,825	150
Vested	(10,368)	(19)
RM plc 2002 Staff Share Scheme	375,763	633
RML Staff Share Scheme	1,361	1
At 1 October 2007	377,124	634
Purchased	68,450	140
Vested	(14,931)	(26)
RM plc 2002 Staff Share Scheme	429,282	747
RML Staff Share Scheme	1,361	1
At 30 September 2008	**430,643**	**748**

These shares are held for the benefit of staff and are therefore not consolidated into the Group or Company balance sheets.

Performance conditions – estimation uncertainty

Assigning a fair value charge to share-based payments requires estimation of the number of instruments which are likely to vest and, for non-market based performance conditions, continuing reassessment of these estimates.

31 Retirement benefit schemes

Defined contribution schemes

The Group operates or contributes to a number of defined contribution schemes for the benefit of qualifying employees in its subsidiary companies. The assets of these schemes are held separately from those of the Group. The total cost charged to income of £2.8m (2007: £2.2m) represents contributions payable to these schemes by the Group at rates specified in employment contracts. As at 30 September 2008: £0.2m (2007: £ 0.2m) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit scheme

The Group operates one defined benefit pension scheme, the Research Machines plc 1988 Pension Scheme. The scheme provides benefit to qualifying employees and former employees of RM Education plc, 3T Productions Ltd and Softease Ltd, but was closed to new members with effect from 1 January 2003. Under the scheme employees are entitled to retirement benefits of 1/60th of final salary for each qualifying year on attainment of retirement age of 60 or 65 years and additional benefits based on the value of individual accounts. No other post-retirement benefits are provided. The scheme is a funded scheme.

The assets of the scheme are held separately from those of the Group in a trustee-administered fund.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out for statutory funding purposes at 31 May 2006 by a qualified independent actuary. The valuation of plan assets was updated to 30 September 2008 and liabilities rolled forward to this date under IAS 19 Employee Benefits. The present value of the defined benefit obligation and the related current service cost was measured using the projected unit credit method.

The triennial valuation for statutory funding purposes showed a deficit of £12.7m as at 31 May 2006 (31 May 2003: £12.9m). The cost of future provision was revised to 21.4% for Normal Retirement Age 60 (2003: 20.4%) and 15.3% for Normal Retirement Age 65 (2003: 13.1%).

31 Retirement benefit schemes continued

IAS 19 valuation

Key assumptions used:

	2008 %	2007 %
Rate of increase in salaries	**3.90**	3.70
Rate of increase of pensions in payment	**3.60**	3.30
Rate of increase of pensions in deferment	**3.60**	3.30
Discount rate	**6.70**	5.80
Inflation assumption	**3.60**	3.30

At 30 September 2008, as a consequence of current conditions in the credit market, the market derived discount rate, given by the iBoxx £ Corporates AA 15+ index yield, was 7.3% (5.8% at 30 September 2007). As required by IAS 19 Employee Benefits, management has considered whether the rate at 30 September 2008 contains a significant risk premium and has consequently adjusted it down to 6.7%. Use of the market derived discount rate would have resulted in the recognition of an £8.6m surplus. Further analysis of sensitivity to this assumption is explained below.

Mortality assumptions continue to be based on the PA92 medium cohort tables which give average life expectancies as follows:

	2008		2007	
	Male	**Female**	Male	Female
Pensioner member age 65 (current life expectancy)	**21.8**	**24.7**	21.8	24.7
Non-pensioner member age 45 (life expectancy at 65)	**23.0**	**25.8**	23.0	25.8

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

	2008 £000	2007 £000
Current service cost	**3,190**	3,668
Exceptional pension credit	**–**	(3,500)
Cost recognised within operating profit	**3,190**	168
Interest cost	**4,879**	4,258
Expected return on scheme assets	**(5,492)**	(4,558)
Income recognised within finance income	**(613)**	(300)
	2,577	(132)

The exceptional 2007 pension credit relates to the January 2007 implementation of a 5% pensionable salary cap. As part of the agreement to the cap a special contribution of £3.5m was put into the scheme in two parts, with the second and final element of £1.5m being paid in October 2007. This payment was in addition to the current service contribution and ongoing deficit catch up payments agreed with the scheme's trustees in 2006.

