TRIBAL

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Services for life

Tribal Group plc Report and Accounts 2007

Contents

When Tribal was founded just over seven years ago, our vision was to build a business that would help transform people's lives and life chances.

Today, our professional consultancy, support and delivery services are helping our clients improve how essential public services are planned and delivered.

Tribal people have a range of skills and experience that spans the public, voluntary and private sectors. But, most importantly, they share with our clients a commitment to making a positive difference to the services which touch us all.

Whether we are raising standards in schools and colleges, regenerating communities or improving hospitals, this vision remains at the heart of everything we do. **Services for life**

Key events

April 2006
Merged education and technology activities creating integrated Education services business

July 2006
Appointed as design lead for £130m Caerphilly Hospital

September 2006
Launched ground breaking e-learning project with McDonald's

November 2006
Fashion Retail Academy designed by Tribal, is opened by Prime Minister

Highlights of the year

- Revenue increased by 8 per cent
- Profits and earnings fell due to under-performance in consultancy services
- Excellent operating cash conversion of 156 per cent, operating cash flow of £18.2m
- Successful sale of Mercury Health in April 2007, realising net cash proceeds of £52m and a profit of £27m
- The sale of Mercury Health reduced pro forma net debt at the year end to £4.3m
- Cost base and under-performing areas addressed, providing a platform for future growth
- Full year dividend up 5 per cent to 3.47p
- Encouraging start to the new financial period with several new contract wins

Financial highlights

Year ended 31 March	2007	2006	
Turnover	**£272.3m**	£259.9m	+4.8%
Revenue	**£231.9m**	£214.8m	+8.0%
Operating profit	**£0.2m**	£23.3m	
Adjusted operating profit*	**£18.3m**	£24.1m	-24.1%
Operating margin*	**7.9%**	11.2%	
Adjusted profit before tax*	**£11.7m**	£19.0m	-38.4%
(Loss)/profit on ordinary activities before taxation	**£(6.1)m**	£17.5m	
(Loss)/profit on ordinary activities after taxation	**£(8.6)m**	£12.8m	
Adjusted diluted earnings per share*	**10.3p**	17.2p	-40.1%
Basic (loss)/earnings per share	**(11.5)p**	16.2p	
Operating cash flow	**£18.2m**	£19.1m	
Operating profit to cash conversion*	**156%**	123%	

Note *The adjusted operating profit, operating margin, adjusted profit before tax and adjusted diluted earnings per share are stated before goodwill impairment of £14.4m (2006: £nil), intangible asset amortisation of £0.3m (2006: £0.3m), share option costs of £nil (2006: £0.4m), Mercury Health disposal costs of £3.3m (2006: £nil) and, in the case of adjusted profit before tax and adjusted earnings per share, financial instrument credit of £0.2m (2006: charge £0.8m) (see page 40 and page 51)

January 2007

Secured largest ever local government contract for recruitment process outsourcing

April 2007

Sale of Mercury Health to Care UK for £77m

Chairman's statement

The year proved challenging for certain parts of the core business, but we are now in a much better position. In April 2007, we successfully sold Mercury Health, strengthening the Group's balance sheet. We have taken action to reduce the level of operating costs and we have commenced a review of the Group's future opportunities. These steps and the encouraging start to the new financial period give the Board confidence about the future prospects of the Group.

Overview
The year ended 31 March 2007 was a challenging trading period for the Group, during which we saw modest revenue growth and a fall in operating margins However, we have continued to strengthen our position as a leading provider of consultancy, support and delivery services, predominantly to the UK public sector We have a major presence in our chosen markets of education, health, central government and communities

Revenue for the year was up 8 per cent at £231 9m (2006 £214 8m) Operating profit* was £18 3m (2006 £24 1m) and the operating margin* was 7 9 per cent (2006 11 2 per cent) Profit before tax* was down 38 per cent at £11 7m (2006 £19 0m) and the loss after tax was £8 6m (2006 profit of £12 8m) The adjusted diluted earnings per share* were 10 3p (2006 17 2p), aided by a low tax rate of 21 per cent following agreement of prior year tax claims

During the year, the Group generated operating cash flow of £18 2m (2006 £19 1m), representing an operating profit* to cash conversion rate of 156 per cent (2006 123 per cent) Net debt at the year end was £73 8m, including the non-recourse Mercury Health project debt of £31 5m The Group's gearing was 47 per cent and the interest cover was 2 8 times At 31 March 2007, the Group's committed revenue, excluding Mercury Health, was £131m (2006 £119m)

The Group's Education services business delivered growth in profits during the year and is well placed to respond to future opportunities However, our consultancy services businesses had a disappointing year, impacted by under-performance in specific areas Significant action has been taken with a reduction in the cost base and the re-structuring or closing down of peripheral business units Good progress has been made in rationalising our support infrastructure and achieving benefits from our procurement strategy

Following the actions taken during the year, a detailed review of the carrying value of goodwill was undertaken, resulting in an impairment charge of £14 4m

Sale of Mercury Health
On 20 April 2007, we announced the completion of the sale of Mercury Health to Care UK This disposal was a successful outcome for the Group, enabling us to crystallise the value we had created in the business and, as a result, substantially reduce our borrowings The gross sale proceeds were £77m which, after deduction of debt and costs, provided net cash proceeds of £52m The profit on disposal was £27m

Balance sheet
Following the sale of Mercury Health, the Group's balance sheet has been substantially strengthened with pro forma net debt at 31 March 2007 reducing to £4 3m On 14 June 2007, the Group signed a new five year bank facility of £40m with HBoS and HSBC, together with a working capital facility of £3m The reduced net debt and bank facilities will result in substantial savings in interest costs and bank fees

Dividend
The Board is pleased to announce that it is recommending a final dividend of 2 42p per share, making a total of 3 47p per share for the year (2006 3 3p), an overall increase of five per cent Subject to approval at Tribal's 2007 annual general meeting, this dividend will be paid on 15 October 2007 to Tribal's shareholders on the register at 21 September 2007

Management changes
As announced on 25 April 2007, Henry Pitman, Tribal Group's founder, stood down as Chief Executive on 4 June 2007 He remains on the

Note *The operating profit operating margin adjusted profit before tax and adjusted diluted earnings per share are stated before goodwill impairment of £14 4m (2006 £nil), intangible asset amortisation of £0.3m (2006 £0.3m) share option costs of £nil (2006 £0 4m) Mercury Health disposal costs of £3.3m (2006 £nil) and, in the case of adjusted profit before tax and adjusted earnings per share, financial instrument credit of £0 2m (2006 charge £0 8m) see page 40 (consolidated income statement) and page 51 (earnings per share note)

