RM plc Annual report and accounts 2009

We're focused...

Our focus...

The RM Group is one of the world's leading education solutions businesses. We provide unique educational products and services to schools, colleges and universities, and to government departments and agencies.

Founded in 1973, RM has been an educational innovator for over thirty years. We work closely with our customers to develop superior solutions that use innovative ideas, processes and technology to improve standards of teaching and learning.

Contents

We're focused...
on our performance

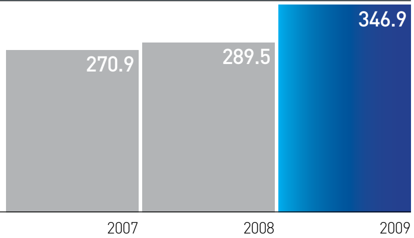
Operational highlights

- Strong growth in revenue and profit
- Continuing growth in education resources, driven by innovative new product development and targeted acquisition
- BSF (Building Schools for the Future) programme firmly into delivery phase, with 28 schools completed during the year
- International business transformed by the acquisition of Computrac in the United States

Financial highlights

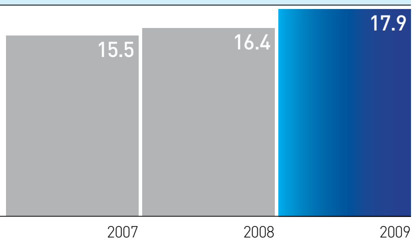
Revenue
£m

346.9m
+20%



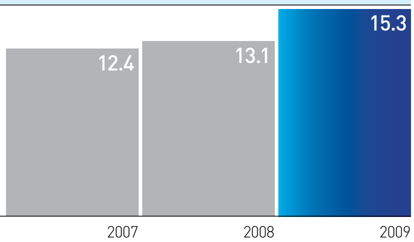
Profit before tax*
£m

17.9m
+9%



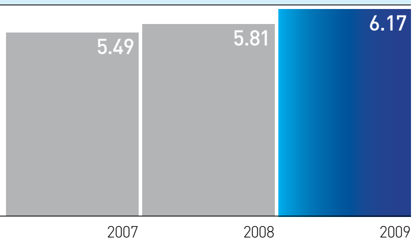
EPS*
p

15.3p
+17%



Dividend
p

6.17p
+6%



* Before amortisation of acquisition related intangible assets and acquisition integration costs.

We're focused...
on helping teachers to teach and learners to learn

Everything we do is focused on improving educational standards. We use our understanding of our customers' needs to create solutions which help them deliver superior education outcomes.

The 21st Century school
With BSF (Building Schools for the Future) and other new school programmes, the UK has some of the most modern schools in the world. In 2009, RM provided innovative technology for hundreds of schools, including 28 new BSF schools. With a focus on supporting the highest standards of teaching and learning, RM is helping those schools make a difference for pupils.

Raising standards
The best teachers know how to use classroom resources to help them deliver inspiring lessons. With over 12,000 unique educational products, each specially designed to support subject learning, RM helps teachers unlock learning for their pupils. Our products are also helping schools to provide improved life chances for special educational needs (SEN) pupils.

Improving processes
Effective education needs to be underpinned by robust systems and processes. RM provides sophisticated data services that give educationalists detailed insight into individual pupil's performance. Our outsourced services for examination boards and other qualification providers make testing and assessment efficient and effective.

A platform for learning
Glow, Scotland's national education intranet, which RM developed, shows technology supporting communication and collaboration for pupils, parents and teachers. In 2009, Glow received a Platinum award from the IMS Global Learning Consortium – global recognition for a service that is showing the way for educationalists worldwide.

We're focused... on growth

In the UK and internationally, we see opportunities for growth in all areas of our business.

BSF (Building Schools for the Future)

With 14 contracts won so far RM is the leading supplier of ICT to the BSF programme. In 2009, BSF revenues reached £34m and our existing contracts provide a secure earnings stream over the medium term. With over 30 local authorities in the market in the current year, there's more opportunity to come.

Education resources

Since we established RM Education Resources in 2004, we have grown revenues five-fold. Through a combination of organic growth and selective acquisition, we've built a strong business, with unique products and loyal customers.

International

International business reached 12% of Group revenue in 2009, up from 1% five years ago. With the acquisition of Computrac in November 2008, RM has begun to build a significant base in the United States. Our joint venture with GEMS Education in the Middle East provides significant growth potential.

Assessment and data

We've established RM as a trusted partner to UK examination boards and government departments and agencies, proving ourselves by reliably delivering critical services. Now, with our relationship with the International Baccalaureate and ACCA (Association of Chartered Certified Accountants), we're taking our expertise to new customers and geographies.

We're focused...

on delivering for all our stakeholders

Our success is built on delivering great outcomes for all of our stakeholders: owners, customers and people.

Owners
We've increased earnings consistently since 2002, and RM's dividend has increased or remained at the same level every year since the Group floated in 1994. Over the last five years, we have paid dividends totalling £25.3m. At 6.17p per share, this year's dividend (paid and proposed) is up 6% on last year.

Customers
We aim to provide our customers with innovative solutions that help them deliver superior education outcomes. Customer experience is a key measure for the Group and in 2009 our customer satisfaction score (on a scale of 0 to 10) was 7.5.

People
Our goal is to be a great place to work, creating chances for personal growth and development, and providing the opportunity to make a real difference for our education customers. In our 2009 Company Survey, 80% of our people said they were proud to work here (that compares with 69% in a group of comparable companies). Our people's pride in their Company reflects our commitment to providing rewarding careers.

We're focused... on our strategy

We aim to be one of the world's leading education solutions businesses. Our intention is to build a growing international business which is known by its education customers for contributing to their success, by its shareholders for delivering superior returns, and by its people as a great place to work.

Education markets only
We focus on education markets, where our domain knowledge and cultural fit make us a strong partner for our customers.

A broadly-based education Group
We provide a broad range of education-specific products and services across a shared customer base.

International market opportunities
We will operate on an international basis to provide a resilient business with critical mass for product development.

We're focused...
on our divisions

RM's single focus is providing superior solutions to education markets. With three distinct divisions, drawing funding from different customer groups, and with long-term customer relationships, RM is a robust and resilient business.

Funding

Qualification Providers

UK Government

UK Local Authorities

Individual Schools

US School Districts

Division	Solutions	Customer relationship	2009 Revenue
RM Assessment and Data	Assessment services	Long term contracts	**£19m**
	Outsourced data services		
RM Learning Technologies	BSF	Long term contracts	**£34m**
	National ICT infrastructure		**£205m**
	Authority-wide ICT infrastructure		
	School infrastructure	Customer loyalty	
RM Education Resources	General resources	Customer loyalty Repeat business	**£55m**
	UK curriculum software		**£9m**
RM Learning Technologies	Classroom technology	Framework contracts Repeat business	**£25m**
	District/State-wide ICT Infrastructure		

We're focused...
on our markets

Our positioning

RM operates in three distinct education markets. We strive to continually improve our knowledge and understanding of our customers' needs so that we can create innovative products and services which help them deliver excellent education outcomes. Our aim is to offer products that are demonstrably superior to the competition and which are highly valued by our education customers.

RM Learning Technologies

Technology infrastructure, software and services – including learning platforms, interactive classroom equipment, computer systems, connectivity, networking software, school management software and support services.

RM is the leading provider of learning technologies to UK schools, and is establishing a strong regional position in the United States.

RM Education Resources

Curriculum-focused products designed to make classroom learning fun, motivational and effective.

RM is a rapidly growing supplier of education resources, gaining market share and extending its product range.

RM Assessment and Data

Process management and outsourcing for testing and qualifications; data analysis services for teachers, education managers and policy makers.

RM is a pioneering provider of assessment and data services, with a range of world-class technology solutions.

A modern UK school

Secondary	Primary
Annual budget: £5.2m	Annual budget: £0.8m
1,000 pupils	230 pupils
165 staff (100 teachers)	22 staff (12 teachers)
3 ICT staff	1 part-time ICT co-ordinator
800 computers	75 computers
200 applications	50 applications
60 whiteboards	20 whiteboards

Education spending in our key markets

UK

£88bn

UK education spend 2009-2010

Budget March 2009

The March 2009 Budget set out education spending of £88bn in the government year to April 2010. For the year to April 2011, growth to £89.2bn is planned. OECD data indicates that the UK spends 5.2% of GDP on education.

The large majority of the education budget is allocated to staff costs. RM estimates its addressable market as c.£2bn. The British Education Suppliers' Association identifies individual school spending on products and services of £1.3bn in England, with general resources and ICT accounting for £0.5bn each. Additional spending comes from local government and central government and agencies.

United States

$530bn

United States education spend 2006

United States National Centre for Education Statistics

United States Federal Government data shows that total education spend in 2006 was $530bn. OECD data indicates that the United States spends 6.6% of GDP on education. RM estimates that spend on educational technology in 2009 will be £17.5bn.

In 2009, the Obama administration has introduced the American Recovery and Reinvestment Act, which includes a $100bn allocation for education.

Trends

The interactive classroom

Interactive technology has become the norm in UK classrooms. In new schools, learning spaces are routinely equipped with electronic whiteboards, and a very high proportion of classrooms in existing schools also have them. In the United States, schools are less well-equipped, with only 30% of classrooms reached so far; however, there is strong momentum building up behind the introduction of interactive classroom technology. We believe that teachers increasingly expect to use technology to teach, and would feel ill-equipped without it.

Great teaching needs great resources

Good teachers use resources – technology and non-technology – to help them deliver motivating and effective lessons. Our analysis suggests that, in the UK, schools that achieve the highest standards in inspections are also schools that prioritise their spending on classroom resources. With changes to the curriculum ahead, we believe that schools – and policy makers – will continue to recognise the benefits of effective classroom resources.

Modernising the education back-office

The majority of formal education examinations taken in the UK are now marked on-screen. Qualification providers value the process and quality control this approach delivers and are increasingly looking to technology to help them improve their service. Policy makers, education managers and parents also expect access to data about educational achievement and standards that can only be delivered using sophisticated technology. We believe the increasing drive for efficiency and effectiveness can only be delivered through innovative information systems.

Chairman's Statement

John Leighfield Chairman

2009 has been a very good year for RM, marking a further major step in the Group's transformation from a domestic ICT business to an international education solutions Group.

A very good year
In 2009, we have delivered strong financial results, whilst at the same time making strategic progress. With three distinct business divisions, and an increasing international presence, we are well positioned for further growth.

Results
Results for the year were strong, with significant growth in both revenue and earnings. Revenue increased by 20% to £346.9m (2008: £289.5m). Adjusted EPS increased by 17% to 15.3p per share (2008: 13.1p per share).

The Board is recommending a 6% increase in the full-year dividend (paid and proposed) to 6.17p (2008: 5.81p), reflecting the Group's continued confidence in its future growth prospects. RM's dividend has increased or been maintained at the same level every year since the Group floated.

Strategic development
Under Terry Sweeney's leadership, RM continues to develop as a broadly-based group of education companies with an increasing international presence. In 2009, more than half of our profit came from outside of our traditional UK classroom technology business, and 12% of our revenues came from outside of the UK. The common thread linking all of our activities is our commitment to providing products and services that help teachers to teach and learners to learn. Our aim is to be recognised as one of the world's leading education solutions businesses, providing superior products and services for our customers.

A clear indicator of progress is the smoothly-implemented acquisition and integration of Computrac, the United States learning technologies company we acquired in November 2008. Computrac brought critical mass to our United States operations and, in 2009, we installed interactive technology in over 8,000 classrooms. We are in discussions with a number of United States school districts about the potential for supplying RM's Kaleidos learning platforms and, with the United States Federal Government prioritising education spending, with technology as part of their plans, our United States business has the potential to grow rapidly and profitably.

In the UK, each of our three divisions made significant progress during the year and each is well-positioned for future growth. RM Education Resources, driven by innovative product development and acquisition, continues to gain market share. RM Assessment and Data continues to acquire long-term customers for the critical outsourced services it provides. In RM Learning Technologies, our long-term investment in BSF (Building Schools for the Future) has moved to a stage where it is contributing substantial revenues to the Group and we anticipate that it will be a net contributor of profit in 2010.

People

As ever, RM's success is the result of the hard work and engagement of our people. In an environment where the business must inevitably make some tough decisions, it is essential that the people who work here are committed to what we are trying to achieve. In our most recent annual staff survey, 80% of our people said they were proud to work here; this is a remarkable asset for the Group and, on behalf of the Board, I thank them all for their contribution.

Looking ahead

It is likely that areas of public spending will be under pressure over the next few years. RM will inevitably face challenges; however, we are well-prepared to deal with them.

We have taken tough action during the year on the Group's cost base. Whilst this is never easy, it has helped to ensure that we are in the best shape to deal with whatever the future brings. Each of our businesses has a strong market position; together they provide both growth and resilience. Our unrivalled position as an ICT supplier to the BSF programme and our assessment and data business provide us with long-term contracted revenue streams, whilst our education resources business directly serves frontline educators. In the United States we now have a substantial business, and elsewhere outside of the UK we are building our position.

RM is a world-class education solutions company. We see plenty of opportunity ahead.

John Leighfield
23 November 2009

Financial highlights

	2009	2008
Revenue	**£346.9m**	£289.5m
Adjusted* profit from operations	**£17.7m**	£14.6m
Adjusted* profit before tax	**£17.9m**	£16.4m
Profit before tax	**£16.3m**	£15.4m
Adjusted* earnings per share	**15.3p**	13.1p
Earnings per share	**14.0p**	12.3p
Dividend per share – proposed and paid	**6.17p**	5.81p
Cash	**£13.3m**	£18.3m
Net cash	**£5.0m**	£17.3m
Committed revenues	**£445m**	£410m

* Adjusted profit is before amortisation of acquisition related intangible assets and acquisition integration costs.

Business Review
Operations

Terry Sweeney Chief Executive Officer

With a broad range of superior education solutions, strong committed revenues, and an increasingly international customer base, RM is a resilient business well positioned for further growth.

A growing business

RM's results for 2009 show significant growth on the previous year and were ahead both of our original plan and of expectations.

Group revenue increased by 20% to £346.9m (2008: £289.5m), with particularly strong contributions from new school build programmes and our general education resources business, as well as the inclusion of Computrac, our United States subsidiary, for the first time. Revenue from outside the UK increased by 150% to £41.5m (2008: £16.5m), representing 12% of Group sales and reflecting the Group's success in increasing the international reach of its business.

Committed revenue (order book, deferred revenue and projects at preferred/selected bidder stage) is £445m (2008: £410m). Of this, £216m falls in the current financial year and £153m is beyond two years, providing both a strong base for growth in 2010 and good visibility for the future.

Adjusted profit from operations increased 21% to £17.7m (2008: £14.6m). Adjusted profit before tax increased 9% to £17.9m (2008: £16.4m). After deducting amortisation of acquisition related intangible assets and acquisition integration costs, the statutory measure of profit before tax increased by 6% to £16.3m (2008: £15.4m). These increases in profit were achieved after charging restructuring costs £1m above historic run-rate and a reduction in net investment income of £1.6m.

The effective adjusted tax rate was 21.3% (2008: 26.4%). RM's tax charge benefits from enhanced tax deductions on qualifying research and development activities. In addition in 2009, the tax charge reflects a one-off settlement of claims for additional research and development tax credits in relation to prior years.

Adjusted earnings per share increased by 17% to 15.3p per share (2008: 13.1p per share).

At 30 September 2009 cash and cash equivalents stood at £13.3m (2008: £18.3m). Net cash stood at £5.0m (2008: £17.3m), reflecting acquisitions made in the year funded by long-term borrowings.

A broadly-based Group

RM is a growing Group of education businesses, operating in the UK and internationally.

We believe that RM will continue to benefit from the priority placed on education by governments across the world. The funding landscape in which the Group operates comprises a range of different purchasers, in different geographies, with independent budgets. As a consequence, we are not wholly dependent on any single budget stream, set of customers, product line, or education policy.

The majority of revenue in our UK education resources and individual schools' learning technologies businesses is derived from individual schools' frontline education budgets. In England, these budgets are fixed for the government year ending April 2010 and showed real-terms growth on the previous year. Government data shows that many schools hold budget surpluses. The March 2009 Budget planned further growth in education spending for the government year ending April 2011; individual school budget allocations for this year will be set before March 2010. Beyond this, indications are that frontline school budgets will be given priority.

Growth in our BSF business is underpinned by the 14 contracts we have already won. Looking further ahead, our BSF bid pipeline is larger than it has ever been.

In our international markets, the most significant of which is the United States, RM is a relatively small player and well-positioned for gaining market share. In the United States, the Obama administration has prioritised education as part of the ARRA (American Reinvestment and Recovery Act) and has specifically identified technology as an area for investment. The UK is significantly ahead of the United States in the deployment of interactive classroom technology and our expertise is highly valued by our United States customers.

RM Learning Technologies

RM Learning Technologies provides ICT software, systems and infrastructure for education establishments. RM is the leading provider of these products and services to schools in the UK. RM United States, which now includes Computrac, has a strong regional presence in the South Eastern United States and is expanding into other areas.

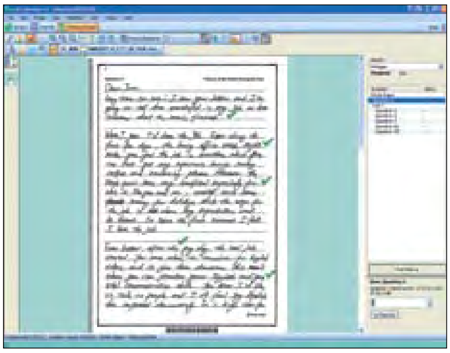
Revenue in this division increased by 22% to £263.7m (2008: £216.5m), principally as a result of BSF contracts in delivery and the first-time inclusion of Computrac. BSF revenue in the year was £34.0m (2008: £9.0m); Computrac, which we acquired in November 2008, contributed £21.6m. Business from individual schools in the UK was broadly flat year-on-year. RM's range of classroom ICT infrastructure products remains unrivalled. We are also maintaining a very high standard of delivery. Two of our managed ICT service contracts – in Dudley and South Lanarkshire – were extended during the year; subsequent to year-end, the Scottish Government renewed our contract to provide Glow, a national learning platform, for a further two years. These contract extensions demonstrate the high level of service we offer our customers.