Amounts recognised directly in equity in respect of the defined benefit pension scheme are as follows:

	2008 £000	2007 £000
Actuarial gains and (losses)	**(1,532)**	7,565
Experience gains and (losses)	**–**	–
	(1,532)	7,565

Cumulative actuarial gains and losses recognised in the statement of recognised income and expense since 1 October 2004 are losses of £0.2m (2007: gain of £1.4m).

31 Retirement benefit schemes continued

The amount included within the balance sheet arising from the Group's obligations in respect of its defined benefit scheme, and the expected rate of return on scheme assets are as follows:

	2008 %	2008 £000	2007 %	2007 £000
Equities	**6.80**	**36,924**	7.40	54,974
Bonds	**5.45**	**39,320**	4.90	24,698
Total fair value of scheme assets		**76,244**		79,672
Present value of defined benefit obligations		**(76,805)**		(82,941)
Deficit in scheme and liability recognised in balance sheet		**(561)**		(3,269)
Related deferred tax asset		**157**		915
Net pension deficit		**(404)**		(2,354)

The actual return on scheme assets was a loss of £9.6m (2007: gain of £6.1m). The expected return on scheme equity assets is based upon the expected out-performance of equities over government bonds over the long term and includes an allowance for future expenses. The bond rate is based on the addition of a risk loading to the long-term risk free rate of return and also includes an allowance for future expenses.

Movements in fair value of defined benefit obligations were as follows:

	2008 £000	2007 £000
At 1 October	**82,941**	85,582
Current service costs	**3,190**	3,668
Interest cost	**4,879**	4,258
Exceptional pension credit	**–**	(3,500)
Contributions from scheme members	**23**	71
Actuarial (gains) and losses	**(13,657)**	(6,463)
Benefits paid	**(571)**	(675)
At 30 September	**76,805**	82,941

Movements in fair value of scheme assets were as follows:

	2008 £000	2007 £000
At 1 October	**79,672**	66,875
Expected return on scheme assets	**5,492**	4,558
Actuarial gains and (losses) – actual return less expected return	**(15,189)**	1,102
Contributions from sponsoring companies:		
In respect of current service cost	**3,190**	3,668
In excess of current service cost	**3,627**	4,073
	6,817	7,741
Contributions from scheme members	**23**	71
Benefits paid	**(571)**	(675)
At 30 September	**76,244**	79,672

The history of experience adjustments is as follows:

	2008 £000	2007 £000	2006 £000	2005 £000	2004* £000
Difference between expected and actual return on scheme assets:					
– amount (£000)	**(15,189)**	1,102	2,025	5,900	1,230
– as a percentage of scheme assets	**20%**	1%	3%	10%	3%
Experience gains and (losses) on scheme liabilities:					
– amount (£000)	**–**	–	1,813	–	(1,270)
– as a percentage of scheme liabilities	**–**	–	2%	–	2%

*Amounts disclosed for 2004 are under UK GAAP Financial Reporting Standard 17 as it is not practical to restate these amounts prior to the date of transition to IFRS.

31 Retirement benefit schemes continued

The amounts of contributions expected to be paid to the scheme during the financial year ending 30 September 2009 are approximately £2.7m in respect of current service and approximately £1.7m in respect of regular deficit catch up payments.

Defined benefit pension parameters

The defined benefit pension scheme accounting entries require a number of estimates to be made including the discount rate applied to liabilities, the current and past service costs and appropriate mortality assumptions. The financial position and performance of the scheme are sensitive to these parameters.

Sensitivity to these assumptions are shown in the table below:

Assumption changed £000	Current assumption £000	Increase/(decrease) in pre-tax deficit £000
Discount rate increase of 0.1%	6.7%	(1,500)
Inflation increase of 0.1%	3.6%	800
1 year additional life expectancy	PA92 Medium cohort	900

32 Prior year adjustments

There have been no restatements to the prior period income statement, balance sheet or cash flow statement of the Company or Group. However, as detailed in note 9, restatement adjustments have been made between deferred and current tax balances.