Board as a non executive director Peter Martin is the new Chief Executive Peter was previously an executive director of the Group, having been involved with Tribal since 2000 He initially led the Group's acquisition strategy until his appointment, in early 2004, as Chief Executive of Mercury Health, a position he retained until the recent sale of the business

On behalf of the Board and shareholders, I would like to thank Henry for his considerable vision and drive in creating what is today one of the UK's leading support services groups working with the public sector

People
Tribal's continued success is a result of the broad base of talented employees across the Group The Group has a distinctive culture and a strong set of values which attract high quality people from both the public and the private sector We would like to record our thanks to our 2,000 staff Through their efforts, Tribal is now regarded as one of the most respected businesses in its markets

Year end change
Since the Group's formation, trading has become increasingly weighted to the second half of the financial year In 2007, over 40 per cent of operating profit was earned in the final quarter to March This has made it difficult to predict reliably the Group's year end outturn and to provide investors with timely trading information The Board has therefore taken the decision to change the year end to 31 December The company will be reporting the six month performance to 30 September 2007, the nine month results to 31 December 2007 and the pro forma 12 month performance to 31 December 2007

We have published today unaudited financial information for both the nine and 12 months to 31 December 2006 This information can be found on the company's website, www tribalgroup co uk

Prospects
In recent weeks, the Group has commenced a number of initiatives As well as the change of year end, the Group has moved its head office to its main premises in central London in order to be closer to many of its major clients and the investor community The central group executive has been strengthened with a number of key appointments In addition, Tribal has created a working group of its 30 most senior managers to conduct a review over the summer months, led by Peter Martin This review will examine the Group's core competencies, its competitive strengths and its growth opportunities

The intention is to provide better clarity and definition to the structure of the business and to identify priority areas for growth Tribal has leading positions in its key markets of health, education, central government and communities and it is anticipated that this review will determine how we best capitalise on the franchise we have built in recent years The Group intends to report back on the findings of the review in the autumn

The successful sale of Mercury Health has strengthened the balance sheet considerably and provides for a renewed focus on the Group's core business of providing consultancy, support and delivery services, predominantly to the public sector Our clients are under constant pressure to improve the range and quality of their services, whilst operating to stringent financial and performance targets We therefore continue to see a strong flow of opportunities to support these clients as they look to transform services and bring about organisational change

The Board is confident about the Group's future prospects

Strone Macpherson
Chairman
4 July 2007

Chief Executive's statement

As the pressure on public sector organisations to reform and improve service quality increases, we expect to see continued expansion of the role of the private sector in advising and supporting our public sector partners and, where appropriate, delivering services on their behalf.

Markets

Over the last few years, the private sector has become increasingly involved in the delivery of public services In most parts of government, there are now many examples of successful public private partnerships and of services outsourced for the first time

There are several policy drivers that are fundamentally changing the shape of public sector markets - the continued pressures on budgets, the increasing move towards personalisation of services, the localisation of services, the role of the state as a commissioner, but not necessarily the deliverer, of services There are therefore considerable opportunities for the private sector to develop new services in response to these complex changes

In the year ended 31 March 2007, 95 per cent of our revenue was from the public sector and we expect to retain this focus in the future Our revenue (excluding Mercury Health) was split as follows education 49 per cent, health 19 per cent, communities (housing, local government and regeneration) 18 per cent and central government 14 per cent

Operating review

All segmental operating profit and operating profit margin figures are stated in accordance with the business segment information in note 4 to the accounts

Consulting services

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Revenue	**117,325**	122,743
Operating profit	**6,797**	15,464
Operating profit margin	**5 8%**	12 6%

This was a disappointing period for the Consulting services businesses with a 4 per cent decline in revenue and a significant fall in margins

We had a very slow start to the year, particularly in property (impacted by PFI delays), resourcing (continuing softness in the recruitment advertising market) and certain parts of our consultancy business (where utilisation rates were low)

Revenue in the first half was 13 9 per cent lower than in the previous year Significant action was taken, resulting in a reduction in staff numbers of 7 per cent and the closing down or disposal of several under-performing business units In the second half of the year, we saw a small increase in revenue against the previous year and improved profitability We expect the full impact of the changes we have made and the focus on improved margins to be seen in the current financial period and we have been encouraged by the operational performance in the first two months

Despite the under-performance last year of certain consultancy services businesses, we have seen many successes and we now believe that we have a much stronger platform from which to generate profitable growth

Health and social care

In health, our information and IT strategy consultancy team had a good year, continuing to build on its strong position as an adviser to the £12 4bn NHS Connecting for Health programme For example, we secured an extension to our Secondary Uses Service (SUS) contract SUS has been described as the largest epidemiological database in the world and draws together data on NHS-funded healthcare across the whole of England We also won several other important information and IT consultancy contracts

The decision we took last year to grow our health service improvement consultancy has been successful We have won several major service improvement contracts with acute hospital trusts, we have established a partnership with Boxwood, a change consultancy working in the private sector, which enables us to provide a more comprehensive skillset to the NHS, and we won high profile contracts with the NHS Institute for Innovation and Improvement in partnership with A T Kearney, a leading strategy consultancy

School for success

To flourish at school, children need the right learning environment and the right support.

Through the Academies programme, we design and deliver inspiring new schools which transform the opportunities for pupils, increase diversity and help regenerate deprived areas. And our unique 'Pupils' Champions!' programme provides the specialist support of successful school leaders and teachers to bring out the best in over 15,000 students and hundreds of staff in schools across the UK.

Learning to deliver

In today's e-enabled world, our learning doesn't stop when we leave the classroom.

Work-based programmes which improve literacy, language and numeracy have large scale technical requirements. Tribal's technology and service solutions support learning, assessment and workforce profiling across many sectors and for clients including McDonald's and Skills for Care, the national workforce development body responsible for adult social care. Helping people enhance their skills contributes towards creating a stronger workforce and building economic sustainability.