In the United States, the acquisition of Computrac has provided us with significantly increased scale. Revenue from Computrac in the eleven months it contributed in 2009 was £21.6m (year to July 2008: £18.0m). We anticipate further revenue growth in 2010 as a result of increased demand for interactive classroom technology. We are also beginning to see interest in the Group's Kaleidos learning platform in a number of United States school districts.

Our very strong BSF position is a major asset to the Group, providing excellent earnings visibility and a substantial opportunity to supply further products and services to the schools we are working with. RM is the clear ICT market leader in BSF and, across the life of the programme, we aim to increase our share of the English secondary school market. We have been selected as ICT supplier for 14 of the 37 projects that have been awarded and, so far, we have delivered 41 of the 134 schools in these projects. The balance will be delivered over the next five years. Multi-year managed service delivery commences after initial delivery.

Business Review
Operations continued

The REAL Centre, located at RM's Abingdon headquarters, helps educators see how the Group's products help make inspiring learning spaces.



scoris® – RM's innovative examination marking system – enhances reliability and consistency for qualification providers.

RM Education Resources

RM Education Resources provides a very wide range of products used by teachers to help them deliver good lessons. The product range includes general non-ICT resources, special educational needs resources and curriculum software. We choose to focus on products that provide a high level of educational value and a large proportion of what we provide is unique to the RM Group.

Revenue in this division increased by 19% to £63.9m (2008: £53.6m). This performance masks a very strong performance from general resources, offset by a further decrease in UK curriculum software. General resources revenue increased by 31%, with organic growth of 25%, reflecting both market share gain and the acquisitions of Isis Concepts and Pisces Art during the year. Conversely, UK curriculum software, which has been a difficult market for a number of years, contributed £9.4m (2008: £13.1m). We have significantly reduced operating costs in Lightbox, our UK curriculum software business.

RM Education Resources' revenues primarily come from frontline education budgets. Since we established our education resources business in 2004, growth has been driven by a combination of acquisition and market share gain. We will continue with this strategy, further broadening our product range and providing an increasing number of superior solutions which teachers value.

RM Assessment and Data Services

RM Assessment and Data provides outsourced 'back-office' services to qualification providers and government departments & agencies. RM has pioneered the development of on-screen marking and on-screen testing solutions, and also has extensive expertise and experience in providing management information to policy makers and school leaders.

Revenue in this division was flat at £19.3m, reflecting the end of a large contract in 2008 offset by growing business with our key strategic customers.

2009 was a successful period for customer acquisition. In April 2009, we signed a memorandum of understanding with the International Baccalaureate Organisation (IB), a rapidly growing international provider of end-of-school qualifications. In June 2009 we signed a £9m contract with ACCA (the Association of Chartered Certified Accountants), under which we will provide on-screen marking services. This relationship demonstrates the ability of our innovative assessment systems to reach customers outside of the school-age education market.

Committed revenue for this division exceeds total revenue for 2009, demonstrating the long-term visibility in this business area.

Cost management

We have continued to focus on ensuring that our cost base is appropriate for the market conditions we anticipate.

Restructuring costs in RM Learning Technologies and RM Education Resources in the year were £1m more than the historic run-rate. Since year-end, we have undertaken further restructuring. We are also rationalising our property portfolio, bringing together Group companies into a smaller number of buildings.

We are also focusing more of our development, support and Group services activities in India. Headcount in India is now 270 and we have opened a second office to allow for further expansion.

RM's broad range of superior solutions helps teachers deliver effective and inspiring lessons.

Prospects

RM remains a seasonal business, with the majority of revenues and an even greater proportion of profit occurring in the second half of the year. As always, at this time of year, it is difficult to give a meaningful view of the outlook for 2010.

Our investment in the BSF programme is now beginning to mature. 2010 will see further significant growth in BSF revenue, as we deliver 70% more schools than the 28 we delivered in 2009, and we anticipate that BSF will make a net contribution to profit in the year. Our international business has gained scale through the acquisition and successful integration of Computrac. Our education resource business is well-positioned for further market share gain.

The characteristics of the Group are very different from five years ago. We have moved from a largely domestically-focused IT business, to a broadly-based international education Group. In the UK, each of our three divisions targets different strands of the overall education budget. Outside the UK, we are a relatively small and agile supplier, with highly relevant experience and world-class solutions. We believe the diverse nature of our business provides both opportunities for future growth and a high level of resilience.

Education remains an important priority for education policy makers across the globe. RM is one of the world's leading education solution businesses and we see growth opportunities ahead for all of our activities.

Business Review
Our Business

RM is one of the world's leading education solutions businesses. We provide a broad and diverse range of products and services that help teachers to teach and learners to learn.

Strategy
RM's strategy has three key focus areas:

- **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.

- **International**
  We will operate on a 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 public sector market.

Our Strategic Framework brings together all of the elements of our strategy, acting as a balanced scorecard which is used across the business for setting objectives and measuring success.

Strategic Framework	
Competitive advantage	Education expertise
	Superior solutions
	International
	Brand
Stakeholders	Customers
	Shareholders
	People
Vision and Values	

Education focus

For more than three decades, RM has been at the forefront of developing innovative solutions for education. Over that time we have developed a deep knowledge and understanding of our education customers' needs. Initially focusing on classroom technology solutions, we have now expanded to provide education resources for schools and outsourced technology services to government education departments and agencies.

Diverse group

RM is a group of companies, active in three distinct market areas:

- **RM Learning Technologies**
  Reliable and cost-effective ICT infrastructure, software and services – including learning platforms, computer systems, interactive classroom equipment, connectivity, networking software, school management software and support services – for schools, colleges and universities.

- **RM Education Resources** (incl. Curriculum Software)
  Curriculum-focused products designed to make classroom learning fun, motivational and effective.

- **RM 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.

RM's people are at the heart of our success. Their commitment to understanding our education customers' needs is reflected in our products and services.

Market position

RM Learning Technologies has an unrivalled market position in the UK: it is the leading provider of classroom 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.

RM Education Resources is a rapidly growing supplier of general education resources, building market share by providing unique products that help teachers in the classroom. RM Assessment and Data Services is a leading supplier of outsourced services to examination boards and government departments and agencies in the UK, and is building a strong position internationally.

The Group also has a rapidly expanding global presence. In 2009, the Group's international sales increased by 150% and international revenues now represent 12% of the total. The recent acquisition of Computrac provides scale in the United States, and RM MENASA, our recently formed joint venture with GEMS Education in Dubai, provides a platform for growth in the Middle East and South Asia.

Business Review
Responsible Business

Vision and Values

Our Vision and Values reflect the way we choose to do business.

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

Serving our stakeholders
Our intention is to deliver a good result for each of our three key stakeholder groups: our customers, our owners, and our people. We want RM to be a business that is known by its education customers for contributing to their success, by its shareholders for delivering superior returns, and by its people as a great place to work. We also recognise that, as a business, we need to take our corporate social responsibilities seriously, minimising the impact we have on the environment and engaging with our communities.

A great place to work
We aim to be a great place to work, providing our people with professional challenges and personal growth, as well as the opportunity to make a difference for our customers. We believe that the single most important factor in delivering a great experience for our customers and great results for our owners is having a committed, motivated and effective workforce. Our annual staff survey suggests we are making progress in achieving our aim: 82% of our people said they thought RM was a good place to work, that's an increase of 2 percentage points from last year and compares with 59% in comparable companies; 80% of our people said they were proud to work for the organisation, which compares with 69% in comparable organisations; and the overall people satisfaction rating was 73.5%. Our commitment to our people is also recognised externally: in 2009, after an extensive audit, we were identified by the Corporate Research Foundation as one of the UK's Top ICT employers.

It's a record we're proud of and one that we work hard to keep improving. Our annual staff survey is designed to help the Group's leadership team understand whether we are measuring up to the high standards our people expect. The results of the survey are shared with all of our people and used to identify areas of improvement, and the leadership team sets in place programmes specifically designed to address areas where we aren't doing well enough.

The vast majority of 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 are an important factor in recruiting, retaining and motivating senior staff.

Engaging with our communities
We see our communities as being the education customers whom we serve, and the people who live in the geographical areas in which we operate.

We maintain strong relationships with educationalists, education policy makers and relevant non-departmental public bodies. We are proud that two of the UK's most senior educationalists – Sir Mike Tomlinson and Professor Sir Tim Brighouse – choose to serve on our Board. We also have an active programme of engagement with relevant government departments and agencies. The Board invites senior figures from the education community 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.

BRITAIN'S top EMPLOYERS 2009 IT

AWARDED BY THE CRF INSTITUTE

RM wants to be a Company that is known by its people as a great place to work. In 2009 we were identified as one of Britains's top employers.

RM supports organisations which aim to help improve education such as The Prince's Teaching Institute, HTI (which develops education leaders), the 21st Century Learning Alliance (a group comprising policy makers and suppliers which aims to encourage the effective use of technology in learning) and in 2009 sponsored TeachFirst for the third year. During 2009, RM became a founding member of the Transformation Trust, a charity established by public and private sector stakeholders associated with the BSF programme, which aims to provide every young person with access to a rich range of extra-curricula activities.

We also play a leading role representing the needs of education customers in our trade associations. RM is represented on the Board of Intellect (the trade association for the UK technology industry) and chairs Intellect's Education Working Group. We are also represented on, and chair, the Executive Council of BESA (the British Education Suppliers Association). One of the competitive advantages we seek to develop is education expertise. RM will be successful only if we continually build our understanding of our customers' needs so that we can create solutions that help them deliver superior education outcomes. We aim to develop all education understanding at all levels across the Group. Our people are encouraged to serve as School Governors or participate in education in other ways, and many staff have personal objectives to spend time in schools with teachers and pupils. Each year Group company TTS has over 100,000 conversations with teachers and advisors.

As described in the Financial Review, RM paid and collected tax on behalf of HMRC amounting to £51.3m (2008: £50.4m). 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 2009, many 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 the Group has donated over £112,000 to 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. In 2009 £22,000 was donated to 74 charities. 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 2009, two students were selected for scholarships, and the programme now supports five students who will be funded through computer science and technology degree courses.

Business Review
Responsible Business continued

FTSE4Good

RM recognises the need to take its corporate social responsibilities seriously. We are included in the FTSE4Good index of companies that meet globally recognised corporate responsibility standards.

Environment – Green RM

In 2008, RM was named techMARK Sustainable Company of the Year, and was nominated again in 2009. The Group was nominated in the Achievement in Sustainability category in the 2009 PLC Awards and was also a 2008 Sunday Times Green Company of the Year.

We encourage our people to act in an environmentally-responsible way and all new staff in RM Education are given a Green RM induction within six months of joining the organisation. We ask our people to provide feedback on our environmental performance and, in our annual staff survey, 88% of them say they believe they work for an environmentally-aware organisation.

The Green RM programme, which is led by a team of committed people across the Group, is at the heart of our environmental activities. During the year the Green RM programme led a wide range of activities designed to improve the Group's environmental impact:

- Major improvements to the air-conditioning system in our Abingdon head office have reduced energy consumption and made RM a more comfortable place to work.
- Using video-conferencing technology we are reducing the number of miles travelled by people attending off-site meetings.
- A focus on recycling means that we are now recycling 63% of the waste at our head office and over 96% of packaging and waste in our production facility.
- Setting a target for personal paper use has reduced our paper consumption by 23%.
- By asking our shareholders to explicitly 'opt-in' to receiving paper copies of our Annual Report, the number printed and posted has been reduced significantly.

The Green RM Web site sets out our environmental commitments and our progress towards meeting our targets.

We recognise that RM's business has an environmental impact. We are committed to taking action to reduce the impact across our direct activities; our customers' usage of our products and services, and our supply chain. www.rm.com/green provides detailed information on our progress. The most significant direct impacts arise from commuting, our car fleet and from utility usage in our main facilities.

- In 2009, as we have done for several years, we ran a Green Transport week to promote more environmentally friendly alternatives for commuting. Throughout the year, we have offered travel card loans, a cycle-to-work scheme, subsidised buses, and a car-sharing scheme.

- Estimated average CO_2 emissions of our UK car fleet in 2009 were 146g/km (2008: 147g/km); average fuel consumption was 49.8mpg (2008: 48.0mpg). We continue to work to improve the environmental impact of our car fleet: the average fuel consumption of new cars added to the fleet in the last quarter of the year was 50.1mpg. We are currently consulting with UK staff on introducing a CO_2 cap of 160g/km and providing incentives for people to choose low-emission vehicles.

- Electricity usage in the Group's main facilities in Milton Park, Abingdon accounts for most of our electricity consumption. Excluding our new data centre, this reduced to 4,747,988 kWh (2008: 4,975,139 kWh). Wherever possible we continue to source 'green' energy. We have installed real time (AMR – automatic meter reading) monitoring of all utility usage in one of our buildings and will roll this out across the Group if the trial is successful. Evidence from the Carbon Trust suggests that use of AMR typically results in savings of 12%.

- Our new data centre which hosts cloud computing services for customers was commissioned during 2008. As utilisation increased, electricity usage increased to 682,375 kWh (2008: 181,386 kWh). However, the key measure of energy efficiency in a data centre, PUE (power utilisation efficiency, which measures the ratio of total energy consumed to energy consumed by IT) improved from 2.5 to 1.8 during the year. We plan to improve this further to 1.4 for 2010. Applying our knowledge of energy efficiency to our old data centre, we invested £90,000 in efficient cooling in 2009 to reduce electricity consumption.

Business Review
Finance

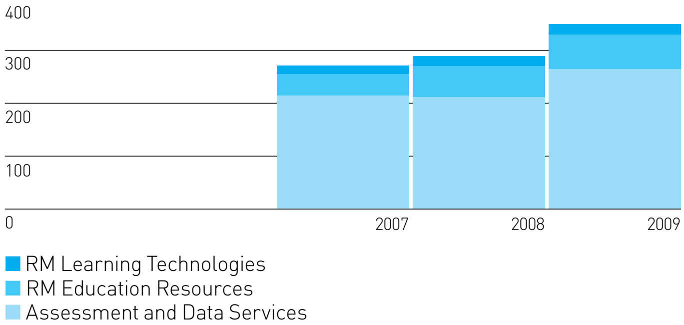
RM's adjusted EPS has increased from 3.8p in 2002 to 15.3p in 2009, and the Group's dividend has increased or remained at the same level every year since the Group floated.

Revenue and profits

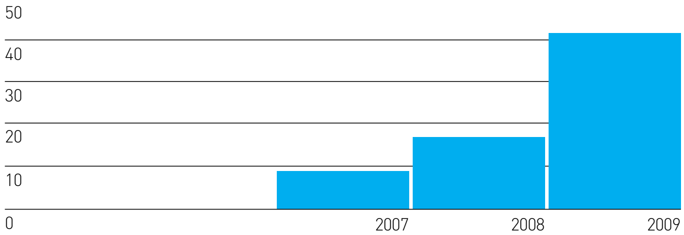
Group revenue increased by £57.4m (20%) to £346.9m (2008: £289.5m). Organic growth contributed £30.8m, and acquisitions (in the year and the full-year impact of previous year's acquisitions) contributed £26.6m.

The charts below show the development of the Group's revenue mix over the last three years.

Group revenue
£m



International revenue
£m



Revenue growth in 2009 came from the Group's RM Learning Technologies and RM Education Resources divisions.

International revenues increased by 150% to £41.5m (2008: £16.5m) and now represent 12% of total Group revenue. RM Learning Technologies international revenue is £30.7m (largely from United States and Australasia); RM Education Resources international revenue is £10.8m (largely from Europe).

Our preferred measure of profit is adjusted to exclude both amortisation of acquisition related intangible assets (as in prior years) and, for 2009, acquisition integration costs of £89,000 relating to the closure of one of Pisces Art's distribution centres.

Adjusted profit from operations increased by 21% to £17.7m (2008: £14.6m), after charging restructuring costs £1m above historic run rate in the year. Net investment income was £0.2m (2008: £1.8m). This reduction of £1.6m is as a result of a £1.0m reduction in pension finance income and a £0.6m increase in interest expense reflecting interest on acquisition borrowings. Adjusted profit before tax increased to £17.9m (2008: £16.4m).

The statutory measure of profit before tax increased to £16.3m (2008: £15.4m).

The Operations Review provides information about performance in each of the Group's three operating divisions. The charts below provide a revenue and divisional profit breakdown for these three divisions for 2009 and 2008.

2009 £m	**RM Learning Technologies (inc. United States)**	**RM Education Resources (inc. UK curriculum software)**	**RM Assessment and Data Services**	**Total**
Revenue	**263.7**	**63.9**	**19.3**	**346.9**
Divisional profit before BSF net expenditure	**12.8**	**6.3**	**2.1**	**21.2**
BSF net expenditure	**(2.6)**	**–**	**–**	**(2.6)**
Divisional profit	**10.2**	**6.3**	**2.1**	**18.6**
Net interest expense				**(0.7)**
Adjusted profit before tax				**17.9**

2008 £m	RM Learning Technologies (inc. United States)	RM Education Resources (inc. UK curriculum software)	RM Assessment and Data Services	Total
Revenue	216.5	53.6	19.4	289.5
Divisional profit before BSF net expenditure	11.3	6.4	2.1	19.8
BSF net expenditure	(4.4)	–	–	(4.4)
Divisional profit	6.9	6.4	2.1	15.4
Net interest income				1.0
Adjusted profit before tax				16.4

We have restated 2008 to reflect the inclusion our United States operation in RM Learning Technologies, the inclusion of pension finance income in net interest income and to present a BSF net expenditure figure which is net of the contribution from projects in delivery.

RM Learning Technologies revenue increased by £47.2m (22%) to £263.7m (2008: £216.5m). Revenue from BSF contracts in delivery was up £25m to £34m (2008: £9m). Revenue from the Group's United States operations increased by £22.3m to £25.3m (2008: £3.0m), reflecting the acquisition of Computrac, its successful integration and the success of the Group's combined United States operation.