33 Related party transactions

The remuneration of the key management personnel of the Group, recognised in the income statement, is set out below in aggregate. Key management are defined as the Executive and Non-Executive Directors of the Company and other persons classified as "persons discharging management responsibility under the rules of the Financial Services Authority". Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Report.

	2008 £000	2007 £000
Short-term employee benefits	**2,761**	2,470
Post-employment benefits	**196**	175
Other long-term benefits	**256**	435
Share-based payment	**63**	26
	3,276	3,106

There were no other significant related party transactions which have not been eliminated on consolidation. Transactions between Group companies are conducted on an arms length basis in compliance with Transfer Pricing regulations.

Transactions between the Company and its subsidiaries

A list of the Company's principal subsidiaries is set out in note 15. Transactions with subsidiaries relate principally to management recharges, inter-group dividends and interest. The table below shows transactions between the Company and its subsidiaries impacting profit for the year:

	2008 £000	2007 £000
Management recharges	**(466)**	(455)
Net intercompany interest	**(12)**	(6)
Dividends received	**9,424**	3,230

Total outstanding balances are listed in notes 19 and 20.

The Company also operates several share-based payment schemes for the benefit of employees of Group companies. Under IFRIC 11 Group Treasury and Share Transactions the fair value charge of £0.6m (2007: £1.0m) for these schemes is recharged to the employing Group company.

FIVE YEAR SUMMARY

£000 (except where otherwise stated)	2004 UK GAAP	2005 UK GAAP	2005 IFRS	2006 IFRS	2007 IFRS	**2008 IFRS**
Revenue	263,264	262,707	262,707	262,310	270,910	**289,473**
Profit before tax*	11,573	12,845	13,997	14,597	15,515	**16,427**
Profit after tax	3,892	2,004	7,738	10,489	13,405	**11,326**
Tax rate**	27%	27%	27%	28%	27%	**26%**
Basic earnings per share*	9.5p	10.6p	11.4p	11.6p	12.4p	**13.1p**
Dividends per share	4.60p	4.85p	4.85p	5.17p	5.49p	**5.81p**
Balance sheet:						
– total equity	40,601	38,515	38,248	42,275	57,912	**63,287**
– net cash and cash equivalents	27,480	22,942	22,942	30,092	29,321	**17,291**
– net funds less deferred consideration	21,569	18,193	18,193	28,505	27,365	**12,387**
– capital employed†	19,032	20,322	20,055	13,770	30,547	**50,900**
Profit before tax* as a percentage of revenue	4.4%	4.9%	5.3%	5.6%	5.7%	**5.7%**
Average number of employees	1,875	2,137	2,137	2,124	2,230	**2,373**

The amounts disclosed for 2004 are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS.

*Before amortisation of acquisition related intangible assets, goodwill charges and 2007 exceptional pension credit.

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

†Capital employed has been restated by removing the impact of issuable loan notes and deferred consideration.

SHAREHOLDER INFORMATION

Financial calendar

Ex-dividend date for 2008 final dividend	7 January 2009
Record date for 2008 final dividend	9 January 2009
Annual General Meeting	19 January 2009
Payment of 2008 final dividend	6 February 2009
Announcement of 2009 interim results	May 2009
Preliminary announcement of 2009 results	November 2009

Corporate Web site
Information about the Group's activities is available from RM at www.rm.com

Investor information
Information for investors is available at www.rm.com/investors Enquiries can be directed to Phil Hemmings, Director of Corporate Affairs, at the Group head office address or at phemmings@rm.com

Registrars and shareholding information
Shareholders can access the details of their holdings in RM plc via the Shareholder Services option within the investor section of the corporate Web site at www.rm.com/investors Shareholders can also make changes to their address details and dividend mandates online.

All enquiries about individual shareholder matters should be made to the Registrars either via email at ssd@capitaregistrars.com or telephone: 0871 664 0300 (calls cost 10p per minute plus network extras). To help shareholders, the Capita Web site at www.capitaregistrars.com contains a shareholders' frequently asked questions section.