Chief Executive's statement continued

We are one of the principal advisers on major capital programmes in the NHS, working on a wide range of PFI and LIFT schemes in England, as well as capital developments elsewhere in the UK and overseas Our successful work in procurement across the NHS includes providing strategic guidance to the NHS Purchasing and Supply Agency (PASA) and the Health Industries Task Force in defining the future for NHS procurement

It was a difficult year for our property business, with delays on a number of major PFI schemes impacting trading We were particularly affected by the delay in closing the contract on the Peterborough Hospitals PFI Financial close on this contract was announced on 3 July We were successful in winning a number of new health contracts during the year, including design lead for the £130m Caerphilly Local General Hospital We also continued to win architectural commissions in education, particularly in further education (FE), where the market conditions remained strong In schools, we have expanded into the Building Schools for the Future (BSF) market We are part of a consortium that won a £20m contract for a design and build school in Liverpool in the first phase of a £400m BSF framework In higher education (HE), we won two further projects for Oxford University

Communities
In local and regional government, the market presented some challenges as a result of delayed decision making following the local elections and a change of control in many parts of the country However, we were successful in winning a number of advisory contracts with local councils in England Our Comprehensive Performance Assessment (CPA) team has extended its influence into many councils across the West Midlands, Manchester and London

Our economic development and regeneration businesses continue to expand strongly with new teams established in Birmingham and London We won several new contracts from central and local government, development agencies, voluntary sector organisations and private sector clients in England, Scotland and Wales Major appointments secured during the year included a strategic review of government transport investment priorities for the Scottish Executive, benchmarking of housing subsidies for English Partnerships and a framework contract for evaluation studies for the Department of Education, Lifelong Learning and Skills (Wales)

Our housing practice has continued to build on its strong position as the leading UK housing consultancy working with the majority of registered social landlords (RSLs) across England and Wales We won a significant number of contracts during the year, including stock transfer schemes with Watford, Bracknell Forest, Wansbeck, Manchester Southway and Rhondda Cynon Taf (RCT Homes) We also consolidated our position as lead adviser for the large mergers and partnerships that are taking place within the sector

'Our ability to bring together a range of skills into single bids allows us to present a powerful proposition to the market.'

In our resourcing business, we made excellent progress in interim resourcing In executive search and selection, we retained our strong share of the local government market and managed chief executive appointments for important clients such as the Local Government Association, Birmingham City Council, Bradford Metropolitan Borough Council and Nottingham City Council In recruitment advertising, we saw a significant reduction in spend on traditional media but this was mitigated by a high volume of contract wins and retentions and by improved margins During the year, we won new recruitment advertising contracts with a number of councils, several city and district council consortia and an increasing number of universities

We are seeing significant new demand for recruitment process outsourcing (RPO), providing customers with a range of back office processing support services During the year, we won our largest RPO contract (worth an estimated £4m) with the London Contracts and Supplies Group We continue to develop our digital capability and we are seeing strong growth from our e-resourcing offering and our internet job portals, including one in the West Midlands that will see 11 authorities bringing their recruitment portals together as part of a shared services vision for local government in the region

Our temporary staffing business to the medical profession has faced a fundamental change in its business due to a move in the industry towards national supply contracts which favour the larger chains This significantly impacted profitability and, in the light of this performance, we have concluded that the operation should be closed and that the goodwill associated with the business should be impaired in full

Central government
In central government, we have continued to grow our management consultancy businesses From a standing start less than four years ago, we now employ close to 80 consultants and use several hundred associates Our ability to bring together a range of skills into single bids allows us to present a powerful proposition to a market which has traditionally been dominated by more established consulting practices

Chief Executive's statement continued

During the year, we won contracts with several major central government departments including the Home Office, HM Revenue & Customs, the Foreign & Commonwealth Office, the Department for Environment, Food and Rural Affairs and the Cabinet Office

We were successful in being awarded places on the new Catalist frameworks (the Office of Government Commerce's catalogue based procurement scheme) for providing professional services to central government departments and we are now seeing increased demand from this source Separately from Catalist, more central government departments are establishing their own individual framework contracts Whilst bidding for a place on these frameworks takes up management time, we expect them to be a good source of larger opportunities for the Group

In communications, we managed a number of PR campaigns for central government, with new wins during the period with the Department for Education and Skills to promote its Academies programme and with the School Food Trust to encourage healthy school meals We are in the second year of promoting London state secondary schools for London Challenge

Education services

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Revenue	**78,700**	79 184
Operating profit	**14,102**	13 735
Operating profit margin	**17 9%**	17 3%

We saw continued profit growth of 3 per cent in our education business, with strong performances across most areas being offset by difficult conditions in schools and FE college training

In April 2006, we merged our education and technology business streams to create a fully integrated education business and we are now well positioned as one of the leading providers of consultancy, support and delivery services across education and learning in the UK We have a strong profile in all the principal education and learning markets – schools, post-16 and higher education

In software, we continued to build on our strong market position – over 40 per cent of the further education (FE) market, 55 per cent of the work-based learning market, 65 per cent of the higher education (HE) market and more than 50 per cent of local authorities are using our applications In FE, we had a good year with strong take up of our new *ebs4* student administration product by our existing clients and also through winning a number of new clients We had a very successful year in the fast expanding work-based learning market, with many new contracts won In HE, we had another good year, including a significant new contract with Edinburgh University and, since the year end, a major contract with Nottingham University In children's services, we continue to be successful with our market leading products, as well as developing new areas such as the eCAF (common assessment framework) and ICS (Integrated Children's System) In asset management, we have won prestigious new clients such as North Ayrshire, Liverpool Direct and London Fire and Emergency Planning Authority Across our software business, we are building our capacity to deliver outsourced managed services and are now delivering an increasing number of fully hosted solutions

Our publishing and e-learning business streams continued to make excellent progress We are the leading publisher of distance learning materials in vocational subjects aimed principally at FE colleges We have a strong position in the Skills for Life market, with expertise in literacy, numeracy and with students for whom English is a second language Our flagship interactive product suite, Target Skills, continues to build its reputation and market position

We had a successful year in winning and extending national delivery contracts The National Centre for Excellence in the Teaching of Mathematics, which we now manage, has been given a new £1m contract to support maths teachers in the FE sector We also won a £1 2m contract with the Children's Workforce Development Council to support the work of early years practitioners, a £7m contract to develop a portal, database and support infrastructure for Skills for Care (the sector skills council for the care sector), and a £2m contract from the European Social Fund's EQUAL programme to prepare learners for employment

Over the last few years, largely as a result of funding changes, demand for one-off training courses for schools and FE colleges has been declining In the light of these changes, we have concluded that goodwill of £3 4m in respect of this business stream should be written off in full However, during the year, we won several new large contracts to deliver training services to a wider range of organisations We are now working in 17 prisons in England, we manage training delivery for a major regional police force and have recently won a £1 1m contract to set up and manage training for housing association tenants for the Housing Corporation In parallel, we are also working with an increasing number of major corporates, such as Compass and McDonald's, to support their staff training through the development of online learning portals

We support Ofsted in the inspection of one third of all state maintained, primary, secondary and special schools, and our contracts to deliver these services continue to perform to Ofsted's requirements We are expecting Ofsted to consider outsourcing the inspection of nursery settings and work-based learning in the future and we should be well placed to bid for this work

We continue to offer a range of consultancy services across children's services and the FE sector Increasingly, this work is delivered through longer term contracts

Database cure

Ensuring people get treated as quickly as possible is a key target for the NHS.