BSF £m	**2009**	2008
Revenue	**34.0**	9.0
Operating profit from projects in delivery	**1.3**	0.3
Operating margin	**3.8%**	3.7%
Bid costs expensed	**(3.9)**	(4.7)
BSF net expenditure	**(2.6)**	(4.4)

The net expenditure on BSF was £2.6m in 2009, a £1.8m reduction in comparison to £4.4m a year earlier. There was a £1.3m contribution from BSF contracts in delivery in 2009 compared to £0.3m in 2008. These low initial margins reflect a prudent approach to early profit recognition on long term contracts. We continue to expense all bid costs prior to selected bidder. The more selective approach towards bidding for BSF projects that we adopted in the year and increased contributions from construction partners led to expensed bid costs of £3.9m compared to £4.7m a year ago.

RM Learning Technologies divisional profit before net BSF expenditure increased to £12.8m (2008: £11.3m); profit after net BSF expenditure increased to £10.2m (2008: £6.9m). We anticipate that profit recognised on BSF contracts in delivery will exceed expenditure during the year from 2010.

RM Education Resources revenue increased by £10.3m (19%) to £63.9m (2008: £53.6m). There was a very strong performance in general curriculum resources, where revenues increased by £14m (34%). This was offset by a further decline in UK curriculum software of £3.7m. Divisional profit decreased slightly to £6.3m (2008: £6.4m). The increase from general education resources balanced the significant decrease in the contribution from high margin UK curriculum software and restructuring costs in this area.

Restructuring charges

Restructuring charges, relating to reductions in headcount in Lightbox (the Group's UK curriculum software business) and in RM Learning Technologies, and property rationalisation, were at least £1m more than historic run-rate. All restructuring costs have been expensed through adjusted profit. This restructuring will result in annualised cost savings of over £2.5m and was necessary both to align the cost base in these divisions with available revenues, and to ensure that RM is well-positioned for future conditions. Further restructuring has taken place since year-end.

Profit margin

Adjusted operating profit margin as a percentage of total revenue increased to 5.1% from 5.0% and divisional profit margin increased by a similar amount to 5.4% from 5.3%.

Working capital

The year-on-year increase in net current assets, excluding cash and deferred acquisition consideration, was £16.8m. £2.9m of this was a result of acquisitions in the year. The balance of the increase reflects the 20% growth in revenue in the year, with particular increases in BSF and Education Resources.

BSF contracts in delivery accounted for £6.5m of the working capital increase; total working capital invested in BSF contracts was £17.6m at year-end. There is a build up of long term contract balances in each BSF project prior to delivery, with a significant peak around each school opening. Typical invoicing terms for new BSF schools are 70% on issue of acceptance certificate, 25% two months later, and 5% on completion of a group of schools, with payment 30 days later. RM opened 16 BSF schools in summer 2009 and significant balances relating to these schools which were outstanding at year-end have now been collected.

Business Review
Finance continued

RM Education Resources has a greater working capital requirement than the Group's ICT businesses because of lower inventory turnovers, and the absence of the deferred income balances that benefit the UK learning technologies businesses and which arise from invoicing for contracted services in advance. We have invested in additional inventory in TTS in particular to ensure that we continue to offer good customer service as the business grows.

Balance sheet
The net cost of acquisitions during the year was £10.0m. Net capital expenditure decreased to £8.2m (2008: £10.5m). Expenditure on refreshing computer equipment in the Group's PFI projects was £3.1m.

Cash
Cash and cash equivalents at 30 September stood at £13.3m (2008: £18.3m). After deducting borrowings under the acquisition facility of £8.3m (2008: £1.0m), net cash was £5.0m (2008: £17.3m). Net funds less deferred consideration at year-end were £(0.7)m (2008: £12.4m).

The movement of cash and net funds, less deferred consideration across the year is analysed in the table below.

Cash and net funds £m	30 Sept 2008	Acquisitions	BSF working capital	Other	**30 Sept 2009**
Cash & cash equivalents	18.3	(0.5)	(6.5)	2.0	**13.3**
Long-term borrowings	(1.0)	(7.4)	–	0.1	**(8.3)**
Net cash	17.3	(7.9)	(6.5)	2.1	**5.0**
Issued loan notes	(4.5)	–	–	0.9	**(3.6)**
Net funds	12.8	(7.9)	(6.5)	3.0	**1.4**
Deferred cash consideration	(0.4)	(2.1)	–	0.4	**(2.1)**
Net funds less deferred consideration	12.4	(10.0)	(6.5)	3.4	**(0.7)**

The seasonal nature of the Group's business, with high demand for products and services during the summer months, results in a peak in working capital during the summer. The average cash balance, before acquisition related borrowings, during the year was £4.6m (2008: £7.0m); peak borrowing in early September was £19.3m.

Bank facilities
The Group has in place facilities to manage its cash requirements.

A £25m facility with HSBC, committed to 2013, provides flexibility and finance for acquisitions. At year-end £8.3m (2008: £1.0m) was drawn on this facility, following the acquisitions of Computrac and Isis Concepts. The covenants on this facility require the net debt to be less than 2.5xEBITDA and the net facility interest to be less than EBITDA/4.

The Group's annual facilities to fund seasonal working capital requirements have been increased to £38m and are agreed for 2010.

Tax
The Group's tax charge, measured as a percentage of adjusted profit, was 21.3% (2008: 26.4%). RM's tax rate has been below the standard UK corporation tax rate for a number of years due the benefit the Group gains from enhanced tax deductions on qualifying research and development activities. In addition, in 2009, the tax charge benefited from a one-off settlement of claims for additional research and development tax credits in relation to prior years; without this, the tax rate would have been approximately 25%.

In total, RM paid and collected tax on behalf of HMRC amounting to £51.3m (2008: £50.4m). This includes corporation tax of £2.9m (2008: £3.1m), employment taxes of £27.4m (2008: £25.9m) and VAT of £21.0m (2008: £21.4m).

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 has exposures arising from buying products and components in US Dollars and Euros, and paying salaries in US Dollars and Indian Rupees. These exposures are effectively hedged through the use of forward foreign exchange contracts. The Group has operations in Australia, India and North America; these remain small relative to Group as a whole, so the foreign exchange risk arising on translation is also small.

- To provide the Group with cost effective and appropriate liquidity. The Group's cash funds vary throughout the year due to the seasonality of the business and its aim is to maximise returns from surplus cash through very low risk investments with defined institutions. Treasury also works with banks to ensure that cost effective committed borrowing facilities are available to meet any forecast funding requirements that arise from our seasonal trading pattern.

Pensions

The Group has a defined benefit pension scheme which has been closed to new entrants since January 2003. The IAS19 deficit on this scheme at September 2009 increased to £12.8m (September 2008: £0.6m). This increase can all be attributed to market related movements which totalled £13.5m. The liabilities of the scheme increased by £18.0m as a result of a change in assumptions, principally a decrease in the market derived discount rate used to value them to 5.6% (2008: 6.7%); this was partially offset by asset returns which were £4.5m more than expected.

DB pension £m	**30 Sept 2009**	30 Sept 2008
Assets	**89.9**	76.2
Liabilities	**(102.7)**	(76.8)
Deficit	**(12.8)**	(0.6)
Deferred tax asset	**3.6**	0.2
Deficit post-tax	**(9.2)**	(0.4)

The continuation of funding payments agreed after the last triennial valuation resulted in the Group making a cash contribution in excess of service charge in the year of £2.8m. Employee contributions to the scheme, made by salary sacrifice, were increased by a further 1% in 2009.

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

Sensitivity analysis Current assumption	Change in assumption	Increase/ (decrease) in deficit
5.6%	0.1% increase in discount rate	£(2.5)m
3.0%	0.1% increase in inflation	£1.9m
PA92 Medium Cohort	1 year increase in life expectancy	£1.5m

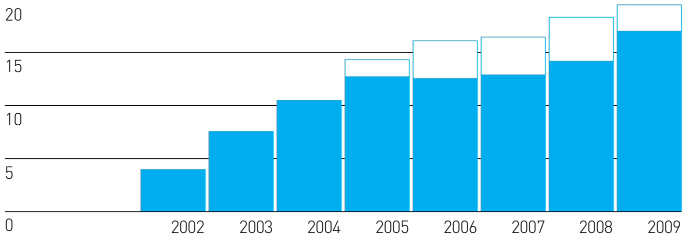
Acquisitions

On 3 November 2008, the Group acquired Computrac LLC for a net cost of up to $8.1m (c.£5.0m). Computrac provides interactive whole-class teaching technology solutions to schools in the South Eastern United States.

On 14 May 2009, the Group acquired Pars Commercial Holdings Ltd, the holding company which owned ISIS Concepts, for a total net cost of up to £2.6m. ISIS Concepts provides design-led learning spaces and furniture for educational establishments.

Shareholder return

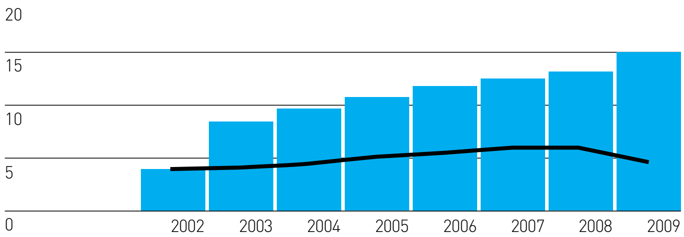
Adjusted profit from operations
£m



☐ BSF net expenditure
■ Profit

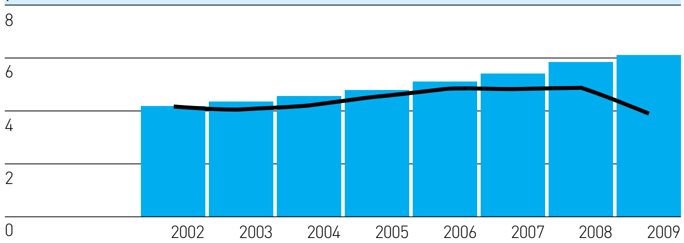
RM's adjusted EPS has increased from 3.8p in 2002 to 15.3p in 2009, and the Group's dividend has increased or remained at the same level every year since the Group floated.

EPS
p



— FTSE 250 EPS (rebased)
■ Profit

Dividend
p



— FTSE 250 Dividend (rebased)
■ Profit

Total dividend for 2009 (paid and proposed) will increase by 6% to 6.17p (2008: 5.81p); this comprises the already paid interim dividend per share of 1.32p, and a proposed final dividend per share of 4.85p payable on 5 February 2010. The estimated total cost of dividends paid and proposed for 2009 is £5.7m; dividend yield for the year is 3.9%, based on the share price at the end of the year.

The dividend payments in relation to the last five years total 27.5p per share, with a total cash cost of £25.3m.

The Group's share price at close of business on 30 September 2009 was 157.5p (28 September 2008: 168.0p); market capitalisation at the same date was £146.7m.

Board of Directors


John Leighfield


Terry Sweeney


Mike Greig


Rob Sirs


Sir Tim Brighouse


Sir Bryan Carsberg


Jo Connell


Sir Mike Tomlinson


John Windeler

John Leighfield CBE Chairman (n); Member (r)
John Leighfield (age 71) 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. He is a member of the Court of the Company of Educators.

Terry Sweeney Chief Executive
Terry Sweeney (age 42) 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 Sweeney 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.

Mike Greig Group Finance Director
Mike Greig (age 53), 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 responsible 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.

Rob Sirs Chief Operating Officer
Rob Sirs (age 48) 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 Director of the Cabot Learning Federation.

Sir Bryan Carsberg Independent Non-Executive Director (a) (r) (n)
Sir Bryan Carsberg (age 70) 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.

John Windeler Senior Independent Non-Executive Director (a) (r) (n)
John Windeler (age 66) 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 DeMontfort University and has a BA in English and an MBA in Finance, both from Ohio State University.

Sir Mike Tomlinson Independent Non-Executive Director (r)
Sir Mike Tomlinson (age 67) 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.

Professor Sir Tim Brighouse Independent Non-Executive Director (n)
Professor Sir Tim Brighouse (age 69) 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.

Jo Connell DL Independent Non-Executive Director (a) (r) (n)
Jo Connell (age 61) 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 Synstar plc. Jo is Chair of Governors and Pro-Chancellor of the University of Hertfordshire, Chairman of the Hospice of St Francis, and Deputy Master of the Worshipful Company of Information Technologists.

(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 2009.

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 & agencies.

Review of the business and future developments

The Directors are required, under the Companies Act 2006, 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 (pages 16 to 29); the Audit Committee Report (pages 40 to 43); and the Remuneration Report (pages 44 to 56).

Dividends

The Directors propose the payment of a final dividend per share of 4.85p, bringing the total dividend for the year to 6.17p per share (2008: 5.81p). Subject to approval at the Annual General Meeting (AGM), the final dividend is payable on 5 February 2010 to shareholders on the register on 8 January 2010.

Directors

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

- John Leighfield (Chairman)
- Terry Sweeney (Chief Executive)
- Rob Sirs (Executive Director)
- Mike Greig (Executive Director)
- John Windeler (Senior Independent Non-Executive Director)
- Sir Tim Brighouse (Independent Non-Executive Director)
- Sir Bryan Carsberg (Independent Non-Executive Director)
- Jo Connell (Independent Non-Executive Director)
- Sir Mike Tomlinson (Independent Non-Executive Director)

Biographies of the Directors, including details of committee membership are given on pages 30 and 31.

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 44 to 56 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 2006. 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, Tim Brighouse, John Windeler and Rob Sirs 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 Tim Brighouse and John Windeler continue to perform effectively and to demonstrate commitment to their roles as Non-Executive Directors.

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 are provided on pages 30 and 31 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 in accordance with the provisions of S418 of the Companies Act 2006.

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 £13.7m was incurred in 2009 (2008: £13.2m). All research and development costs incurred in 2009 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 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 2009, 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. 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, CEO Blog and Podcast, frequent email notices, internal notice boards and through RMi (the Group's 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.

Directors' Report
continued

Employment policies continued

Communications continued

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's employment policies are published on RMi (the Group's intranet).

Health and safety

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

RM has continued to improve its health and safety programme by providing development opportunities for staff, closely monitoring performance, and bringing all Group companies into a programme of internal audit and inspection.

During the year, the Group recorded 83 accidents.

In 2010, we intend to implement a formal external Quality Safety Audit from RoSPA. This was postponed from an original planned date of June 2009 to enable us to focus support on Group companies and prepare them in readiness.

Creditor 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 2009 were 37 days (2008: 41 days) based on the ratio of trade creditors at the year end to the amounts invoiced by suppliers during the year.

Charitable donations

During the year the Group made various charitable donations totalling £98,000 (2008: £83,000). A further £14,000 was given to locally based community support projects (2008: £15,000). 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 acquisition 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 19 November 2009 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	13,926,008	14.95
Ameriprise Financial Inc	5,843,200	6.27
Standard Life Investments Ltd	5,564,167	5.97
Aviva plc	4,934,452	5.30
Invesco Ltd	4,780,597	5.13
Lloyds Banking Group plc	4,050,752	4.35
Legal & General	4,008,328	4.30

Share capital
As at 30 September 2009, the Company's share capital comprised a single class of Ordinary Shares of 2 pence 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 includes in note 29 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 9,309,471 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 2010 annual general meeting or on 18 April 2010, 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 or during the prior 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 18 January 2010 at 140 Milton Park, Abingdon, Oxfordshire OX14 4RS. Details of the resolutions to be proposed at the AGM are contained in the Notice of Annual General Meeting sent to shareholders with this Annual Report.

By order of the Board

A.J. Robson
Company Secretary
23 November 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union [and Article 4 of the IAS Regulation] and have also chosen to prepare the parent company financial statements under IFRS as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- 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 IFRSs 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;
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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 Web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards, 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 management report, which is incorporated into the Directors' Report, includes 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 that they face.

By order of the Board

T. Sweeney
Chief Executive
23 November 2009

M.D. Greig
Group Finance Director
23 November 2009

Corporate Governance Report

Compliance

The Group has throughout the year, complied with the Combined Code on Corporate Governance June 2008 as published by the Financial Reporting Council (the Code).

The Group 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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Group, its cash flows and borrowing facilities are described in the Business Review: Finance. The Group's risk management policies are outlined in the Business Review: Risk and notes 19, 20 and 21 to the financial statements outline the Group's financial assets and liabilities, including details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Directors have assessed forecast future cash flows over the coming year and are satisfied that the Group's agreed working capital facilities are sufficient to meet these cash flows. Given the Group's continued seasonality and Building Schools for the Future contractual commitments, cash flows are forecast to be at their highest outflow between July and September.

Considering the above, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Board of Directors

The Directors who served on the Board during the year are set out in the Directors' Report on page 32; details of Directors' remuneration are given in the Remuneration Report. Biographical details for currently-serving Directors are provided on pages 30 and 31, showing the wide range of knowledge, skills and experience they provide to the Group.

The Senior Independent Director is 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 are exercised by different individuals and the division of responsibilities between the Chairman and Chief Executive 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.

Directors' conflicts of interest

At its AGM on 19 January 2009, shareholders approved amendments to the Company's Articles of Association to allow the Board to authorise situational conflicts in accordance with Section 175 of the 2006 Companies Act. The Board has not considered any situational conflicts during the year.

Corporate Governance Report
continued

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 three, independent Non-Executive Directors. 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 and John Leighfield, who was considered independent at the time of his appointment to the Board. The Remuneration Committee meets at least four times 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 (or, in his absence, John Windeler) 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 independent Non-Executive Director and any one Executive Director. The Transactions Committee meets at such times as the Chairman of the Committee requires. During 2009 it met thirteen times. The Transactions Committee approves, enters into and authorises the execution of 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 ten 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. Sweeney	10/10	–	–	–
M. Greig	10/10	–	–	–
R. Sirs	9/10	–	–	–
Non-Executive				
J. Leighfield	10/10	–	–	0/1
J. Windeler	9/10	2/3	3/4	1/1
T. Brighouse	9/10	–	–	0/1
B. Carsberg	10/10	3/3	4/4	1/1
J. Connell	10/10	3/3	4/4	1/1
M. Tomlinson	10/10	–	4/4	–

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 2009, 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 Terry Sweeney (Chairman), 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.

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 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 is available to meet 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 and Jo Connell, 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 19 January 2009, the re-appointment of Deloitte LLP as the Group's external auditors. A resolution proposing that Deloitte 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 and objectivity of the external auditors.

Internal audit

The Audit Committee has approved the appointment of RM's Group Chief Accountant 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.