Electronic communication
Following approval of the special resolution at the January 2007 AGM we are able to offer shareholders the ability to receive Company communications via email. By registering your email address, you will receive emails with a Web link to information posted on our Web site. This can include our report and accounts, notice of meetings and other information we communicate to our shareholders.

Electronic communication brings numerous benefits including:

- Environmental: helping us reduce our impact on the environment
- Security: your documents cannot be lost in the post or read by others
- Faster notification of information and updates
- Easy access: check your shareholding and account transactions online at any time
- Convenience: change your name, address or dividend mandate details online

To sign-up to receive e-communications simply go to Capita Registrars' Share Portal at www.capitashareportal.com and follow the instructions.

Beneficial shareholders with 'information rights'
Please note that beneficial owners of shares who have been nominated by the registered holders of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to Capita Registrars, or to the Company directly.

Multiple accounts on the shareholder register
If you have received two or more copies of this document, it may be because there is more than one account in your name on the shareholder register. This may be due to either your name or address appearing on each account in a slightly different way. For security reasons, Capita will not amalgamate the accounts without your written consent. If you would like to amalgamate your multiple accounts into one account, please write to Capita Registrars.

Directors
J.P. Leighfield Chairman
T. Sweeney Chief Executive Officer
M.D. Greig Group Finance Director
R.A. Sirs Chief Operating Officer
B. Carsberg Independent Non-Executive Director
J.R. Windeler Senior Independent Non-Executive Director
M.J. Tomlinson Independent Non-Executive Director
T.R.P. Brighouse Independent Non-Executive Director
J. Connell Independent Non-Executive Director

Company Secretary
A.J. Robson

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GLOSSARY

AQA
Assessment and Qualifications Alliance, one of the three major English examination boards, which are responsible for developing, setting and marking public examinations such as GCSEs and A-levels.

Becta
British Educational Communications and Technology Agency, the UK government agency responsible for leading the use of ICT in education.

BESA
British Educational Suppliers Association, trade association representing educational suppliers.

BETT
An educational ICT conference and exhibition which takes place annually in London.

BSF
Building Schools for the Future, a government programme to rebuild or refurbish all secondary schools in England.

C2K
Classroom2000, the public sector body responsible for managing the provision of ICT managed services to schools in Northern Ireland.

Cambridge Assessment
One of the three major English examination boards, which are responsible for developing, setting and marking public examinations such as GCSEs and A-levels.

CfP
Computers for Pupils, an English government programme to provide access to computing technology for disadvantaged pupils.

DCSF
Department for Children, Schools and Families, the UK government department responsible for the education and wellbeing of children and young people.

General curriculum resources
A wide range of non-ICT products used by teachers to support teaching and learning.

HDI
Help Desk Institute, a professional organisation representing the IT service and support sectors.

ICT
Information and Communications Technology, a term used primarily in the public sector to describe computer systems, telecommunications and networking.

Intellect
Trade association for UK software and IT companies.

ISO/IEC 27001:2005
International standard for information security management.

Learning platforms
Information systems that support teaching and learning workflow, and facilitate communications and collaboration between teachers, learners and parents/carers.

Local authority
Local government body with, amongst other things, responsibility for education and children's services.

LTS
Learning and Teaching Scotland, a non-departmental public body, sponsored by the Scottish Government, responsible for the development and support of education in Scotland.

Ofsted
Office for Standards in Education, the body responsible for inspecting and regulating education, children's services and skills.

On-screen marking
Distributed systems that allow examiners to use a personal computer to display scanned images of examination and test papers, annotate and mark those scanned images, and return marks electronically.

On-screen testing
Distributed systems that allow students to take examinations and tests using a computer.

Primary school
School serving pupils aged 4 to 11.

QCA
Qualifications and Curriculum Authority, the regulatory body for the curriculum and publicly funded qualifications in England.

Secondary school
School serving pupils aged 11 to 18.

SEN
Special Educational Needs, children who have learning difficulties or disabilities that make it harder for them to learn or access education than most children of the same age.

SQA
Scottish Qualifications Authority, the body responsible for publicly funded qualifications in Scotland.

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