Making it happen requires high quality information about what services are needed and effective planning. The Secondary Uses Service (SUS) provides healthcare decision makers with accurate and comprehensive data about patients held on a secure, confidential system. With Tribal's programme management and business analysis support, one of the largest patient databases in the world will give policy developers, health commissioners and providers the information they need to plan and deliver better services.

Positive influence

It's one thing to ask people for their views, but quite another to really involve them in making key decisions which affect their lives and communities.

The Housing Corporation wants to ensure that people who live in social housing have every opportunity to influence how their homes are managed. As part of the Housing Corporation's Tenant Empowerment Programme, Tribal is providing social housing tenants throughout England with training, regional events and a free information service on tenant participation, housing and community issues.

Chief Executive's statement continued

Examples include contracts with the Quality Improvement Agency (QIA) to deliver the Improvement Adviser Service and with the Department for Education, Lifelong Learning and Skills (DELLS) to deliver benchmarking across a spectrum of post-16 providers

The development of the Academy and BSF initiatives continued to provide opportunities for the Group We have been involved with the Academy programme since its inception and have now won contracts to programme manage 13 academies We are increasingly developing our involvement in the BSF programme and won advisory contracts with local authorities in Southwark and Durham

Our education business is now very well placed to build on its strong market position and win an increasing number of longer term contracts We intend to strengthen our bidding capability, enabling us to grow the value of our contract pipeline Over the next few years, we see new opportunities emerging to deliver shared services in FE and to extend our position in the vocational learning market

Mercury Health

	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
Revenue	**37,795**	14,550
Operating profit	**3,785**	1,476
Operating profit margin	**10 0%**	10 1%

Mercury Health performed strongly during the period with revenue of £37 8m and operating profit of £3 8m This was a successful second year of trading for the business, exceeding our financial and operational objectives In June 2006, Mercury opened its largest centre, an orthopaedic facility in Haywards Heath In December 2006, Mercury signed a new contract to deliver diagnostic services throughout the West Midlands and it was also selected as preferred bidder on a contract to deliver a range of surgical and other clinical services in Essex

On 20 April 2007, the business was sold to Care UK for a gross consideration of £77m which, after deduction of debt and costs, realised net cash proceeds of £52m The profit on disposal was £27m The sale was an excellent outcome for Tribal Group It has enabled us to crystallise the substantial value created, repay the majority of net debt and release the Group from significant and onerous guarantees

People
Tribal Group continues to attract some of the most talented people in its markets We have within the Group a strong mix of market and technical specialists who are able to provide our customers with high quality advice, innovative solutions and project and programme management capabilities We have a strong culture that encourages ambition and independence, while our corporate values appeal to our customers and staff and differentiate us from our competitors

The strength of our market position is a result of the efforts and dedication of our 2,000 staff and 1,000 associates and the high quality work and services they provide to our customers I would like to thank all of them for the enormous contribution they have made and I look forward to working with them as we enter the next stage of Tribal Group's development

Prospects
The successful sale of Mercury Health has strengthened the balance sheet considerably and provides for a renewed focus on the Group's core business of providing consultancy, support and delivery services, predominantly to the public sector Our clients that operate in our chosen markets of education, health, central government and communities are under constant pressure to improve the range and quality of services, whilst operating to stringent financial and performance targets We therefore continue to see a strong flow of opportunities to support these clients as they look to transform services and bring about organisational change

The Group is now focused on its key priorities of delivering sustained organic revenue growth, improving margins and raising the level of committed income We have made an encouraging start to the new financial period As announced on 3 July, financial close has been reached on the Peterborough Hospitals PFI contract In addition, we have secured a number of new contract wins including

- Kent County Council recruitment advertising – value c£3m over three years
- Cornwall County Council recruitment advertising – value c£2 5m over three years
- Foreign & Commonwealth Office change management – value c£2m over two years
- Housing Corporation training framework – value c£1 1m over three years
- DfES Maths for Life – value c£1 1m over one year
- QIA teacher improvement contract – value c£1 1m over one year

The pipeline of new contract opportunities is good

The Board is confident about the Group's future prospects

P. Mart

Peter J Martin
Chief Executive
4 July 2007

Business review
Strategy

Tribal Group delivers a range of consultancy, support and delivery services, predominantly to the UK public sector. We address four principal markets: education, health, communities and central government.

Business model
Following the sale of Mercury Health in April 2007, Tribal now operates through two business streams Consulting services and Education services

In Consulting services, we provide an extensive range of management consultancy, communications, resourcing and property services Working in our chosen public sector markets, we are able to offer our customers a powerful combination of specialist expertise and integrated solutions

In Education services, we operate across the schools, post-16 and higher education markets We provide a wide range of education consulting, products and services which help our clients to manage their organisations efficiently and respond to the developing government agenda

Organic growth
A primary objective of the Group is to generate sustainable organic revenue growth This will be achieved in a number of ways by increasing the capacity and skillset offered by our consultants, by investing in the development of new products and services to meet the needs of our clients, by concentrating on winning larger and longer-term contracts, and by developing a broader range of delivery services

We have an unparalleled range of expertise and capabilities that can be deployed in a variety of ways to provide clients with increasingly integrated and tailored solutions

Margin
The Group's objective is to improve operating margins each year This will be achieved through a rigorous review of operational performance, constant attention to our market positioning, careful qualification of new contract opportunities and by maintaining a strong focus on our cost base and overheads As Tribal grows, we expect to see financial and operational benefits of delivering increasing revenue through our existing management and physical infrastructure, as well as from consolidating procurement across the Group

Partnerships and acquisitions
Where we identify a significant opportunity that requires a set of skills that are complementary to those that we can provide in-house, we will continue our policy of partnering with high quality organisations that can work with us to develop and deliver a unique solution to our clients

Whilst our attention in the short-term will be focused on delivering organic growth, we will be prepared in due course to give consideration to acquisitions of businesses that meet our stringent criteria The minimum requirements for acquisitions will be businesses that extend our product or skills offering, deepen or extend our market positioning, have a robust profit history and significant growth potential, and are a good cultural fit with Tribal Acquisitions that we make in the future will be fully integrated into our operational structure

Values
Our core purpose is to enhance people's lives and life chances

Our five values are

- passionate about improvement
- stronger together
- inspiring people
- unleashing talent
- prepared to be different