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 sets a limit for fees for non-audit work and states that non-audit work should only be undertaken by the external auditors where there is a clear commercial benefit in 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 2009, 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 reviewed these areas in accordance with the Turnbull guidance.

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. Principal risks are identified in the statement of risks section within this report.

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. It delegates responsibility for operational risks to the Chief Executive and the Executive Committee. 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 as an inherent part of creating value for shareholders. As described above, the Group has put in place processes designed to identify these principal risks and to manage and mitigate the effect of them. The Audit Committee is responsible for ensuring that risks are properly considered and the Board is responsible for deciding what risks should be taken and how best to manage and mitigate against the risks.

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

The most significant risks the Group is exposed to are set out below. 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.

Audit Committee Report
continued

Statement of risks continued

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 Top IT Employers.

Education resources – physical resources

RM is increasingly involved in the supply of physical education resources that will 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.

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, owing to the long duration of liabilities.

The financial position of the scheme is reviewed at least bi-annually, when management meet with the scheme actuary. Management actively keep up to date with market practice and developments and provide frequent updates to the Board. The Group appoints two representatives to serve as Trustees of the scheme.

Sir Bryan Carsberg
Chairman, Audit Committee
23 November 2009

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 2009.

As reported in the Business Review, RM's financial results for 2009 were excellent, with increases in revenue, profits and earnings.

Remuneration highlights for the year are as follows:

- Executive Directors achieved bonus awards which totalled £357,000 (47% of maximum achievable)
- The Co-Investment Plan (CIP) awarded a 1.07 for 1 match for the shares held by the Executives for the criteria set in 2006

Changes to Remuneration in 2009

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. During the year, the Remuneration Committee reviewed the executive remuneration arrangements to test whether they continue to support the Committee's remuneration philosophy. As a result of the review, the Committee decided to make some changes to the long-term incentive arrangements. The current long-term incentive, the Co-Investment Plan (CIP) was put in place several years ago when the business was going through a recovery period. The business and economic environment has changed significantly and as a result the Committee have decided to replace the CIP with a Performance Share Plan (PSP) in order to have a long-term incentive plan which is simple and which aligns the leadership team with shareholder interests. Details of the new plan will be put to shareholder vote at the 2010 AGM.

In addition to the new Performance Share Plan, the Committee made the following decisions for 2010:

- Salaries to be maintained at 2008 levels for Executive Directors
- No changes to bonus arrangements
- Change to TSR peer group in PSP from FTSE Software & Computer Services Index to FTSE Small Cap Index
- Ability for executives to opt out of final salary pension plan and receive a 15% contribution into a pension arrangement of their choosing

As a result of these changes the Remuneration Committee believe that remuneration policies and measures are appropriate and in line with the Company's business outlook, circumstances and strategy.

Further details of the changes are given in this report.

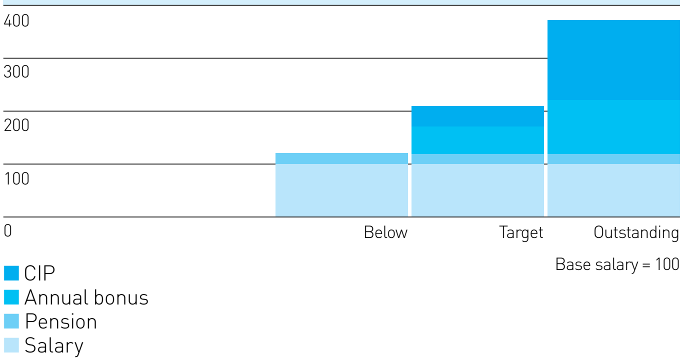
1. Remuneration policy

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. To achieve 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. The maximum incentive awards are only made when improved business performance, customer satisfaction and superior shareholder returns have been realised.

Furthermore, Executive Directors are required to hold shares worth 100% of their base salary and to defer up to 40% of any bonus received into company shares which is restricted for three years.

The graph below shows the way RM structure the total remuneration for the Executive Directors under existing arrangements for 2009 financial year:

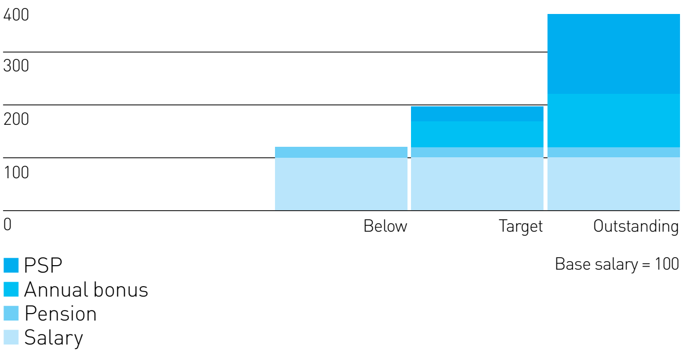
Structure of total remuneration for Executive Directors



	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	33% of salary	100% of salary

The graph below shows the impact of the proposed changes on total remuneration for the Executive Directors from the 2010 financial year:

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
Performance Share Plan	Nil	25% of salary	100% of salary

Under both the 2009 and proposed 2010 arrangements, the package is designed to be focused on performance. If outstanding performance is achieved, the value of the total package 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 arrangements so that 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 policy therefore seeks to ensure that the Executive Directors' are focused on the achievement of key company objectives as well as developing a significant shareholding. 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 profit and/ or customer advocacy, and personal objectives.
- Selected senior executives will be invited to participate in the Performance Share Plan with lower awards than the Executive Directors.

Remuneration Report
continued

1. Remuneration policy continued

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 reflecting changes proposed from October 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 (2010) • 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 advocacy 20% on market share and strategic development 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
Performance Share Plan (2010) • Maximum award of 100% salary	Rewards for achievement of long-term goals and to encourage leadership and strategic actions. Supports retention and strong alignment with shareholders	Relative Total Shareholder Return (TSR) EPS
Shareholding requirement • Minimum shareholding of 100% of salary	Ensure alignment between the interests of Executive Directors and shareholders	

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 annually with a group of appropriate peers in terms of size, complexity and business field. In light of the current wider economic environment, the Remuneration Committee has decided to freeze pay for the Executive Directors this year.

The level of annual bonus, long-term incentive potential through the Performance Share Plan and pension benefit are all linked to base salaries and so the costs or potential costs of these will be broadly unchanged. The overall balance of the package is also 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 Remuneration Committee is satisfied that the targets set are stretching and aligned to shareholders interests.

The performance measures for 2010 are set out below. The attainment of the targets is independently audited prior to any rewards being made.

Bonus measures for 2010

As from October 2009 a new customer advocacy measure will replace the customer satisfaction measure that has been in place for the last seven years. The new measure uses a Net Promoter Score by asking customers to score RM Education on how likely they are to recommend RM Education. The benefits of this measure are the ability to benchmark the score with other companies and a more extensive and objective response from customers. Achieving customer advocacy targets could result in an annual bonus payment of up to 20% of base salary.

The Committee also believes that it is in shareholders' interests that bonuses take account of business development 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.

The critical targets for 2010 are therefore increases in profit before taxation (PBT), customer advocacy, business development and attainment of personal objectives relating to RM's overall success.

The weighting of the different bonus measures is as follows:

PBT	50%
Customer advocacy	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 for personal objectives, is awarded even if performance in customer advocacy and market share and acquisition has been achieved.

Bonus outcomes for 2009

In 2009 the maximum bonus Executive Directors could earn was 100% of salary. Based on the performance for the year just passed, Terry Sweeney, Mike Greig and Rob Sirs each received on average an annual bonus of 47% of their salary (of which 40% was deferred into shares). This was based on annual EPS growth of 17% which triggered the customer satisfaction and market share targets to be taken into consideration and paid if appropriate.

Remuneration Report
continued

1. Remuneration policy continued

c) Long-term incentives

RM has been operating the Co-Investment Plan (CIP) for a number of years. The CIP operates on a three-year cycle. Under the plan, 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 CIP has two performance conditions based on diluted EPS growth and relative Total Shareholder Return (TSR), both of which will be measured over three years. TSR is measured relative to the FTSE Software and Computer Services index. EPS will be measured prior to exceptional items and only comes 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 are 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.

	December 2008 Grant	December 2007 Grant	January 2007 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 + 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)
Relative TSR condition (50% of grant)	Versus FTSE Software & Computer Services Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)	Versus FTSE Software & Computer Services Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)	Versus FTSE Software & Computer Services Median = 0.5 for 1 match Upper quartile = 1.5 for 1 match (sliding scale)

Changes to long-term incentives for 2010

For 2010 the Committee is proposing to replace the Co-Investment Plan (CIP) with the RM plc Performance Share Plan (PSP). No further awards will be made under the existing CIP. This change will provide a competitive long-term incentive which will target exceptional growth in earnings and relative returns to shareholders. Executives will therefore receive an award of up to 120% salary in any one year which will vest subject to performance at the end of three years. In exceptional circumstances the rules will give provision to make awards of up to 150% of salary. In the first year of operation, awards for Executive Directors will be capped at 100% of salary.

The new plan will be subject to the same performance measures as the CIP in that, 50% of the award will vest subject to relative TSR performance and 50% of the award will vest according to EPS performance and will only come into operation if the share price at vesting is at least equal to 100% of the share price at the start of the performance period.

During the year, the Remuneration Committee reviewed the TSR comparator group and decided to change the group from the FTSE Software & Computer Services index to the FTSE Small Cap Index (excluding financial companies). This would apply to any new awards made under the PSP in 2010. The main reason for the change is that it is believed the number of constituents in the Software & Computer Services index is now too small to give a meaningful comparison and also RM's business now has less in common with the other companies in the index. The Small Cap Index was chosen as it is seen as a more appropriate peer group.

The following table sets out the performance targets for the proposed awards:

	EPS		TSR	
	Annual compound growth	Proportion of award vesting (% salary)	Position relative to FTSE Small Cap Group excluding financial companies	Proportion of award vesting (% salary)
	Less than RPI + 3%	Nil	Below median	Nil
Threshold	RPI + 3%	12.5%	At median	12.5%
Maximum	RPI + 8.5%	50%	Upper quartile	50%

The proposals are subject to final shareholder approval at the AGM on 18 January 2010.

Long-term incentive outcomes for 2009

The 2006 Co-Investment Plan (CIP) award vests based on results for 2009 and matched shares at Nil for 1, on the basis of the TSR results over the preceding three years, and matched shares at 1.07 for 1, for EPS growth over the same period. The EPS award was originally made subject to the condition that the share price at vesting must be at least 100% of the share price at the date of the award, although the Committee made explicit their right to waive this condition in appropriate circumstances. The condition provides some safeguard against the danger that profits would be increased because of reductions in 'revenue investments' (expenditures that benefit future prospects but are charged against profits in the year of their expenditure). The Committee believe it is clear that this danger has not been a factor in current performance, and indeed that current expenditures that benefit future results have been running at a high level; the prospect that the share price at vesting will be below the share price at the date of award is attributable to market conditions. The Committee therefore decided to exercise their discretion and waive the underpin condition related to the share price. The Committee also considered the possibility of exercising their discretion in relation to the calculations underlying the TSR award but concluded that it would be inappropriate to do so.

d) Share option scheme

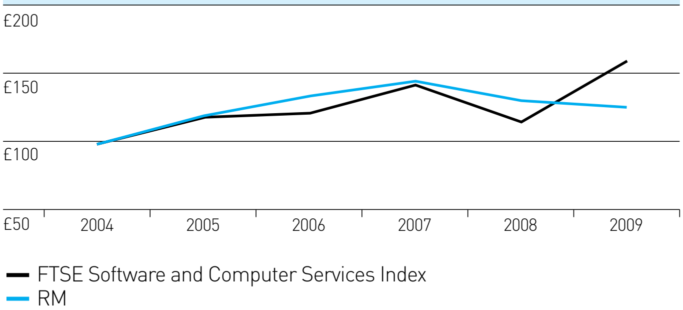
Following a review of Executive Directors' remuneration during 2004, the Remuneration Committee decided that share options would not be granted to Executive Directors (this is kept under review by the Remuneration Committee in light of evolving market practice). The Remuneration Committee believes, however, 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.

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

2. Performance graph

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 used in the past as a benchmark of RM's performance and is used again for reasons of consistency, even though, as noted above, it is now less useful as a comparator and will drop out of RM's measurements of performance after two more years. RM is a constituent of this index. £100 invested in RM shares on 1 October 2004 would have been worth £127.31 at 1 October 2009. An investor who had invested the same amount in the FTSE Software and Computer Services Index would have seen their investment increase to £158.64 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 2004, assuming that all dividend income is reinvested, compared to the FTSE Software and Computer Services Index.

Remuneration Report
continued

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.

d) Chairman and Non-Executive Directors

The Chairman and the Non-Executive Directors do not have service contracts with the Company. Their appointments are governed by letters of appointment, which are for a specified term – 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. There have not been any changes to Non-Executive Directors' fees since a review of market practice in 2007. At this time 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

* J.P. Leighfield's appointment has been extended for an additional one year and one month.

Audited Information
4. Directors' remuneration

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

	2009 £000	2008 £000
Emoluments	1,389	1,619
Gains on exercise of share options	45	154
Amounts receivable under long-term incentive schemes	192	250
	1,626	2,023

Directors' emoluments in respect of the Directors of the Company who served during the year ended 30 September 2009 were as follows:

Name	Salaries and fees £000	Taxable benefits £000	Annual bonuses* £000	2009 Total £000	2008 Total £000
Executive					
T. Sweeney	285	11	146	442	160
M.D. Greig	187	12	94	293	316
R.A. Sirs	235	11	117	363	338
T.R. Pearson	–	–	–	–	527
Non-Executive					
J.P. Leighfield	78	31	–	109	101
J. Connell	34	–	–	34	25
B. Carsberg	43	–	–	43	40
J.R. Windeler	34	–	–	34	34
T.R.P. Brighouse	33	–	–	33	33
M.J. Tomlinson	38	–	–	38	38
S.L. Coutu	–	–	–	–	7
	967	65	357	1,389	1,619

* 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 and private healthcare.

The highest paid Director (Rob Sirs) received gains on exercise of share options of £45,000 (2008: (Tim Pearson) £nil) and amounts receivable under long-term incentive schemes of £90,000 (2008: (Tim Pearson) £58,000).

Following the annual review of salaries the Committee agreed to no pay increases for the Executive Directors reflecting both a salary freeze in the main RM operating company and common practice in the external market. The following base salaries (before pension sacrifice) effective from 1 October 2008 therefore remain.

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).

	2009 Grant	2008 Grant	2007 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 + 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)
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)

* For the 2008 and 2009 grants 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.

Remuneration Report
continued

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

Audited Information

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

Date of award	Maximum number of matching shares* at 01/10/08	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 30/09/09
T. Sweeney							
20/12/05	35,769	159.0p	01/10/05 – 30/09/08	17,885	16/12/08	148.0p	–
05/01/07	47,673	211.5p	01/10/06 – 30/09/09	–	–	–	47,673
14/12/07	44,670	200.0p	01/10/07 – 30/09/10	–	–	–	44,670
16/12/08	–	148.0p	01/10/08 – 30/09/11	–	–	–	126,915
M.D. Greig							
20/12/05	102,735	159.0p	01/10/05 – 30/09/08	51,368	16/12/08	148.0p	–
05/01/07	83,319	211.5p	01/10/06 – 30/09/09	–	–	–	83,319
14/12/07	96,525	200.0p	01/10/07 – 30/09/10	–	–	–	96,525
16/12/08	–	148.0p	01/10/08 – 30/09/11	–	–	–	133,785
R.A. Sirs							
20/12/05	121,413	159.0p	01/10/05 – 30/09/08	60,707	16/12/08	148.0p	–
05/01/07	94,083	211.5p	01/10/06 – 30/09/09	–	–	–	94,083
14/12/07	103,950	200.0p	01/10/07 – 30/09/10	–	–	–	103,950
16/12/08	–	148.0p	01/10/08 – 30/09/11	–	–	–	167,229

* 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.

c) On 9 January 2009, Rob Sirs was granted a restricted stock award over 137,363 2p ordinary shares in RM plc. The number of shares awarded was equivalent to 100% of his salary at 182p per share, the closing price on 15 September 2008, the date on which the award was confirmed by the Remuneration Committee. Subject to the Remuneration Committee's satisfaction with the Group's underlying financial performance and Rob Sirs' continued employment, the award will vest on 15 September 2011.

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	3-year growth EPS	
and March 2002	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 2010.

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 (no sliding scale)
10 December 2004	3-year growth EPS	
	RPI + 5%	100
30 November 2005	3-year growth EPS	
	RPI + 5%	100
6 December 2006	3-year growth EPS	
	RPI + 5%	100
15 June 2007*	3-year growth EPS	
	RPI + 5%	100
28 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
3 December 2008*	3-year growth EPS	
	RPI + 3%	100
18 February 2009*	3-year growth EPS	
	RPI + 3%	100
26 May 2009*	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 4,469,403 which represents 4.80% of RM's shares in issue at 30 September 2009.

Remuneration Report
continued

6. Directors' share options continued
Audited Information

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

At 01/10/08	Granted in year	Exercised in year	Lapsed in year	At 30/09/09	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
T. Sweeney								
4,500	Nil	Nil	4,500	Nil	£4.415	–	04/12/01	04/12/08
12,000	Nil	Nil	12,000	Nil	£5.000	–	21/05/02	21/05/09
3,750	Nil	Nil	Nil	3,750	£7.615	–	06/12/02	06/12/09
7,002	Nil	Nil	Nil	7,002	£5.600	–	24/05/03	24/05/10
100,000	Nil	Nil	Nil	100,000	£1.973	–	28/11/10	28/11/17
127,252	Nil	Nil	16,500	110,752				
M.D. Greig								
21,750	Nil	Nil	21,750	Nil	£4.415	–	04/12/01	04/12/08
40,002	Nil	Nil	40,002	Nil	£5.000	–	21/05/02	21/05/09
17,500	Nil	Nil	Nil	17,500	£7.615	–	06/12/02	06/12/09
36,000	Nil	Nil	Nil	36,000	£5.600	–	24/05/03	24/05/10
111,413	Nil	Nil	Nil	111,413	£0.715	–	21/06/05	21/06/12
66,626	Nil	Nil	Nil	66,626	£0.785	–	04/12/05	04/12/12
12,000	Nil	Nil	Nil	12,000	£1.445	–	01/12/06	01/12/13
305,291	Nil	Nil	61,752	243,539				
R.A. Sirs								
17,250	Nil	Nil	17,250	Nil	£4.415	–	04/12/01	04/12/08
35,001	Nil	Nil	35,001	Nil	£5.000	–	21/05/02	21/05/09
15,000	Nil	Nil	Nil	15,000	£7.615	–	06/12/02	06/12/09
32,001	Nil	Nil	Nil	32,001	£5.600	–	24/05/03	24/05/10
10,350	Nil	Nil	Nil	10,350	£0.735	–	05/03/05	05/03/12
100,000	Nil	50,000	Nil	50,000	£0.785	£1.675	04/12/05	04/12/12
12,000	Nil	Nil	Nil	12,000	£1.445	–	01/12/06	01/12/13
221,602	Nil	50,000	52,251	119,351				

The gains on exercise of options were as follows:

Terry Sweeney	£nil
Mike Greig	£nil
Rob Sirs	£44,520

There have been no changes in the Directors' interests in the shares of the Company during the period 1 October 2009 to 20 November 2009.