Tribal's positioning in its markets is strengthened by the Group being closely aligned to the public sector ethos of its clients Our people have a deep understanding of our client's organisations, local, regional and national agendas, and empathy for the public sector they support Our employees believe that the work they do helps to improve the lives of the citizens it affects This sense is underpinned by our core purpose and the Group's values which flow through all the work we do

Management structure
Reporting to the main board, there is a Group executive team that comprises the Group Chief Executive, the Chief Operating Officer and the Group Finance Director The Group executive team has overall responsibility for developing and implementing the strategic direction of the Group and the financial and operational performance of the business Reporting to the Group executive team are a number of business units that operate through two business streams Consulting services and Education services Each of the business units is headed by a managing director The managing director has responsibility for delivering the unit's profit performance, but is also expected to contribute to the wider business development of the Group

We continue to strengthen the management arrangements across our business During the year, we have recruited a number of high quality individuals from both the private and public sectors Tribal has established a reputation as a dynamic business with a high level of integrity, where managers are given considerable independence within a supportive Group framework This business environment and the company's strong underlying values have been important factors in attracting talented individuals

'We have an unparalleled range of expertise and capabilities which provides our clients with increasingly integrated and tailored solutions.'

Business review
Our markets

The reform agenda continues to drive growth in our core public sector markets. The programme for improving public service quality is now focused on devolved decision-making, increased customer choice and more effective collaboration between service delivery partners.

Funding pressures remain, resulting in an increasing use of complex procurement frameworks and creating new opportunities in outsourcing

Tribal's breadth of service offering, track record for innovation and strong balance sheet mean we are well placed in our core public sector markets

Education
The reform agenda in education is focused on personalised learning and a demand-led approach for delivering access to high quality provision

'Every Child Matters' continues as the sector flagship for improving the well-being and life chances of children With the introduction of the Education and Inspections Act, Ofsted became the sole inspection agency for education and skills and the Government committed to raise standards, promote choice and diversity and give teachers new powers to discipline pupils The green paper 'Care matters transforming the lives of young children and young people in care', published in April 2007, seeks to ensure a first class education for children in care

The further education white paper 'Raising skills, improving life chances' set out reforms to deliver capacity and quality across the sector Lord Leitch's review 'Prosperity for all in the global economy – world class skills' and the green paper 'Raising expectations staying in education and training post 16' both promote a culture of lifelong education and training in the current and future workforce In higher education, the growth in student numbers and diversity and the increasing range and flexibility of learning opportunities are challenging universities to sustain the quality of their teaching and research

The Government has pledged to increase the overall investment in education, skills and children's services by £10 7 billion between 2008 and 2011

During the last year, Tribal has continued to secure business growth and market share in the sector As well as working with government departments and local authorities, we deliver supported e-learning to multinational companies and are a partner of choice in delivering high quality, client-focused services

Health and social care
The NHS is just over halfway through a major 10-year programme of investment and reform

The programme initially focused on expanding capacity and increasing investment to support national targets for improving patient access and care This was followed by a series of radical reforms to introduce patient choice and payment by results

The new direction outlined in the white paper 'Our health, our care, our say' means that more funding will follow the patient and care will shift from hospitals into the community It is estimated that up to 5 per cent of resources could transfer from secondary to primary care Long-term conditions will be managed outside hospitals by GPs, incentivised through the new Quality and Outcomes Framework

In the latest stage of the reform programme, decision-making about priorities and resources is being devolved to a local level, requiring local commissioning capability and giving communities a bigger say in how care and services are delivered

Tribal has supported key initiatives to increase capacity by advising on and designing PFI-funded hospitals and primary care facilities Our consulting services have helped drive a more responsive health service and our work on enabling programmes such as 'Choose and Book' has given patients more choice about how, when and where they receive treatment We have recently developed a comprehensive commissioning capability to work in partnership with trusts to ensure they get the best possible outcomes and value for money

Tribal's group structure – combining consulting, communications, technology, property and recruitment capabilities – together with its willingness to develop new service-led business streams, places it in a very strong position in the NHS market

Communities
(local government, housing and regeneration)
The momentum for transformation in service delivery created by the Gershon and Lyons reviews has continued with the introduction of the Local Government Bill, the Varney review and the likely outcome of the Comprehensive Spending Review later this year (CSR07) Local authorities are facing significant, inter-related strategic issues as they strive to simultaneously improve service quality and reduce costs In addition, councils are increasingly focused on economic and social regeneration and developing local partnership models and innovative shared service arrangements

'Tribal's group structure, together with its willingness to develop new service-led business streams, places it in a very strong position in the NHS market.'

In January 2007, the Government announced the creation of Communities England, a new agency to deliver regeneration and housing which will bring together the work of English Partnerships, the Housing Corporation and some functions currently undertaken by the Department of Communities and Local Government The recent Hills report on social housing and the review of the sector's regulation by Professor Martin Cave will have a significant impact on housing policy and the way social housing is regulated in the future

The consolidation of the social housing sector through mergers and partnerships has continued, as has the transfer of stock from local authorities to registered social landlords (RSLs) and arms length management organisations (ALMOs)

Business review
Our markets continued

Over the next few years, decisions over transport strategy and investment will have significant implications for regeneration and sustainability

The changes in the sector are creating new opportunities for Tribal's regeneration consultancy work, which is underpinned by integrated economic, social and housing expertise As a transformation partner, we support local authorities to achieve their goals through creating the opportunity and investment choices which enable high performance Tribal is also leading the way in local authority executive search and interim management In response to the e-government agenda, we are working with authorities to build more than 30 e-recruitment systems

Central government
Although the lead up to the prime ministerial succession inevitably created some policy uncertainty, personalisation and greater choice are expected to remain as key policy themes

The distinction between government's role as the commissioner, as opposed to the provider, of services is becoming more defined Performance improvement will increasingly be focused on competition and contestability While the Department of Health has been prominent in implementing these policies, most departments and agencies are now developing similar initiatives

Greater efficiencies will be driven by the continuing impact of the Gershon and Lyons reviews, together with the constraints likely to result from the CSR07 budget review This is expected to lead to more effective collaboration between government agencies and the development of shared service and joint procurement initiatives

Homeland security continues to be a priority, requiring better co-ordination of activity across government departments and agencies to prevent and respond to events

Tribal's broad base of technical and consultancy expertise in central government means that we are well placed to support these reforms and initiatives

Business review
Our people

At Tribal, we recognise that our talented and diverse mix of people is one of our key strengths

Our employees may be consultants, town planners, architects, software developers and educators but, whatever their discipline, they are at the top of their profession in terms of technical, intellectual and management skills We work together to harness this talent across the Group and develop new services and enhance our portfolio Our comprehensive product and service offerings also mean we can provide excellent opportunities for career progression and development

Tribal's people reflect the ethos and values of our client base, and our unique culture is a powerful synthesis of high quality commercial practice and the best of the public sector ethos of service to society

Supporting our people
Continuing engagement with our staff is central to ensuring we remain an employer of choice At our staff forums across the Group, Tribal employees develop and enhance our policies and processes This enables everyone to have a say, not only in how they are treated as employees, but also in the way we manage our business

Our first Group-wide staff satisfaction survey was completed this year and working groups are now driving changes through the business Our intranet and regular briefings ensure that staff are well-informed about news and developments and we are also introducing a monthly update by the Chief Executive to all staff This proactive approach to engaging and involving employees continues to have a direct and positive impact on our people and our business

Supporting the development of our staff and the provision of continuing professional development opportunities is a key focus for us We have built on the framework of professional, technical and supervisory development opportunities by introducing several management development initiatives These include the Excellence programme, based on Neuro Linguistic Programming, and Tribal's own branded 'Managers into Leaders' and 'Moving up in Management' programmes We support staff with their professional qualifications and memberships, we continue to develop our graduate recruitment and development programmes and this year we have further developed our team building events Providing a range of training and development opportunities at every level of the workforce is a key target for 2007

Tribal's directors regularly review important management information about our people – for example, turnover, equal opportunities, disability and diversity Building our people management framework has allowed us to monitor the composition and diversity of our workforce, improve our performance management and identify personal development needs We also have a counselling service in place to ensure staff have access to a support network outside the business

Rewarding our people
We continuously strive to improve and broaden the range of benefits we offer, both to reward success and encourage participation in, and ownership of, the business We are developing a menu-based range of benefits offering staff a choice in how their package is comprised Our current benefit range includes a save as you earn scheme, a share incentive plan, occupational pension, life insurance, private medical insurance, permanent health insurance, eye care vouchers, enhanced paternity allowance, time off to support voluntary work, flexible and generous leave arrangements, access to free financial planning, home computer allowance, discounted travel insurance and hotel rates, nursery vouchers, car allowance and a confidential support line

Recognising achievement
Each year, Tribal recognises and rewards exceptional effort and commitment at every level of the business through our national awards These showcase the achievements of both individuals and teams in each of our five corporate values passionate about improvement, stronger together, inspiring people, unleashing talent and prepared to be different

Business review
Risk management and key performance indicators

Risk management

The Board assesses risk management throughout the Group and sets the overall risk appetite and philosophy, supported by the Audit Committee and the executive directors

The Board establishes the parameters for risk appetite for the Group through

- setting strategic direction including targets
- reviewing and ultimately approving annual plans and budgets for the Group and each business stream
- regularly reviewing and monitoring the Group's performance in relation to risk through monthly Board reports

To ensure that risk is robustly managed throughout Tribal, a Group risk management framework operates as part of the annual business planning and performance management process This requires each business unit to

- identify and assess all significant risks facing their business
- prioritise risk
- actively manage by detailing the steps to avoid or to mitigate risk
- review and report risk

A summary of the key risks facing the Group is placed on a risk register which is supported by the Audit Committee and the executive directors

The executive directors provide the central leadership and clear guidance within the annual planning instructions issued to all business streams The business stream heads are specifically responsible for the management of risk within their operating businesses, supported by their operations and finance directors We believe the key to success is a combination of strong central direction and good management talent Our businesses are experts in understanding customer requirements and market opportunities, adapting their plans to achieve the best possible performance

Governance framework

We review performance by conducting regular business stream meetings to ensure that the businesses are on track This framework came to the fore during this last challenging financial year and enabled the executive directors and business stream heads to take appropriate actions to deal with under-performance and other issues as they arose

The principal risks that the Group manages are as follows

1 Reputational risk
Tribal operates across a wide spectrum of the UK public sector which is subject to regular political and public interest, together with scrutiny by the media

In 2005/6, we moved the majority of our businesses to a single Tribal brand and therefore we are increasingly aware of the importance of managing our corporate reputation As we continue to win larger and more complex government contracts, particularly in our education and health markets, we need to ensure that we carefully select the contracts we bid for, price them correctly, fully understand all the contractual requirements and then deliver them effectively, since any failure and adverse media coverage by one business has a potential impact on the Group as a whole

2 Changes in government policy and spending
Given the significance of public sector contracts to Tribal, any cut in relevant public spending or a change in policy away from using independent private sector providers may have an adverse effect on the results of the Group Tribal has consciously made an effort to protect itself against this risk by establishing a balanced portfolio of services and in this respect we have some advantage over a number of our competitors In the year to 31 March 2007, no customer accounted for more than 7 per cent of our revenue

3 Operational risks
Tribal operates in competitive markets which can be significantly affected by the number and size of our competitors, pricing policies and knowledge of our customer requirements Procurement cycles for large delivery and management service contracts are becoming more complex and involve a clear justification of value for money to government bodies The Group Board signs off all major contracts to ensure these meet our core competencies, capabilities and financial targets

We are a people based business and any increased costs of employment, including pension costs, could significantly impact our operating costs and profitability The Group has limited exposure to defined benefit pensions plans and sets clear direction as part of annual pay reviews

We have a clear strategy to reduce our labour cost bill as a percentage of revenue

4 Financial risks
For the past few years, Tribal has operated with a highly geared balance sheet, due in part to its historical acquisition strategy and also its investment of £25 million in establishing its Mercury Health business From 2003, Mercury Health experienced significant success by securing a number of major contracts under the Department of Health's ISTC programme As a consequence, our net debt rose to over £89 million or gearing of 52 per cent at its peak

Tribal successfully sold Mercury Health in April 2007 with the proceeds being used to pay down debt With a pro forma net debt of less than £5 million at the start of 2007/8, Tribal has substantially de-risked its gearing and balance sheet and hence its exposure to any rise in interest rates

There is a high likelihood that the Group's current tax rate of 21 per cent, below the standard rate of corporation tax due to the resolution of prior year matters, will increase over time in line or slightly above the standard rate The Group will continue to mitigate its tax liabilities whenever and wherever appropriate

Other financial risks are covered in the financial review section

Key performance indicators (KPIs)
The Board uses a range of performance measures to monitor and manage the business Each business unit has established performance measures specific to its business lines, however there are a number of KPIs which are applied across the Group These Group KPIs fall into two categories financial metrics that measure past performance and operational measures that allow us to manage the business into the future

We set out each KPI on these pages and how we have performed against the targets set last year

Business review
Financial review

The sale of Mercury Health post the reporting period has strengthened our balance sheet and significantly reduced the Group's debt. We provide pro forma comparative information to help shareholders understand the continuing business going forward and the change in our accounting reference date to 31 December.