The market price of the ordinary shares at 30 September 2009 was 157p per share and the range during the year was 142p to 180p per share.

7. Directors' shareholdings

The beneficial interests of the Directors in the ordinary shares of RM plc as at 30 September 2009 were:

	30 Sept 2009	30 Sept 2008
J.P. Leighfield	**140,000**	150,000
T. Sweeney	**79,407**	55,217
M.D. Greig	**190,386**	190,313
R.A. Sirs	**174,802**	127,206
J. Connell	**–**	–
B. Carsberg	**–**	–
J.R. Windeler	**32,000**	32,000
M.J. Tomlinson	**–**	–
T.R.P. Brighouse	**15,000**	15,000

8. Directors' pensions

a) All Executive Directors are members of the Group's defined benefit 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.

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

Member contributions % salary	Normal retirement age (Pre 1 May 2002 benefits)	Normal retirement age (Post 1 May 2002 benefits)
7.3%	60	65
13.10%	60	60

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

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

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 42) £000	M.D. Greig (age 53) £000	R.A. Sirs (age 48) £000
Accrued annual pension at 30 September 2009	23	63	66
Increase in accrued pension during the year	6	8	6
Increase in accrued pension (net of inflation)	4	7	7
Transfer value of increase (net of inflation and Director's contributions)	43	94	83
Transfer value of accrued pension at 30 September 2009*	283	943	847
Transfer value of accrued pension at 30 September 2008	168	748	665
Increase in transfer value (net of Director's contributions)	115	195	182

* The transfer value at 30 September 2009 is based on the transfer value basis agreed by the Trustees at their meeting on 12 December 2008 notably taking into account pension increases of 1.5% p.a. on the pre-97 excess over GMP.

As from 1 June 2006 all 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 18 January 2010.

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 2006. Accordingly, sections 4, 5(b), 6(b) and 8(b) have been audited by Deloitte LLP.

Remuneration Report
continued

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, all of whom are independent Non-Executive Directors, and John Leighfield, who was considered independent at the time of his appointment to the Board.

b) Schedule of meetings

The Remuneration Committee met four times during the year.

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

c) Advisers to the Remuneration Committee

During 2009, 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.

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

M.J. Tomlinson
Chair, Remuneration Committee
23 November 2009

Independent Auditors' Report

to the members of RM plc

We have audited the financial statements of RM plc for the year ended 30 September 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Recognised Income and Expense and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement contained within the Corporate Governance Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

John Clennett (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
23 November 2009

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 2009

	Notes	Adjusted £000	Adjustments £000	2009 Total £000	Adjusted £000	Adjustments £000	2008 Total £000
Revenue	3	**346,917**	**–**	**346,917**	289,473	–	289,473
Cost of sales		**(255,680)**	**–**	**(255,680)**	(211,713)	–	(211,713)
Gross profit		**91,237**	**–**	**91,237**	77,760	–	77,760
Selling and distribution costs		**(39,839)**	**–**	**(39,839)**	(35,131)	–	(35,131)
Research and development expenses		**(13,731)**	**–**	**(13,731)**	(13,180)	–	(13,180)
Administrative expenses		**(20,024)**	**(1,483)**	**(21,507)**	(14,813)	(1,026)	(15,839)
– Acquisition integration costs		**–**	**(89)**	**(89)**	–	–	–
Share of results of associates		**22**	**(19)**	**3**	(36)	(14)	(50)
		(73,572)	**(1,591)**	**(75,163)**	(63,160)	(1,040)	(64,200)
Profit from operations	5	**17,665**	**(1,591)**	**16,074**	14,600	(1,040)	13,560
Investment income	3 & 7	**1,192**	**–**	**1,192**	1,994	–	1,994
Finance costs	8	**(947)**	**–**	**(947)**	(167)	–	(167)
Profit before tax		**17,910**	**(1,591)**	**16,319**	16,427	(1,040)	15,387
Tax	9	**(3,809)**	**448**	**(3,361)**	(4,331)	270	(4,061)
Profit for the year attributable to equity holders of the parent		**14,101**	**(1,143)**	**12,958**	12,096	(770)	11,326
Earnings per ordinary share:	10						
Basic		**15.3p**	**(1.3)p**	**14.0p**	13.1p	(0.8)p	12.3p
Diluted		**15.2p**	**(1.2)p**	**14.0p**	13.0p	(0.8)p	12.2p
Paid and proposed dividends per share:	11						
Interim				**1.32p**			1.26p
Final				**4.85p**			4.55p

Adjustments relate to amortisation of acquisition related intangible assets and for 2009 acquisition integration costs of £89,000.

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 2009

	Notes	2009 £000	2008 £000
Exchange gains/(losses) on translation of foreign operations		**957**	(23)
Actuarial losses on defined benefit pension scheme	30	**(14,582)**	(1,532)
Fair value loss on interest rate swap		**(61)**	–
Current tax on items taken directly to equity		**31**	147
Deferred tax on items taken directly to equity	9	**3,893**	398
Net loss recognised directly in equity		**(9,762)**	(1,010)
Profit for the year		**12,958**	11,326
Total recognised income and expense for the year attributable to equity holders of the parent		**3,196**	10,316

Total tax credited to equity was £3,924,000 (2008: credit of £545,000).

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 2009

	Notes	2009 £000	2008 £000
Non-current assets			
Goodwill	12	**33,818**	29,662
Acquisition related intangible assets	13	**4,981**	4,941
Other intangible assets	13	**2,654**	2,242
Property, plant and equipment	14	**21,321**	19,882
Interest in associates	16	**967**	964
Deferred tax assets	9	**5,227**	1,532
		68,968	59,223
Current assets			
Inventories	17	**19,905**	18,254
Trade and other receivables	19	**86,164**	70,303
Cash and cash equivalents	21	**13,297**	18,291
		119,366	106,848
Non-current assets held for sale	14	**–**	2,580
Total assets		**188,334**	168,651
Current liabilities			
Trade and other payables	20	**(96,829)**	(93,200)
Tax liabilities	20	**(1,320)**	(920)
		(98,149)	(94,120)
Net current assets		**21,217**	12,728
Non-current liabilities			
Retirement benefit obligation	30	**(12,786)**	(561)
Bank loans	21	**(8,281)**	(1,000)
Deferred tax liabilities	9	**(51)**	(83)
Other payables	20	**(7,654)**	(9,112)
Provisions	22	**(589)**	(488)
		(29,361)	(11,244)
Total liabilities		**(127,510)**	(105,364)
Net assets		**60,824**	63,287
Equity attributable to equity holders of the parent			
Share capital	23	**1,863**	1,863
Share premium account	25	**26,725**	26,578
Own shares	24	**(1,246)**	(1,323)
Capital redemption reserve	25	**94**	94
Hedging reserve	25	**(61)**	–
Translation reserve	25	**1,124**	167
Retained earnings	25	**32,325**	35,908
Total equity	25	**60,824**	63,287

These financial statements of RM plc, registered number 01749877, were approved and authorised for issue by the Board of Directors on 23 November 2009.

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 2009

	Notes	2009 £000	2008 £000
Non-current assets			
Investments	15	**54,793**	64,117
		54,793	64,117
Current assets			
Trade and other receivables	19	**16,826**	1,429
Cash and cash equivalents		**–**	–
		16,826	1,429
Total assets		**71,619**	65,546
Current liabilities			
Trade and other payables	20	**(2,802)**	(2,036)
Tax liabilities	20	**(229)**	(82)
		(3,031)	(2,118)
Net current assets/(liabilities)		**13,795**	(689)
Non-current liabilities			
Other payables	20	**(585)**	(2,152)
		(585)	(2,152)
Total liabilities		**(3,616)**	(4,270)
Net assets		**68,003**	61,276
Equity attributable to equity holders of the parent			
Share capital	23	**1,863**	1,863
Share premium account	25	**26,725**	26,578
Own shares	24	**(1,246)**	(1,323)
Capital redemption reserve	25	**94**	94
Retained earnings	25	**40,567**	34,064
Total equity	25	**68,003**	61,276

These financial statements of RM plc, registered number 01749877, were approved and authorised for issue by the Board of Directors on 23 November 2009.

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 2009

	Notes	2009 £000	2008 £000
Profit from operations		**16,074**	13,560
Adjustments for:			
Gain on foreign exchange derivatives	21	**(160)**	(653)
Amortisation of acquisition related intangible assets		**1,511**	1,040
Amortisation of other intangible assets	13	**914**	912
Depreciation of property, plant and equipment	14	**8,331**	8,869
Gain on disposal of property, plant and equipment		**(499)**	(300)
Loss on disposal of other intangible assets		**123**	–
Increase in provisions		**61**	–
Share-based payment charge		**1,021**	600
Operating cash flows before movements in working capital		**27,376**	24,028
Decrease/(increase) in inventories		**1,129**	(3,813)
Increase in receivables		**(12,814)**	(9,736)
(Decrease)/increase in payables		**(798)**	4,965
Cash generated by operations		**14,893**	15,444
Defined benefit pension contribution in excess of current service cost	30	**(2,773)**	(3,627)
Tax paid		**(3,272)**	(3,103)
Income on sale of finance lease debt	7	**622**	651
Interest paid:			
– bank overdrafts and loans		**(464)**	(155)
– other		**(67)**	(12)
Net cash inflow from operating activities		**8,939**	9,198
Investing activities			
Interest received		**226**	521
Proceeds on disposal of property, plant and equipment		**949**	663
Purchases of property, plant and equipment		**(7,737)**	(10,458)
Purchases of other intangible assets		**(1,398)**	(691)
Acquisition of investment in associate		**–**	(1,014)
Acquisition of subsidiaries and business combinations, net of cash acquired		**(3,418)**	(3,999)
Net cash used in investing activities		**(11,378)**	(14,978)
Financing activities			
Dividends paid	11	**(5,425)**	(5,126)
Proceeds from share capital issue, net of share issue costs		**91**	460
Repayment of borrowings assumed in acquisitions		**(2,477)**	(554)
Increase in borrowings		**7,419**	1,000
Purchase of own shares		**(1,347)**	(874)
Repayment of loan notes and deferred consideration		**(1,059)**	(246)
Net cash used in financing activities		**(2,798)**	(5,340)
Net decrease in cash and cash equivalents		**(5,237)**	(11,120)
Cash and cash equivalents at the beginning of year		**18,291**	29,321
Effect of foreign exchange rate changes		**243**	90
Cash and cash equivalents at the end of year		**13,297**	18,291

Group net funds
for the year ended 30 September 2009

	2008 £000	Cash flow £000	Non-cash movements Foreign exchange £000	Non-cash movements Other £000	**2009 £000**
Cash and cash equivalents	18,291	(5,237)	243	–	**13,297**
Borrowings	(1,000)	(7,419)	138	–	**(8,281)**
Net cash	17,291	(12,656)	381	–	**5,016**
Loan notes	(4,464)	681	–	177	**(3,606)**
Net funds	12,827	(11,975)	381	177	**1,410**
Deferred consideration	(440)	378	44	(2,102)	**(2,120)**
	12,387	(11,597)	425	(1,925)	**(710)**

Company cash flow statement
for the year ended 30 September 2009

	Notes	**2009 £000**	2008 £000
Loss from operations and operating cash flows before movements in working capital		**(545)**	(466)
Increase in receivables		**(18,278)**	(4,484)
Dividends received – inter-group restructuring		**14,714**	–
(Decrease)/increase in payables		**(1,303)**	1,094
Cash used by operations		**(5,412)**	(3,856)
Dividends received – trading		**12,875**	9,423
Interest paid		**(102)**	(38)
Net cash inflow from operating activities		**7,361**	5,529
Investing activities			
Interest received		**159**	–
Net cash inflow from investing activities		**159**	–
Financing activities			
Dividends paid	11	**(5,425)**	(5,126)
Proceeds from share capital issue, net of share issue costs		**91**	460
Purchase of own shares		**(1,347)**	(874)
Repayment of loan notes and deferred consideration		**(839)**	–
Net cash used in financing activities		**(7,520)**	(5,540)
Net decrease in cash and cash equivalents		**–**	(11)
Cash and cash equivalents at the beginning of year		**–**	11
Cash and cash equivalents at the end of year		**–**	–

Notes to the report and accounts

1. General information

RM plc is a company incorporated in the United Kingdom under the Companies Act 2006. 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 2006.

Income statement presentation

The income statement for the year ended 30 September 2009 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 2009, acquisition integration costs. 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

The Group has adopted no new standards in the current financial year, following the prior year early adoption of IFRS 8 Operating Segments.

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 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 or revisions to existing standards:

IAS 1 Presentation of Financial Statements
IAS 23 Borrowing Costs
IAS 27 Consolidated and Separate Financial Statements
IAS 32 Financial Instruments: Presentation
IFRS 1 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 Share-based Payment
IFRS 3 Business Combinations

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 adoption of the revisions to IFRS3 Business Combinations will require the expensing of acquisition related costs, for example, professional advisor fees to the income statement. Additionally, consideration payable in future accounting periods will be recorded at weighted average fair value of the consideration with revaluations from that point forward being recorded in profit.

The principal IFRS accounting policies adopted by the Group are listed below.

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.

Notes to the report and accounts
continued

2. Principal accounting policies continued

Basis of preparation continued

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Group, its cash flows and borrowing facilities are described in the Business Review: Finance. The Group's risk management policies are outlined in the Business Review: Risk and notes 19, 20 and 21 to the financial statements outline the Group's financial assets and liabilities, including details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Directors have assessed forecast future cash flows over the coming year and are satisfied that the Group's agreed working capital facilities are sufficient to meet these cash flows. Given the Group's continued seasonality and Building Schools for the Future contractual commitments, cash flows are forecast to be at their highest outflow between July and September.

Shareholder approval will be sought at the Company's forthcoming Annual General Meeting on 18 January 2010 to amend its Articles of Association to change the calculation of borrowing limits to align with the Association of British Insurers (ABI) Investment Committee Guidelines. The existing Articles are not aligned with the Guidelines as they require that in calculating adjusted share capital and reserves, for the purposes of establishing borrowing limits, a deduction is made for the book values of goodwill and other intangible assets shown on the Group balance sheet. In preparing next year's financial plan and funding requirements the Group identified that in quarter four of financial year 2010 it could potentially be in technical breach of its borrowings limit set out in its existing Articles of Association which currently contain this requirement to deduct these amounts. When aligned with the ABI Guidelines, the Group's funding requirements are comfortably within the borrowing limit.

Considering the above, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 post tax result 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.

2. Principal accounting policies continued

Business combinations continued

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.

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 to long-term contract customers within trade and other payables.

Notes to the report and accounts
continued

2. Principal accounting policies continued

Long-term contracts continued

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

2. Principal accounting policies continued

Intangible assets 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 or are designated and effective as fair value hedges and 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.

Notes to the report and accounts
continued

2. Principal accounting policies continued

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.

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.

2. Principal accounting policies continued

Taxation continued

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 Group's key risks are set out in the Business Review and give rise to the following estimations and judgements which are disclosed within the relevant note to the Report and Accounts:

- Goodwill valuation and impairment – see note 12
- Acquisition related intangible asset valuation – see note 26
- Long-term contract outcome – see note 18
- Retirement benefit scheme valuation – see note 30

3. Revenue

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

	2009 £000	2008 £000
Revenue from supply of products and services to education	346,917	289,473
Investment income	1,192	1,994
Total revenue	**348,109**	291,467

Notes to the report and accounts
continued

4. Operating segments

The Group's business is supplying products and services to education. The Group's operating divisions are Learning Technologies which includes Education Management Systems and United States operations; Education Resources; and Assessment and Data Services. These divisions are the basis on which the Group reports its primary segment information. Further details of products and services provided by each division are given in the Business Review: Our Business. Results of overseas operations are included below on the basis of the nature of the products and services provided. IFRS 8 was adopted early in the year ended 30 September 2008.

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

Divisional result

	Learning Technologies (incl. United States) £000	Education Resources (and UK Curriculum software) £000	Assessment and Data Services £000	Total £000
2009				
Revenue	**263,699**	**63,881**	**19,337**	**346,917**
Divisional profit before BSF net expenditure	**12,751**	**6,280**	**2,166**	**21,197**
BSF net expenditure (note 5)	**(2,567)**	**–**	**–**	**(2,567)**
Divisional profit	**10,184**	**6,280**	**2,166**	**18,630**
Net bank, loan note and pension scheme finance costs (note 7)				**(720)**
Profit before tax*				**17,910**
Amortisation of acquisition related intangible assets				**(1,502)**
Acquisition integration costs				**(89)**
Profit before tax				**16,319**
Group profit before tax				**16,316**
Share of associate result				**3**
				16,319

	Learning Technologies (incl. United States) (Restated) £000	Education Resources (and UK Curriculum software) (Restated) £000	Assessment and Data Services £000	Total (Restated) £000
2008				
Revenue	216,562	53,564	19,347	289,473
Divisional profit before BSF net expenditure	11,329	6,443	2,108	19,880
BSF net expenditure (note 5)	(4,420)	–	–	(4,420)
Divisional profit	6,909	6,443	2,108	15,460
Net bank, loan note and pension scheme finance income (note 7)				967
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

* Before amortisation of acquisition related intangible assets and 2009 acquisition integration costs.