The financial year 2006/7 was a challenging business environment for our core continuing business which necessitated business closures, goodwill impairment write down and high restructuring costs This is explained further in this financial review We are pleased to report some good recovery was made in the second half of the year

Our continuing business delivered another year of strong operating cash performance This cash efficiency, coupled with a record order book and a stronger balance sheet, provides a sound financial platform for future profitable organic growth

Group trading summary

	2007 £'000	2006 £'000	Increase/ (decrease)
Revenue	**231,851**	214,794	8%
Operating profit	**192**	23,313	
Share option costs	**10**	449	
Amortisation of IFRS 3 intangibles	**320**	316	
Goodwill impairment	**14,429**	-	
Mercury Health disposal costs	**3,300**	-	
Adjusted EBITA	**18,251**	24,078	(24)%
Net finance costs	**(6,330)**	(5,841)	
Exclude financial instruments (credit)/charge	**(178)**	765	
Adjusted profit before tax	**11,743**	19,002	(38)%
Adjusted effective tax rate*	**21 0%**	25 0%	
Adjusted diluted earnings per share*	**10 3p**	17 2p	(40)%
Dividend per share (based on proposed final dividend)	3 47p	3 3p	5%

Note *Before goodwill impairment amortisation of IFRS intangibles share option costs Mercury Health disposal costs and financial instrument credit/charge (see notes 9 and 10)

Revenue
Revenue increased by 8 per cent to £231 9m (2006 £214 8m) The second half of the year has seen some improvement with revenue, excluding Mercury Health, of £106 3m up 3 per cent on last year In contrast, first half revenue increased by 7 per cent to £104 5m, but excluding Mercury Health decreased by 8 per cent

Compound revenue growth over the last six years has been 39 per cent

Profit

Adjusted EBITA decreased by 24 per cent to £18 3m (2006 £24 1m) The Group's operating margins reduced from 11 2 per cent to 7 9 per cent We have taken a number of remedial actions, closing eight business streams with aggregate losses and closure costs totalling c£2 3m and reduced headcount at a cost of c£1 1m This has impacted current year profitability and margins but will benefit the current accounting period If these costs are added back, the underlying margin would be 9 3 per cent Our target is 10 per cent and the restructuring should improve our future profitability and margins

The Group's trading continues to be seasonally weighted towards the second half of the year, 66 per cent (2006 61 per cent) of the annual profit being generated in H2 This will become more balanced following the change of year end which is discussed in more detail below

Share option costs

Share option costs of £10,000 (2006 £449,000) represent the share based payment charge under IFRS 2 The current year's charge has benefited from the reversal of a charge made in the prior year for the LTIP granted in 2005 It is now clear that the performance criteria will not be met and accordingly the options will not vest

Goodwill impairment

A goodwill impairment charge of £14 4m (2006 £nil) has been made after the Group carried out its detailed annual impairment test Of this charge, £3 4m relates to the FE training business stream within Education services that has been closed, £1 6m for the under-performing medical equipping business stream within Consulting services and the balance of £9 4m in respect of cash generating units within Consulting services whose returns have deteriorated below previous expectations This is more fully discussed in note 14

Mercury Health disposal

At 31 March 2007, we have expensed committed costs of £3 3m in respect of the disposal of Mercury Health As a result of its size and nature, it has been separately disclosed and effectively forms part of the net profit on disposal of the business that will be fully reported in our next report and accounts Details of this transaction are included in the post balance sheet events note 37

Group finance costs

	2007 £'000	2006 £'000	Increase
Finance credit	**(1,041)**	(446)	
Finance charges	**7,549**	5,522	
	6,508	5,076	28%
IAS32 Discounting of deferred consideration	**164**	443	
	6,672	5,519	
IAS39 Financial instruments	**(342)**	322	
	6,330	5,841	8%

Net finance costs for the year increased by 28 per cent to £6 5m (2006 £5 1m), before IAS 32/IAS 39 financial instrument credits of £0 2m (2006 charge £0 8m), reflecting the full year effect of the increase in the Group's net debt position to fund the implementation and mobilisation of the ISTC contracts in Mercury Health The higher finance costs are also due to the reduction in capitalised interest from £1 3m to £0 4m

The IAS 32 charge relates to a notional charge in respect of discounting deferred consideration Only one historical acquisition earnout payment remains outstanding and will be settled in share or loan notes at the company's discretion in November 2007

Business review
Financial review continued

The IAS 39 credit (2006 charge) is largely due to the inability of the Group to obtain perfect hedge accounting for its discounted swap This means that the movement in the fair value of the swap in the period is recognised in the finance charge for the period Whilst this credit/charge could potentially be highly volatile in line with movements in UK interest rates, the volatility will not be reflected in the cash flows of the Group, which are determined by the underlying hedge interest rate The volatility introduced to the income statement as a result of this imperfect swap is not considered to be representative of the performance of the business, and has therefore been excluded when calculating adjusted earnings

The interest rate swap has saved the Group £117,000 in cash and interest payments in the current year

On 31 March 2007, the bank exercised its option to convert the discounted swap into an annuity at 0 1 per cent below LIBOR The arrangement has now been cancelled in the Group's favour

Tax

The Group adopts a proactive approach to managing its tax bill Our effective tax rate based on our adjusted profit before tax dropped from 25 per cent to 21 per cent due to HMRC agreement to tax relief for the Mercury Health bid costs incurred in 2004 This is a one-off benefit, the on-going tax charge on current year profits is likely to be in line or slightly above the standard 30 per cent rate reflecting disallowed expenses and non-qualifying depreciation

Shareholder returns and dividends

The loss on ordinary activities after taxation was £8 6m (2006 profit £12 8m)

Adjusted diluted earnings per share* decreased to 10 3p (2006 17 2p) due to the decline in profitability

The Board has proposed a final dividend of 2 42p (2006 2 25p) giving a total dividend for the year of 3 47p (2006 3 3p) Our dividend is covered three times by adjusted earnings per share

Retained earnings for the year to equity holders decreased by £5 2m

Cash management

Cash conversion for the year was an excellent 156 per cent (2006 123 per cent) This is defined as net cash from operating activities before tax over adjusted EBITA

Operating cash flow, defined as net cash from operating activities less interest, was £18 2m (2006 £19 1m)