4. Operating segments continued

Reflecting continuing evolution of the business, 2008 divisional results have been restated to reflect three changes: the inclusion of United States operation in RM Learning Technologies (previously disclosed within Education Resources); the presentation of BSF on a net expenditure basis, net of the contribution from projects in delivery; and the inclusion of the pension scheme finance charge within net interest. These changes to divisional profit and assets are considered to better reflect the divisions' operating performance.

Divisional assets

Divisional assets include all assets except for tax balances and cash and cash equivalents which are shown as non-divisional balances:

	Learning Technologies (incl. United States) (Restated) £000	Education Resources (and UK Curriculum software) (Restated) £000	Assessment and Data Services £000	Total £000
2009				
Total assets				
– Divisional	**103,532**	**60,088**	**6,190**	**169,810**
– Other				**18,524**
				188,334
2008				
Total assets				
– Divisional	99,212	42,568	7,048	148,828
– Other				19,823
				168,651

The Group's operations are predominately located in the United Kingdom, with operations also in the United States, India and Australia. The Group sells to the markets of these countries and also the European, North American, Asian and Australasian continents. Revenues of £41.5m (2008: £16.5m) were earned on non-UK sales and include RM Learning Technologies sales of £30.7m (2008: £7.8m) largely in the United States and £10.8m (2008: £8.7m) of RM Education Resources sales largely in Europe.

Notes to the report and accounts
continued

5. Profit from operations

Profit is stated after charging/(crediting):

	2009 £000	2008 £000
Depreciation of property, plant and equipment:		
– charged in cost of sales	**6,148**	6,334
– charged in operating expenses	**2,183**	2,535
	8,331	8,869
Amortisation:		
– other intangible assets	**914**	912
– acquisition related intangible assets – associate (see note below)	**28**	14
– acquisition related intangible assets	**1,483**	1,026
	2,425	1,952
Administrative expenses	**20,024**	14,813
Amortisation of acquisition related intangible assets	**1,483**	1,026
Acquisition integration costs	**89**	–
Total administrative expense	**21,596**	15,839
Research and development costs	**13,731**	13,180
Profit on sale of property, plant and equipment	**(499)**	(300)
Loss on disposal of intangible assets	**123**	–
Staff costs (see note 6)	**112,165**	98,721
Operating lease expense	**5,336**	4,389
Foreign exchange loss/(gain)	**18**	(55)
Building Schools for the Future:		
– bid costs	**3,882**	4,750
– operating profit	**(1,315)**	(330)
– net expenditure	**2,567**	4,420
Movement in stock obsolescence provision	**474**	544
Trade receivables impairment	**331**	164

The income statement shows amortisation of the acquisition related intangible asset recognised on associates net of deferred tax of £9,000.

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 (2008: £nil).

5. Profit from operations continued

Auditors' remuneration:

	2009 £000	2008 £000
Fees payable to the Company's auditor and its associates for:		
– The audit of the Company's annual accounts	**13**	15
– The audit of the Company's subsidiaries, pursuant to legislation	**269**	261
	282	276
Fees payable to the Company's auditor and its associates for other non-audit services:		
– Review of the interim financial statements	**18**	16
– Other services pursuant to legislation	**2**	2
	20	18
Fees payable in respect of the audit of the defined benefit pension scheme	**7**	7
	309	301

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:

	2009 Number employed	2008 Number employed
Research and development, products and services	**2,091**	1,760
Marketing and sales	**321**	327
Corporate services	**299**	286
	2,711	2,373

Their aggregate employment costs comprised:

	2009 £000	2008 £000
Wages and salaries	**96,971**	85,063
Social security costs	**7,904**	7,029
Other pension costs	**6,269**	6,029
Share-based payment charge – equity settled	**1,021**	600
	112,165	98,721

There are no staff (2008: nil) employed by the Company.

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

Note 29 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 2009 the accrual stood at £1.2m (2008: £0.7m).

Notes to the report and accounts
continued

7. Investment income

	2009 £000	2008 £000
Bank interest	**226**	521
Income from sale of finance lease debt	**622**	651
Net finance income on defined benefit pension scheme	**–**	613
Other finance income	**344**	209
	1,192	1,994

Net bank and loan note interest payable is £305,000, being £226,000 bank interest less finance costs of £531,000 (2008: £354,000 income, being £521,000 bank interest less £167,000 finance costs). After deducting pension scheme finance costs of £416,000 (2008: £613,000 income), net interest payable is £720,000 (2008: £967,000 income).

8. Finance costs

	2009 £000	2008 £000
Interest on bank overdrafts and loan	**464**	155
Interest on loan notes	**67**	12
Net finance costs on defined benefit pension scheme	**416**	–
	947	167

9. Tax

a) Income statement

Analysis of tax charged in income statement:

	2009 £000	2008 £000
Current taxation		
UK corporation tax at 28% (2008: 29%) based on the profit for the year	**3,558**	3,078
Adjustment in respect of prior years	**(995)**	(232)
Overseas tax – current year	**1,111**	171
Total current tax	**3,674**	3,017
Deferred taxation		
Temporary differences	**(311)**	907
Adjustment in respect of prior years	**(2)**	137
Total deferred tax	**(313)**	1,044
Total income statement tax charge	**3,361**	4,061

In addition to the amount charged to the income statement, £3,924,000 of tax has been credited to equity through the statement of recognised income and expense (2008: credit of £545,000). The credit comprises a tax charge on the equity component of share-based payments of £28,000 (2008: £74,000), a tax charge on a net investment hedge of £131,000 (2008: £nil) and a tax credit on actuarial gains and losses of £4,083,000 (2008: credit of £471,000).

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

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:

	2009 £000	2008 £000
Profit on ordinary activities before tax	**16,319**	15,387
Tax at 28% (2008: 29%) thereon:	**4,569**	4,462
Effects of:		
– other expenses not deductible for tax purposes	**296**	37
– other temporary timing differences	**144**	233
– research and development tax credit – current year	**(680)**	(495)
– research and development tax credit – prior period adjustment	**(672)**	–
– effect of overseas profits	**30**	(81)
– prior period adjustments – other	**(326)**	(95)
Tax	**3,361**	4,061

c) Effective tax rate

The Group's effective tax rate of 21.3% (2008: 26.4%) has been calculated excluding the impact of acquisition related intangible amortisation and the 2009 acquisition integration costs from profit before tax:

	Before amortisation of acquisition related intangible assets and acquisition integration costs £000	**Amortisation of acquisition related intangible assets and acquisition integration costs £000**	**2009 Total £000**	Before amortisation of acquisition related intangible £000	Amortisation of acquisition related intangible assets £000	2008 Total £000
Profit before tax	**17,910**	**(1,591)**	**16,319**	16,427	(1,040)	15,387
Tax charge/(credit)	**3,809**	**(448)**	**3,361**	4,331	(270)	4,061
Effective rate	**21.3%**	**28.2%**	**20.6%**	26.4%	26.0%	26.4%

The tax rate on adjusted profit for 2009 benefitted by 3.7% from finalising prior year research and development tax credits.

The tax credit on the amortisation of acquisition related intangible assets of £448,000 (2008: credit of £270,000) comprises a deferred tax credit of £371,000 and current tax credit of £77,000 (2008: deferred tax credit of £231,000 and current tax credit of £39,000). Deferred tax has been recognised on acquisition related intangibles at the rate applicable in the jurisdiction in which they arise. The acquisition of Computrac in the United States during the year created acquisition related intangible assets on which deferred tax has been recognised at 38%. This results in the tax rate on the amortisation being higher than the standard UK rate of corporation tax of 28%.

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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 year.

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Share-based payment £000	Short-term timing differences £000	Tax losses United States operations £000	Acquisition related intangible assets £000	Total £000
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 1 October 2008	1,129	157	839	612	–	(1,288)	1,449
(Charge)/credit to income	142	(660)	(4)	455	–	380	313
(Charge)/credit to equity	–	4,083	(190)	–	–	–	3,893
Acquisition of subsidiaries in the year	–	–	–	5	–	(484)	(479)
At 30 September 2009	**1,271**	**3,580**	**645**	**1,072**	**–**	**(1,392)**	**5,176**

In addition to the £190,000 (2008: £73,000) deferred tax charge to equity on share based payments there is a current tax credit to equity of £31,000 (2008: £147,000) for the current tax deduction available upon the exercise of equity settled remuneration. Therefore the total charge to equity on share based payment charges included within the Statement of Recognised Income and Expense is £159,000 (2008: credit £74,000).

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:

	2009 £000	2008 £000
Deferred tax assets	**5,227**	1,532
Deferred tax liabilities	**(51)**	(83)
	5,176	1,449

At the balance sheet date, the Group has unused tax losses of £0.3m (2008: £0.4m) which are available for offset against future profits. A deferred tax asset has not been recognised in respect of any of this amount due to uncertainty surrounding the future use of these losses (2008: £nil).

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 acquisition integration costs.

Basic earnings per ordinary share:

	2009 Profit after tax £000	2009 Weighted average number of shares 000	2009 Pence per share	2008 Profit after tax £000	2008 Weighted average number of shares 000	2008 Pence per share
Basic earnings per ordinary share	**12,958**	**92,408**	**14.0**	11,326	92,297	12.3
Effect of amortisation of acquisition related intangible assets and 2009 acquisition integration costs	**1,143**	**–**	**1.3**	770	–	0.8
Basic earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and 2009 acquisition integration costs	**14,101**	**92,408**	**15.3**	12,096	92,297	13.1

Diluted earnings per ordinary share:

	2009 Profit after tax £000	2009 Weighted average number of shares 000	2009 Pence per share	2008 Profit after tax £000	2008 Weighted average number of shares 000	2008 Pence per share
Basic earnings per ordinary share	**12,958**	**92,408**	**14.0**	11,326	92,297	12.3
Effect of dilutive potential ordinary shares: share options	**–**	**240**	**–**	–	409	(0.1)
Diluted earnings per ordinary share	**12,958**	**92,648**	**14.0**	11,326	92,706	12.2
Effect of amortisation of acquisition related intangible assets and 2009 acquisition integration costs	**1,143**	**–**	**1.2**	770	–	0.8
Diluted earnings per ordinary share adjusted for amortisation of acquisition related intangible assets and 2009 acquisition integration costs	**14,101**	**92,648**	**15.2**	12,096	92,706	13.0

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10. Earnings per ordinary share continued

During 2009 the Group benefited from finalising claims in respect of prior year UK research and development tax credits. The following basic earnings per share workings show this impact:

	2009 Profit after tax £000	2009 Weighted average number of shares 000	2009 Pence per share	2008 Profit after tax £000	2008 Weighted average number of shares 000	2008 Pence per share
Basic earnings per ordinary share	**12,958**	**92,408**	**14.0**	11,326	92,297	12.3
Effect of prior year research and development tax credit benefits	**(672)**	**–**	**(0.7)**	–	–	–
Basic earnings per ordinary share adjusted for effect of prior year research and development tax credit benefits	**12,286**	**92,408**	**13.3**	11,326	92,297	12.3
Effect of amortisation of acquisition related intangible assets and 2009 acquisition integration costs	**1,143**	**–**	**1.2**	770	–	0.8
Basic earnings per ordinary share adjusted for effect of prior year research and development tax credit benefits amortisation of acquisition related intangible assets and 2009 acquisition integration costs	**13,429**	**92,408**	**14.5**	12,096	92,297	13.1

In 2008 the impact of earnings per share of adding back net BSF expenditure was shown, because of the significance of bid costs expensed compared to profit earned on contracts in the early stages of delivery (see note 5). This disclosure has become less relevant as the contract portfolio has built and has been omitted this year.

11. Dividends

Amounts recognised as distributions to equity holders in the year:

	2009 £000	2008 £000
Final dividend for the year ended 30 September 2008 of 4.55p (2007: 4.30p) per share	**4,206**	3,964
Interim dividend for the year ended 30 September 2009 of 1.32p (2008: 1.26p) per share	**1,219**	1,162
	5,425	5,126

The proposed final dividend of 4.85p per share was approved by the Board on 20 November 2009. The dividend is subject to approval by shareholders at the Annual General Meeting and the expected cost of £4.5m has not been included as a liability as at 30 September 2009.

12. Goodwill

	£000
Cost	
At 1 October 2007	27,095
Additions	4,615
Exchange differences	60
Change in estimated loan notes payable	361
At 1 October 2008	32,131
Additions (note 26)	3,894
Exchange differences	511
Change in estimated loan notes payable	(177)
Change in estimated deferred consideration payable	(32)
Restatement of provisional fair values (note 26)	(40)
At 30 September 2009	**36,287**
Accumulated impairment losses	
At 1 October 2007, 1 October 2008 and 30 September 2009	(2,469)
Carrying amount	
At 30 September 2009	**33,818**
At 30 September 2008	29,662

The restatement to provisional fair values of £40,000 relates to recognition of a provision for dilapidations on leasehold premises leased by Orchard Partners Limited. Adjustment has been made to the fair value during the current accounting period in accordance with IFRS3 Business Combinations.

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 has been allocated as follows:

	2009 £000	2008 £000
Learning Technologies:		
– Education management systems	**1,976**	1,557
– Infrastructure	**7,658**	6,049
Assessment and Data Services	**2,956**	2,956
Education Resources	**21,228**	19,100
	33,818	29,662

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 rate used to discount the forecast cash flows is 15% for all 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.

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13. Intangible assets

	Acquisition related intangible assets Customer relationships £000	Brands £000	Intellectual property & database assets £000	Sub-total £000	Other software assets* £000	Total £000
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 1 October 2008	4,349	1,080	1,171	6,600	18,352	24,952
Additions	–	–	–	–	1,398	1,398
Exchange differences	66	21	(65)	22	51	73
Acquired on acquisition of subsidiary/business combination	756	364	381	1,501	–	1,501
Disposals	–	–	–	–	(500)	(500)
At 30 September 2009	**5,171**	**1,465**	**1,487**	**8,123**	**19,301**	**27,424**
Amortisation						
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 1 October 2008	1,198	208	253	1,659	16,110	17,769
Charge for the year	1,005	225	253	1,483	914	2,397
On disposals	–	–	–	–	(377)	(377)
At 30 September 2009	**2,203**	**433**	**506**	**3,142**	**16,647**	**19,789**
Carrying amount						
At 30 September 2009	**2,968**	**1,032**	**981**	**4,981**	**2,654**	**7,635**
At 30 September 2008	3,151	872	918	4,941	2,242	7,183

* Purchased and internally developed software assets amounted to net book values of £1.2m and £1.5m respectively (2008: £1.9m and £0.3m). This included respective additions of £0.4m and £0.9m (2008: £0.7m and £nil).

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 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	–	–	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 1 October 2008	–	2,847	7,677	41,523	6,691	58,738
Additions	–	124	855	4,896	2,010	7,885
Acquired on acquisition of subsidiaries/business combinations (note 26)	–	27	190	15	401	633
Assets reclassified from held for sale	2,803	–	–	–	–	2,803
Transfer	–	(8)	22	(14)	–	–
Exchange differences	–	35	93	197	52	377
Disposals	–	(53)	(471)	(7,942)	(1,949)	(10,415)
At 30 September 2009	**2,803**	**2,972**	**8,366**	**38,675**	**7,205**	**60,021**
Accumulated depreciation						
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 1 October 2008	–	1,699	5,512	28,808	2,837	38,856
Charge for the year	114	187	813	5,513	1,704	8,331
On assets reclassified from held for sale	223	–	–	–	–	223
Transfer	–	(4)	4	–	–	–
Exchange differences	–	11	58	151	16	236
Eliminated on disposals	–	(6)	(377)	(7,080)	(1,483)	(8,946)
At 30 September 2009	**337**	**1,887**	**6,010**	**27,392**	**3,074**	**38,700**
Carrying amount						
At 30 September 2009	**2,466**	**1,085**	**2,356**	**11,283**	**4,131**	**21,321**
At 30 September 2008	–	1,148	2,165	12,715	3,854	19,882

Non-current assets held for sale

In 2008 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 has been actively marketed for sale but has not been sold. The Group has now determined to continue occupation and has therefore re-instated the building to Property, plant and equipment. In doing so, depreciation has been recognised from the point of transfer.

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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 2009 these were as follows:

	Principal activity	Country of incorporation (and operation)	Proportion of voting rights and shares held
AMI Education Solutions Ltd (formerly Orchard Partners Ltd, t/a EasyTrace & Ranger)	Software, services and systems	England (UK)	100%
Caz Software Pty Ltd*	Software, services and systems	Australia	100%
Computrac LLC*	Software, services and systems	United States	100%
DACTA Ltd	Resource supply	England (UK)	100%
Isis Concepts Limited	Resource supply	England (UK)	100%
RM Asia-Pacific Pty Ltd	Software, services and systems	Australia	100%
RM Data Solutions Ltd (formerly t/a Forvus)	Data analysis and reporting	England (UK)	100%
RM Education plc (formerly Research Machines plc)	Software, services and systems	England (UK)	100%
RM Educational Software Inc	Software	United States	100%
RM Education Solutions India Pvt Ltd*	Software and Corporate Services	India	100%
SpaceKraft 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				
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 1 October 2008	55,826	4,698	7,077	67,601
Acquisition of subsidiaries	2,575	–	–	2,575
Increase in investment in subsidiary company	2,003	–	–	2,003
Repayment of capital following inter-group restructuring	(14,714)	–	–	(14,714)
Decrease in fair value of issuable loan notes and deferred consideration	(209)	–	–	(209)
Share-based payments	–	1,021	–	1,021
At 30 September 2009	**45,481**	**5,719**	**7,077**	**58,277**
Impairment				
At 1 October 2007, 1 October 2008 and 30 September 2009	(3,484)	–	–	(3,484)
Carrying value				
At 30 September 2009	**41,997**	**5,719**	**7,077**	**54,793**
At 30 September 2008	52,342	4,698	7,077	64,117

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

16. Interests in associates

The Group's associates at 30 September 2009 are as follows:

	Most recent year end	Country of incorporation (and operation)	Proportion of voting rights and shares held %
Inclusive Group Ltd	30 June 2009	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 2009:

	2009 £000	2008 £000
Revenues	**5,510**	5,726
Profit	**64**	125
Total assets	**1,813**	1,973
Total liabilities	**(1,027)**	(1,231)
Net assets	**786**	742

At 30 September the Group's interests in associates was stated at £967,000 (2008: £964,000) being the Inclusive purchase price of £1,014,000 less the Group's share of post-investment loss of £47,000 (2008: £50,000).

17. Inventories

	2009 £000	2008 £000
Group		
Components	**7,101**	11,319
Work in progress	**182**	285
Finished goods	**12,622**	6,650
	19,905	18,254

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.

	2009 £000	2008 £000
Group		
Contracts in progress at the balance sheet date:		
Contract cost incurred plus recognised profits less recognised losses to date	**269,640**	217,266
Less: progress billings	**(256,418)**	(209,230)
	13,222	8,036
Amounts due from contract customers included in trade and other receivables	**13,222**	8,036

Total revenue recognised from long-term contracts amounted to £78.4m (2008: £50.9m).

At 30 September 2009, £0.3m (2008: £0.2m) amounts due from contract customers are due for settlement after more than 12 months.

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18. Long-term contracts continued

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		Company	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Current				
Trade receivables	**64,826**	54,423	**–**	–
Long-term contract balances (note 18)	**13,222**	8,036	**–**	–
Other receivables	**1,462**	208	**–**	–
Prepayments	**5,481**	7,200	**–**	–
Accrued income	**1,173**	436	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**16,826**	1,429
	86,164	70,303	**16,826**	1,429
Currency profile of receivables:				
Sterling	**75,971**	67,237	**16,826**	1,429
US Dollar	**7,583**	1,167	**–**	–
Euro	**2,030**	879	**–**	–
Australian Dollar	**406**	465	**–**	–
New Zealand Dollar	**8**	5	**–**	–
Danish Krona	**–**	208	**–**	–
Indian Rupee	**166**	342	**–**	–
	86,164	70,303	**16,826**	1,429

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 49 days (2008: 43 days). An allowance has been made for estimated irrecoverable amounts of trade receivables of £0.5m (2008: £0.2m) 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:

	2009 £000	2008 £000
Group		
Government customers	**56,501**	51,320
Commercial customers	**8,325**	3,103
	64,826	54,423

19. Other financial assets continued

Analysis of allowance for estimated irrecoverable amounts of trade receivables:

	2009 £000	2008 £000
Group		
At 1 October	**239**	112
Charge to income statement	**331**	164
Utilised	**(47)**	(37)
At 30 September	**523**	239

Ageing of trade receivables:

	2009 £000	2008 £000
Group		
Neither impaired nor past due	**44,918**	34,477
Not impaired but overdue by less than 60 days	**14,644**	15,810
Not impaired but overdue by between 60 and 90 days	**2,499**	2,395
Not impaired but overdue by more than 90 days	**3,163**	1,867
Impaired	**125**	113
Allowance for estimated irrecoverable amounts	**(523)**	(239)
	64,826	54,423

Included within trade receivables are £2.7m (2008: £3.2m) 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	
	2009 £000	2008 £000	2009 £000	2008 £000
Current				
Trade payables	**27,239**	30,173	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**10**	1,355
Other taxation and social security	**10,202**	10,408	**–**	–
Other payables – other	**3,158**	692	**–**	–
Accruals	**29,217**	29,054	**42**	–
Deferred income	**23,258**	22,192	**–**	–
Loan notes	**2,220**	681	**1,215**	681
Deferred consideration	**1,535**	–	**1,535**	–
	96,829	93,200	**2,802**	2,036
Tax liabilities	**1,320**	920	**229**	82

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20. Other financial liabilities continued

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Non-current				
Deferred income:				
– due after one year but within two years	**3,840**	3,392	**–**	–
– due after two years but within five years	**1,843**	1,450	**–**	–
– due after five years	**–**	47	**–**	–
	5,683	4,889	**–**	–
Other payables – deferred consideration	**585**	440	**585**	440
Loan notes	**1,386**	3,783	**–**	1,712
	7,654	9,112	**585**	2,152

The currency profile of payables is shown below:

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Currency profile of payables:				
Sterling	**93,507**	95,323	**3,387**	4,270
US Dollar	**9,077**	5,824	**–**	–
Australian Dollar	**1,353**	733	**–**	–
Euro	**78**	179	**–**	–
New Zealand Dollar	**39**	24	**–**	–
Indian Rupee	**429**	229	**–**	–
	104,483	102,312	**3,387**	4,270

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 36 days (2008: 35 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 £1,549,000 was accrued on the acquisition of Isis Concepts Ltd, £484,000 on the acquisition of Computrac LLC, with £220,000 being paid within the year, and £100,000 on the acquisition of certain trading assets of Transfile Ltd (t/a Pisces Art). Following re-estimation, deferred consideration of £158,000 was paid in relation to the 2008 acquisition of Orchard Partners Ltd (t/a Easytrace) and loan notes of £681,000 were paid in relation to the 2007 acquisition of SpaceKraft Limited. 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 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Maturity profile of payables:				
– due within one year	**96,829**	93,200	**2,802**	4,188
– due after one year but within two years	**7,654**	5,324	**585**	–
– due after two years but within five years	**–**	3,741	**–**	–
– due after five years	**–**	47	**–**	–
	104,483	102,312	**3,387**	4,188

20. Other financial liabilities continued

b) Non-current liabilities – bank loans

The Group meets its seasonal working capital requirements through overdraft facilities. At 30 September 2009 none of these facilities were drawn-down (2008: £nil). The Group has an annual unsecured overdraft facility of $40m (set at a minimum of £25m) with HSBC, which was renewed on 16 November 2009. In addition, in order to fund next year's working capital requirements, particularly surrounding the BSF programme, the Group has agreed an additional £10m committed facility to 12 November 2010 with HSBC which is subject to the amendment to the Articles of Association as set out in the basis of preparation in note 2. In addition to these HSBC working capital facilities, the Group also has a £3m working capital facility with Barclays Bank which is reviewed annually each March. These facilities combined give £38m of working capital funding.

The Group also has a committed acquisition borrowing facility of £25m with HSBC which expires in July 2013. At 30 September 2009 £8.3m of this facility was drawn down (30 September 2008: £1.0m), with the increase in the year being used to fund the acquisitions of Computrac and Isis Concepts (note 26). The drawn down facility of £8.3m comprises £2.0m in Sterling and £6.3m in US Dollars ($10.0m). The facility can be repaid before expiry, at the discretion of the Group.

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 (2008: £nil) has been applied to these guarantees.

21. Financial instruments

Carrying of financial assets and financial liabilities:

		Group		Company	
	Notes	**2009 £000**	2008 £000	**2009 £000**	2008 £000
Financial assets					
Loans and receivables:					
Long-term contract receivables	18	**13,222**	8,036	**–**	–
Other trade and other receivables	19a	**72,782**	61,614	**16,826**	1,429
Derivative financial instruments:					
Forward foreign exchange contracts	21b	**160**	653	**–**	–
		86,164	70,303	**16,826**	1,429
Cash and cash equivalents		**13,297**	18,291	**–**	–
		99,461	88,594	**16,826**	1,429

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

		Group		Company	
	Notes	**2009 £000**	2008 £000	**2009 £000**	2008 £000
Financial liabilities					
Loans and payables:					
Trade and other payables	20	**96,890**	93,200	**3,387**	4,188
Derivative financial instruments:					
Interest rate swap		**(61)**	–	**–**	–
		96,829	93,200	**3,387**	4,188
Bank loans		**8,281**	1,000	**–**	–
Other non-current payables	20	**7,654**	9,112	**–**	–
		112,764	103,312	**3,387**	4,188

Notes to the report and accounts
continued

21. Financial instruments continued

Included within financial instruments is an asset balance of £160,000 (2008: asset balance of £653,000) representing the fair value of the Group's open foreign exchange contracts and a liability of £61,000 in relation to an open interest rate swap.

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 and India, hence exposing the Group to foreign exchange risk on non-Sterling assets, liabilities and cash flows. The Group's acquisition borrowing facility includes an amount of £6,281,407 ($10,000,000) denominated in US Dollars and also long-term inter-group loans denominated in US Dollars and Australian Dollars and the Group applies net investment hedging to these balances.

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.

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

	2009		2008	
	Nominal value £000	**Fair value gains £000**	Nominal value £000	Fair value gains £000
Forward foreign currency exchange contracts	**5,893**	**160**	16,044	653

These fair value gains are based on market values of equivalent instruments at the balance sheet date and are included within Trade and other receivables.

These instruments have not been designated as effective hedges in accordance with IAS 39 Financial Instruments. Changes in the fair value of currency instruments amounting to £0.2m have therefore been credited (2008: £0.7m credit) to income. Commercially effective hedges may continue to lead to income statement volatility in the future.

21. Financial instruments continued

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 $1.59:£1 to $1.75:£1 at the balance sheet date. A 10% decrease would have the equal and opposite effect.

The Group has operations in the United States, Australia and India and is consequently exposed to transaction and translation risks in the underlying currencies of these territories. The Group also purchases a substantial proportion of inventory denominated in US Dollars and is exposed to foreign exchange risks on these purchases. The data below is shown after considering the impact of the Group's foreign exchange forward contracts and net investment hedge positions.

	2009 Income sensitivity £000	2009 Equity sensitivity £000	2008 Income sensitivity £000	2008 Equity sensitivity £000
10% increase in foreign exchange rates against sterling				
US Dollar	**(235)**	**(264)**	(791)	(776)
Australian Dollar	**124**	**66**	–	171
Indian Rupee	**(4)**	**(8)**	–	(227)
Other	**(38)**	**(28)**	(99)	(99)

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 £4.6m (2008: £7.0m), and the maximum bank overdraft was £19.3m (2008: £9.0m), excluding amounts drawn under the acquisition facility. The interest and currency profile of cash and cash equivalents is shown below:

	2009 Floating rate £000	2009 Interest free £000	2009 Total £000	2008 Floating rate £000	2008 Interest free £000	2008 Total £000
Sterling	**4,333**	**1,489**	**5,822**	12,399	2,536	14,935
US Dollar	**1,731**	**3,758**	**5,489**	818	786	1,604
Australian Dollar	**86**	**922**	**1,008**	282	541	823
Euro	**179**	**53**	**232**	–	443	443
Danish Krona	**–**	**117**	**117**	136	1	137
Indian Rupee	**495**	**111**	**606**	150	179	329
New Zealand Dollar	**–**	**22**	**22**	–	19	19
South African Rand	**–**	**1**	**1**	–	1	1
	6,824	**6,473**	**13,297**	13,785	4,506	18,291

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. On 13 July 2009 the Group entered into a US$10,000,000 interest rate swap contract maturing in July 2012 to sell a proportion of this floating rate liability in exchange for a quarterly settled fixed rate liability of 2.03%. The liability fair value of this contract at 30 September 2009 has been designated as an effective hedge against outstanding US Dollar borrowings on the acquisition facility. The loss arising of £61,000 has therefore been included in a newly formed Hedging Reserve.

In addition a commitment fee and £0.1m arrangement fee are also payable, spread on a quarterly basis over the duration of the facility.

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continued

21. Financial instruments continued

Interest rate risk continued

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

	2009 Floating rate £000	2009 Weighted average interest rate %	2008 Floating rate £000	2008 Weighted average interest rate %
Financial assets:				
Cash and cash equivalents	**13,297**	**1.20**	18,291	5.34
Financial liabilities:				
Bank loans	**(8,281)**	**2.32**	(1,000)	5.85
Issued loan notes	**(3,606)**	**5.12**	(4,464)	5.12
Net funds	**1,410**		12,827	

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

	2009 Income sensitivity £000	2009 Equity sensitivity £000	2008 Income sensitivity £000	2008 Equity sensitivity £000
1% increase in interest rates	**47**	**47**	63	63
1% decrease in interest rates	**(47)**	**(47)**	(63)	(63)

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 and in the majority, ultimately backed by Government institutions.

The Group's maximum exposure to credit risk at 30 September 2009 is £86.1m (2008: £70.3m). 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.

21. Financial instruments continued

Capital risk management

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

	2009 £000	2008 £000
Group		
Shareholders' equity	**60,824**	63,287
Less: net funds less deferred consideration	**710**	(12,387)
Capital employed	**61,534**	50,900

At the balance sheet date, the Group had borrowings under the acquisition facility (note 20b) as drawings were made under this facility during the year. The Group also utilised facilities to finance its seasonal working capital requirements (note 20b).

The financial covenants relating to the acquisition facility are reviewed regularly by management and reported quarterly to HSBC. The covenants contain measurements against net debt, which is to be less than 2.5 times earnings before interest, tax, depreciation and amortisation (EBITDA) and net debt interest, which is to be less than 0.25 times EBITDA. Based on the results for 2009 and management's plan for 2010 and subsequent years, there is adequate headroom over these covenant measures.

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

22. Provisions

	Group			Company
	Issuable loan notes £000	Restructuring provision £000	Total £000	Issuable loan notes £000
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 1 October 2008	–	488	488	–
Increase in provision	–	61	61	–
Change in provisional fair value adjustments on acquisition of subsidiary	–	40	40	–
At 30 September 2009	**–**	**589**	**589**	**–**

The 2008 restructuring provision principally related to onerous lease contracts identified during the rationalisation of facilities undertaken in the year ended 30 September 2002, and was planned to be utilised over the remaining life (eight years on average) of the leases.

Following a strategic review, considering potential operating and cost efficiencies, the Group has determined to re-occupy these facilities, but will vacate other premises, requiring dilapidation rectification. The provision has been re-measured following the review which has led to an increase of £61,000.

The above balances are included within non-current liabilities.

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23. Share capital

Authorised ordinary shares of 2p each:

	2009		2008	
	Number 000	£000	Number 000	£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 2007	92,660	1,854
Issued on options	423	9
At 1 October 2008	93,083	1,863
Issued on options	89	–
At 30 September 2009	**93,172**	**1,863**

88,900 (2008: 422,892) ordinary shares of 2p each were allotted in the year, for consideration of £91,000 (2008: £460,000).

The Company has the authority to repurchase 9,309,471 shares (2008: 9,265,982) and repurchased nil shares during the year (2008: nil).

The Company has one class of ordinary shares which carries 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 2007	575,038	998
Acquired in period	374,265	734
Disposed on exercise of Co-Investment Plan	(226,186)	(409)
At 1 October 2008	723,117	1,323
Acquired in period	805,856	1,207
Disposed on exercise of Co-Investment Plan	(755,294)	(1,284)
At 30 September 2009	**773,679**	**1,246**

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

In addition to the £1.2m (2008: £0.7m) purchase of own shares held, a further £0.1m (2008: £0.1m) 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 £1.3m (2008: £0.9m).

25. Reconciliation of shareholder's equity and reserves

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Group								
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 fair value charges (note 5)	–	–	–	–	–	–	600	600
Dividends paid (note 11)	–	–	–	–	–	–	(5,126)	(5,126)
Share issues	9	451	–	–	–	–	–	460
At 1 October 2008	**1,863**	**26,578**	**(1,323)**	**94**	**–**	**167**	**35,908**	**63,287**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**12,958**	**12,958**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**957**	**–**	**957**
Actuarial gains and losses on defined benefit scheme	**–**	**–**	**–**	**–**	**–**	**–**	**(14,582)**	**(14,582)**
Fair value loss on interest rate swap	**–**	**–**	**–**	**–**	**(61)**	**–**	**–**	**(61)**
Tax charge on items taken directly to equity	**–**	**–**	**–**	**–**	**–**	**–**	**3,924**	**3,924**
Purchase of shares (note 24)	**–**	**–**	**(1,207)**	**–**	**–**	**–**	**–**	**(1,207)**
Transfer in respect of issue of shares to employee trusts	**–**	**56**	**–**	**–**	**–**	**–**	**(56)**	**–**
Share-based payment awards exercised in year	**–**	**–**	**1,284**	**–**	**–**	**–**	**(1,423)**	**(139)**
Share-based payment fair value charges (note 5)	**–**	**–**	**–**	**–**	**–**	**–**	**1,021**	**1,021**
Dividends paid (note 11)	**–**	**–**	**–**	**–**	**–**	**–**	**(5,425)**	**(5,425)**
Share issues	**–**	**91**	**–**	**–**	**–**	**–**	**–**	**91**
At 30 September 2009	**1,863**	**26,725**	**(1,246)**	**94**	**(61)**	**1,124**	**32,325**	**60,824**

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.

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25. Reconciliation of shareholder's equity and reserves continued

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 Plan and Deferred Bonus Plan is partially matched by the release of own-shares held.

	Share capital £000	Share premium account £000	Own shares £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Company						
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 1 October 2008	**1,863**	**26,578**	**(1,323)**	**94**	**34,064**	**61,276**
Profit for the year	**–**	**–**	**–**	**–**	**12,386**	**12,386**
Share issues	**–**	**147**	**–**	**–**	**–**	**147**
Purchase of shares (note 24)	**–**	**–**	**(1,207)**	**–**	**–**	**(1,207)**
Share-based payment awards exercised in year	**–**	**–**	**1,284**	**–**	**(1,479)**	**(195)**
Dividends paid (note 11)	**–**	**–**	**–**	**–**	**(5,425)**	**(5,425)**
Share-based payment transactions	**–**	**–**	**–**	**–**	**1,021**	**1,021**
At 30 September 2009	**1,863**	**26,725**	**(1,246)**	**94**	**40,567**	**68,003**

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 and has not moved in the year.

As permitted by section 408 of the Companies Act 2006, no separate income statement is presented in respect of the parent company. The Company made a profit for the year amounting to £12.4m (2008: £8.9m).

26. Acquisition of subsidiaries and business combinations

Computrac

On 3 November 2008, the Group acquired 100% of the membership interest in Computrac LLC, a company registered in the United States of America, for an estimated total cost of £5.0m ($8.1m). The estimated total cost comprises: initial cash consideration of £1.9m ($3.0m), deferred consideration estimated at £0.4m ($0.7m), acquisition costs of £0.2m ($0.4m) and repayment of £2.5m ($4.0m) borrowings. Computrac is a leading provider of interactive classroom technology solutions to schools in the South Eastern United States. 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	–	927	927
Property, plant and equipment	473	–	473
Inventory	2,156	–	2,156
Trade and other receivables	1,315	–	1,315
Trade and other payables	(1,759)	–	(1,759)
Bank loans and overdrafts	(1,398)	–	(1,398)
Finance leases	(421)	–	(421)
Deferred tax liability	–	(353)	(353)
	366	574	940
Goodwill			1,588
Total consideration			**2,528**
Satisfied by:			
Initial cash consideration			1,861
Deferred consideration			434
Directly attributable costs			233
			2,528

Net cash outflow arising on acquisition:

	£000
Initial cash consideration	1,861
Acquisition costs	233
Repayment of borrowings and finance obligations	2,477
	4,571

The goodwill arising is attributable to the acquired workforce and the anticipated future profit from expansion opportunities in the United States and operating the business with the Group's existing United States operations. Fair value adjustments have been recognised for acquisition related intangible assets and related deferred tax. Acquisition related intangible assets relate to the valuation of customer relationships, the Computrac brand and intellectual property purchased and are being amortised over five to seven years.

At acquisition the Group repaid and extinguished Computrac borrowings of £2.5m. In addition to drawing-down £4.5m from the HSBC acquisition facility (see note 20(b)) to fund the initial cash outflow, an additional £1.9m was drawn-down to fund Computrac's seasonal working capital requirements.

The values disclosed above are as per those included in the Group's interim results as at 31 March 2009 except for an adjustment of £94,000 increasing the provisional fair value of the deferred tax liability recognised on acquisition related intangible assets and a £35,000 reduction in the book value of other payables. There has been a corresponding adjustment of £59,000 to goodwill.

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26. Acquisition of subsidiaries and business combinations continued

Following acquisition, the operations of Computrac were integrated with the Group's existing United States business RM Educational Software Inc. This included establishment of a single leadership team, a combined sales force and operational integration. The combined United States operations contributed £25.3m (2008: RM Educational Software Inc £3.0m) to the Group's revenue and £1.7m (2008: RM Educational Software Inc £0.4m) to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. There would be no material changes to Group revenue or profit if Computrac had been acquired at the period start date of 1 October 2008.

Isis

On 14 May 2009, the Group acquired 100% of the share capital of PARS Commercial Holdings Ltd, the 100% holding company of Isis Concepts Ltd and PARS Office Systems Ltd. The consideration paid comprised an initial cash consideration of £1.0m and deferred consideration estimated at £1.5m. Isis is a leading supplier of flexible learning spaces built around its innovative purpose-designed furniture. The 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	–	469	469
Property, plant and equipment	78	–	78
Inventory	341	(35)	306
Trade and other receivables	473	(63)	410
Cash at bank and in hand	45	–	45
Trade and other payables	(732)	6	(726)
Finance leases	(29)	–	(29)
Corporation tax	(134)	(24)	(158)
Deferred tax asset/(liability)	5	(131)	(126)
	47	222	269
Goodwill			2,306
Total consideration			**2,575**
Satisfied by:			
Initial cash consideration			990
Deferred consideration			1,549
Directly attributable costs			36
			2,575

Net cash outflow arising on acquisition:

	£000
Initial cash consideration	990
Acquisition costs	36
	1,026

The goodwill arising is attributable to the acquired workforce and anticipated future profit from expansion opportunities, including the benefits of enhancing the Group's BSF proposition. Fair value adjustments have been recognised for acquisition related intangible assets and related deferred tax and in alignment of accounting policies. Acquisition related intangible assets relate to the valuation of customer relationships, the Isis brand and intellectual property purchased and are being amortised over five to seven years.

26. Acquisition of subsidiaries and business combinations continued

Subsequent to acquisition, the trade and operating assets of PARS Commercial Holdings Ltd and PARS Office Systems Ltd have been transferred to Isis Concepts Ltd (Isis).

Isis contributed £2.3m revenue for the period between the date of acquisition and the balance sheet date and £0.3m to the Group's profit before tax. If the acquisition of Isis had been completed on the first day of the financial year, Group revenues would have been £3.9m higher and Group profit attributable to equity holders of the parent would have been £0.2m higher.

Other acquisitions

On 1 April 2009 the Group acquired the trade and certain assets of Transfile Ltd (t/a Pisces Art) for a consideration of up to £0.4m. Fair values have not been disclosed on the grounds of materiality.

Prior year acquisitions

In 2008 the Group acquired SpaceKraft Limited, Orchard Partners Ltd (t/a EasyTrace) and a 25% investment in Inclusive Group Ltd. The fair values disclosed in the prior year were provisional and have been subsequently updated in respect of Orchard Partners Ltd only, where a £40,000 dilapidation provision has been recognised, as disclosed in note 12.

27. Operating lease arrangements

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

	2009 £000	2008 £000
Minimum lease payments under operating leases recognised as an expense in the year	**5,336**	4,389

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:

	2009 £000	2008 £000
Within one year	**4,197**	3,018
In the second to fifth years inclusive	**13,061**	9,914
After five years	**7,170**	7,832

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 9.1 years (2008: 12.2 years) and rentals are fixed for an average of 4.0 years (2008: 4.0 years).

Minimum expected sub-lease payments receivable, until earliest termination, are £0.1m (2008: £0.1m).

28. Capital commitments

The Group has the following capital expenditure commitments:

	2009 £000	2008 £000
Contracted for but not provided for	**1,969**	3,243

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continued

29. 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.

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 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 1 October 2008	5,451,513	2.96	0.72-7.62
Granted during the period	761,000	1.61	
Lapsed during the period	(1,654,210)	3.63	
Exercised during the period	(88,900)	1.04	
Outstanding at 30 September 2009	**4,469,403**	**2.53**	**0.72-7.62**

The options outstanding at 30 September 2009 had a weighted average contractual life of 6.0 years (2008: 5.3 years).

Included within the above balances are options over 1,015,077 shares (2008: 2,024,687 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 2009, options were granted on 3 December 2008, 18 February 2009 and 26 May 2009 (2008: 28 November 2007, 1 August 2008 and 19 August 2008). The estimated fair value of the options granted is £0.31 per option (3 December 2008), £0.35 per option (18 February 2009) and £0.36 per option (26 May 2009) (2008: £0.47 per option for November 2007, £0.38 per option for 1 August 2008 and £0.42 per option for 19 August 2008). 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:

	26 May 2009	**18 Feb 2009**	**3 Dec 2008**	19 Aug 2008	1 Aug 2008	28 Nov 2007
Share price at grant	**1.74**	**1.76**	**1.58**	1.77	1.73	1.98
Exercise price	**1.70**	**1.74**	**1.59**	1.75	1.82	1.97
Expected volatility	**31%**	**30%**	**30%**	30%	30%	29%
Expected life	**5 years**	**5 years**	**5 years**	5 years	5 years	5 years
Risk free rate	**2.6%**	**2.5%**	**3.0%**	4.8%	4.8%	4.6%
Expected dividends	**3.4%**	**3.3%**	**3.7%**	3.1%	3.2%	2.8%

Expected volatility was determined by calculating the historic volatility of the Company's share price over the previous five years. 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.

29. Share-based payments continued

b) Co-investment plans

The Group has in place a Co-Investment Plan 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 on grant	Market price £
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 1 October 2008	2,845,176	
Granted during the period	1,411,632	£1.47
Lapsed during the period	(222,042)	
Exercised during the period	(1,229,202)	
Outstanding at 30 September 2009	**2,805,564**	

The weighted average market price at the date of vesting of co-investment matching shares during the year was £1.48 (2008: £2.06). The plans outstanding at 30 September 2009 had a weighted average contractual life of 1.3 years (2008: 1.1 years).

In the year to 30 September 2009 co-investment rights were granted on 16 December 2008 (2008: 14 December 2007). The fair values are determined using Monte-Carlo models which give £0.37 per committed share (2008: £0.92 per committed share) and for TSR vesting conditions, £0.50 per committed share (2008: £0.78 per committed share) and are charged to income evenly over the vesting period with adjustments made for non-market based vesting conditions. Inputs to the models are as follows:

	16 Dec 2008 EPS	**16 Dec 2008 TSR**	14 Dec 2007 EPS	14 Dec 2007 TSR
Share price at grant	**1.47**	**1.47**	2.00	2.00
Exercise price	**Nil**	**Nil**	Nil	Nil
Expected life	**3 years**	**3 years**	3 years	3 years
Expected dividends	**4%**	**4%**	2.7%	2.7%

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

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

In March 2003 the Company established the RM plc Share Trust to hedge the future obligations of the Group in respect of shares awarded under the RM plc Co-Investment Plan. The trustees periodically purchase shares on the open market using funds provided by the Group. These shares are used to hedge the estimated liability but until vesting represent own shares held – see note 24.

Notes to the report and accounts
continued

29. Share-based payments continued

c) Deferred bonus plans

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 2007	144,775	–	–
Granted during the period in relation to 2007	93,802	£1.97	£2.00
Outstanding at 1 October 2008	238,577		
Granted during the period in relation to 2008	64,050	£1.58	£1.47
Restricted stock award granted	137,363	£1.82	£1.67
Bonus award granted	60,830	£1.48	£1.71
Released during the period	(140,686)	–	–
Lapsed during the period	(3,220)	–	–
Outstanding at 30 September 2009	**356,914**		

The number of shares outstanding at 30 September 2009 had a weighted average contractual life of 1.9 years (2008: 1.3 years).

In the year to 30 September 2009 awards were granted under the Deferred Bonus Plan on 16 December 2008, 9 January 2009 being a one-off restricted stock award and 30 January 2009 being a one-off bonus award (2008: 14 December 2007). The estimated fair value of each grant is £1.34 per bonus share, £1.52 per bonus share and £1.56 per bonus share respectively (2008: £1.83 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:

	30 Jan 2009	9 Jan 2009	16 Dec 2008	14 Dec 2007
Share price at grant	**£1.71**	**£1.67**	**£1.47**	£2.00
Exercise price	**Nil**	**Nil**	**Nil**	Nil
Expected life	**3 years**	**3 years**	**3 years**	3 years
Risk free rate	**2.0%**	**2.1%**	**2.6%**	4.6%
Expected dividends	**3.4%**	**3.5%**	**4.0%**	2.7%

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

In order to hedge the Group's liability to provide shares in the Company under the deferred bonus plans the trustees periodically purchase shares on the open market using funds provided by the Group. These shares are used to hedge the estimated liability but until vesting represent own shares held – see note 24.

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 2009 staff shares were granted on 23 March 2009 (2008: 25 March 2008). The fair value of the shares granted is equal to the market value of £1.65 per share (2008: £2.00 per share). The expected life used in the model has been set at three years being the minimum vesting period.

29. Share-based payments continued

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	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 1 October 2008	430,643	748
Purchased	84,910	140
Vested	(36,573)	(91)
RM plc 2002 Staff Share Scheme	477,619	796
RML Staff Share Scheme	1,361	1
At 30 September 2009	**478,980**	**797**

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.

30. 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 £3.7m (2008: £2.8m) represents contributions payable to these schemes by the Group at rates specified in employment contracts. As at 30 September 2009 £0.3m (2008: £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. Following the formation of RM Education's trading division: Lightbox Education, 3T Productions Ltd and Softease Ltd ceased to have any qualifying employees in the scheme, with staff moving to the employment of RM Education plc. 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. A statutory funding valuation as at 31 May 2009 is currently in progress and IAS 19 Employee Benefits liabilities have been rolled forward based on this valuation's base data. Plan assets are measured at bid-price at 30 September 2009. The present value of the defined benefit obligation and the related current service cost was measured using the projected unit credit method.

Notes to the report and accounts
continued

30. Retirement benefit schemes continued

As at 31 May 2006 the triennial valuation for statutory funding purposes showed a deficit of £12.7m (31 May 2003: £12.3m). The cost of future provision, as a percentage of pensionable salary, from the most recent roll-forward of this valuation is 20.9% for Normal Retirement Age 60 (2006: 21.4%, 2003: 20.4%) and 15.1% for Normal Retirement Age 65 (2006: 15.3%, 2003: 13.1%). The post 2006 costs take into account the benefit of the implementation of a 5% per annum pensionable salary cap.

IAS 19 valuation

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

	2009 £000	2008 £000
Current service cost, recognised within operating profit	**2,579**	3,190
Interest cost	**5,200**	4,879
Expected return on scheme assets	**(4,784)**	(5,492)
Expense/(income) recognised within finance cost/(income)	**416**	(613)
	2,995	2,577

Of the £2.6m operating profit charge, £1.6m is included in cost of sales and £1.0m in operating expenses.

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:

	2009		2008	
	%	£000	%	£000
Equities	**7.20**	**46,585**	6.80	36,924
Bonds	**4.00**	**43,295**	5.45	39,320
Total fair value of scheme assets		**89,880**		76,244
Present value of defined benefit obligations		**(102,666)**		(76,805)
Deficit in scheme and liability recognised in balance sheet		**(12,786)**		(561)
Related deferred tax asset		**3,580**		157
Net pension deficit		**(9,206)**		(404)

The actual return on scheme assets was a gain of £9.3m (2008: loss of £9.7m). 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.

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

	2009 £000	2008 £000
Actuarial gains and (losses)	**(13,482)**	(1,532)
Experience gains and (losses)	**(1,100)**	–
	(14,582)	(1,532)

Cumulative actuarial gains and losses recognised in the statement of recognised income and expense since 1 October 2004 are losses of £14.8m (2008: losses of £0.2m).

30. Retirement benefit schemes continued

Key assumptions used:

	2009	2008
Rate of increase in salaries	**3.50%**	3.90%
Rate of increase of pensions in payment	**3.00%**	3.60%
Rate of increase of pensions in deferment	**3.00%**	3.60%
Discount rate	**5.60%**	6.70%
Inflation assumption	**3.00%**	3.60%

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

	2009		2008	
	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

Movements in fair value of scheme assets were as follows:

	2009 £000	2008 £000
At 1 October	**76,244**	79,672
Expected return on scheme assets	**4,784**	5,492
Actuarial gains and (losses) – actual return less expected return	**4,540**	(15,189)
Contributions from sponsoring companies:		
In respect of current service cost	**2,579**	3,190
In excess of current service cost	**2,773**	3,627
	5,352	6,817
Contributions from scheme members	**24**	23
Benefits paid	**(1,064)**	(571)
At 30 September	**89,880**	76,244

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

	2009 £000	2008 £000
At 1 October	**76,805**	82,941
Current service costs	**2,579**	3,190
Interest cost	**5,200**	4,879
Contributions from scheme members	**24**	23
Actuarial (gains) and losses	**19,122**	(13,657)
Benefits paid	**(1,064)**	(571)
At 30 September	**102,666**	76,805

Notes to the report and accounts
continued

30. Retirement benefit schemes continued

The history of experience adjustments is as follows:

	2009	2008	2007	2006	2005
Difference between expected and actual return on scheme assets:					
– amount (£000)	**4,540**	(15,189)	1,102	2,025	5,900
– as a percentage of scheme assets	**5%**	(20)%	1%	3%	10%
Experience gains and (losses) on scheme liabilities:					
– amount (£000)	**(1,100)**	–	–	1,813	–
– as a percentage of scheme liabilities	**(1)%**	–	–	2%	–

The amounts of contributions expected to be paid to the scheme during the financial year ending 30 September 2010 are approximately £3.2m in respect of current service. In addition, the current triennial valuation as at 31 May 2006 commits the Group to paying £1.7m per annum of deficit catch up payments, compared to the service cost calculated for statutory funding purposes, until September 2010. As noted above, there is a valuation in progress as at 31 May 2009, an output of which will be agreement between Group company RM Education plc and the scheme's Trustees of an amount and duration of future 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 owing to the long duration of the liabilities.

Sensitivity to these assumptions are shown in the table below:

	Current assumption	(Decrease)/ increase in pre-tax deficit £000
Discount rate increase of 0.1%	5.6%	(2,500)
Inflation increase of 0.1%	3.0%	1,900
1 year additional life expectancy	PA92 Medium cohort	1,500

31. 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.

	2009 £000	2008 £000
Short-term employee benefits	**2,692**	2,761
Post-employment benefits	**214**	196
Other long-term benefits	**296**	256
Share-based payments	**115**	63
	3,317	3,276

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.

31. Related party transactions continued

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:

	2009 £000	2008 £000
Management recharges	**(521)**	(466)
Net intercompany interest	**125**	(12)
Dividends received	**12,875**	9,424

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 £1.0m (2008: £0.6m) for these schemes is recharged to the employing Group company.

Shareholder Information

Financial calendar

Ex-dividend date for 2009 final dividend	6 January 2010
Record date for 2009 final dividend	8 January 2010
Annual general meeting	18 January 2010
Payment of 2009 final dividend	5 February 2010
Announcement of 2010 interim results	May 2010
Preliminary announcement of 2010 results	November 2010

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

Shareholders are able to receive company communication via email. By registering your email address, you will receive emails with a web link to information posted on our Web site. This can include our report and accounts, notice of meetings and other information we communicate to our shareholders.

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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Five year summary

£000 (except where otherwise stated)	2005 IFRS	2006 IFRS	2007 IFRS	2008 IFRS	**2009 IFRS**
Revenue	262,707	262,310	270,910	289,473	**346,917**
Profit before tax*	13,997	14,597	15,515	16,427	**17,910**
Profit after tax	7,738	10,489	13,405	11,326	**12,958**
Tax rate**	27%	28%	27%	26%	**21%**
Basic earnings per share*	11.4p	11.6p	12.4p	13.1p	**15.3p**
Dividends per share	4.85p	5.17p	5.49p	5.81p	**6.17p**
Balance sheet:					
- total equity	38,248	42,275	57,912	63,287	**60,824**
- net cash and cash equivalents	22,942	30,092	29,321	17,291	**5,016**
- net funds less deferred consideration	18,193	28,505	27,365	12,387	**(710)**
- capital employed+	20,055	13,770	30,547	50,900	**61,534**
Profit before tax* as a percentage of revenue	5.3%	5.6%	5.7%	5.7%	**5.2%**
Average number of employees	2,137	2,124	2,230	2,373	**2,711**

* Before amortisation of acquisition related intangible assets, 2009 acquisition integration costs, 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.
+ As described in note 21 the Group measures capital employed as shareholders' equity less net funds less deferred consideration.

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