Capital expenditure in the year was £4 4m (2006 £4 0m) for the Consulting and Education services business streams (mainly replacing and enhancing IT infrastructure) representing 2 3 per cent of revenue (2006 2 0 per cent) and £7 6m (2006 £26 6m) was incurred by Mercury Health (mainly long term leases and assets under construction)

The Group's cash flow for the year is shown below

Group cash flow

	2007 £'000	2006 £'000
Net cash from operating activities before tax	**28,423**	29,559
Net interest	**(6,032)**	(7,078)
Corporation tax	**(4,143)**	(3,365)
Operating cash flow	**18,248**	19,116
Capital expenditure		
- Mercury Health	**(7,574)**	(26,569)
- Other business streams	**(4,407)**	(4,005)
Other financial investment (net)	**(1,564)**	(1,048)
Acquisition and deferred consideration	**(556)**	(3,642)
Dividends paid	**(2,780)**	(2,362)
Financing	**9,501**	14,315
Increase/(decrease) in cash and cash equivalents in year	**10,868**	(4,195)

Included within financing is £10 6m of new loans drawn primarily under the Mercury Health non-recourse debt facility to fund the implementation and mobilisation of the healthcare contracts

Disposal of Mercury Health
Following approval at the Extraordinary General Meeting of the company on 19 April 2007, we completed the sale of our investment in Mercury Health to Care UK on 20 April 2007 The gross sale proceeds were £77m, which after deduction of debt and costs, equates to net cash proceeds of £52m

The healthcare delivery business stream has not been classified as discontinued or held for sale under IFRS 5 'Non-current assets held for sale and discontinued operations' as shareholder approval for the transaction had not been received at the balance sheet date

The continuing operations of the Group will consist of the existing Consulting and Education business streams In order to show the financial impact of the disposal on the Group, the results of Mercury Health for the years ended 31 March 2007 and 31 March 2006 have been shown in a separate column on the face of the income statement

To give an indication of the balance sheet impact of the disposal, we have disclosed pro forma figures applying the disposal to the 2007 balance sheet in note 37 (Post balance sheet events)

Net debt
Group net debt decreased from £75 9m to £73 8m as shown below

Group net debt

	2007 £'000	2006 £'000
Cash at bank and in hand	**33,483**	22,615
Cash collateralised	**949**	1,392
Gross cash	**34,432**	24,007
Short term loans	**(1,455)**	(2,907)
Syndicated bank facility (net of bank arrangement fees)	**(72,676)**	(72,277)
Non-recourse bank facility (net of bank arrangement fees)	**(31,481)**	(22,554)
Mercury Health asset finance facility	**(500)**	–
Share option facility	**(1,725)**	(1,725)
Finance leases	**(425)**	(429)
Gross debt	**(108,262)**	(99,892)
Net debt	**(73,830)**	(75,885)
Gearing	**47%**	47%
Interest cover	**2.8**	4 7

The disposal of Mercury Health had the following impact on the Group's net debt

	£'000
Net debt at 31 March 2007	(73,830)
Net debt transferred to Care UK on disposal	17,577
Net proceeds of disposal	52,000
Pro forma net debt	(4,253)

Business review
Financial review continued

Following the disposal of Mercury Health, the Group no longer required its existing level of banking facility and the high costs associated with the non-utilised portion On 14 June 2007, the Group agreed a new £40m senior debt banking facility until 2012 Under the terms of the facility, £40m is available under a fully fluctuating revolving credit facility, which can in part be transferred into a performance bond facility as required The previous £180m facility, together with the share option facility of £5m, have been cancelled This is likely to save bank costs of £0 4m per annum

Our gearing at 31 March 2007 was 47 per cent (2006 47 per cent) Pro forma gearing at 31 March 2007 is 3 per cent

Change of year end

The Board has taken the decision to change the Group's year end to 31 December Since the Group's formation, trading has been very seasonally weighted to the second half of the year, with up to 40 per cent of operating profit earned in the final quarter This has made it very difficult to manage the Group's year end outturn and to provide investors with timely trading information It is believed that this will enable more focus to be given to the longer term and provide greater certainty earlier in the year

We will be reporting half year results to 30 September 2007 followed by nine months to 31 December 2007

In order to provide visibility of the impact of this change, we have set out unaudited abridged pro forma accounts for the 12 months ended 31 December 2006 and the nine months ended 31 December 2006 in a separate document which is available on our website

A summary pro forma unaudited income statement is set out below excluding the discontinued Mercury Health business

'The Board has taken the decision to change the Group's year end to 31 December. This will enable more focus to be given to the longer term and provide greater certainty earlier in the year.'

Pro forma trading summary

	9 months to 31 December 2006 £'000	12 months to 31 December 2006 £'000
Revenue	**138,180**	194,279
Operating (loss)/profit	**(6,319)**	2,019
Share option costs	**62**	192
Amortisation of IFRS 3 intangibles	**238**	316
Goodwill impairment	**14,429**	14,429
Adjusted operating profit	**8,410**	16,956
Net finance costs	**(2,810)**	(3,714)
Exclude financial instruments credit	**(46)**	(38)
Adjusted profit before tax	**5,554**	13,204
Adjusted effective tax rate*	**28 6%**	29 8%
Adjusted earnings per share*	**4 2p**	10 6p
Net debt at 31 December 2006	**87,189**	87,189

Before goodwill impairment amortisation of IFRS intangibles share option costs and financial instrument credit

Basis of preparation.

1 The accounting policies used are consistent with those followed in the preparation of the Group financial statements for the year ended 31 March 2007 except as stated below

2 Mercury has been treated as a discontinued operation, as it will be in future financial reports

3 Had the March 2007 impairment review taken place at 31 December 2006 the same charge would have arisen

Committed income
The forward order book of the Group excluding Mercury Health as at 31 March 2007 was £131m (2006 £119m)

Financial risks and treasury management
The main financial risks faced by the Group relate to the availability of funds to meet business needs, credit risk arising from customer defaults and fluctuations in interest rates These risks are managed as described below

Funding
The Group finances its operations by a combination of cash reserves from retained profits, bank borrowings and leases Our policy is to maintain sufficient headroom in undrawn committed bank facilities and banking covenants The Group is now funded by a £40m senior debt banking facility until 2012 with two major UK banks

Treasury management is led by Group Finance and operates within policies and procedures reviewed and approved by the Board

Credit risk
The objective is to reduce the risk of bad debts arising from non-payment from our customers This risk is tightly managed across the Group led by the Group finance team We incurred no material bad debts during the year due to the strong relationships with our customers Debtor days outstanding were 42 days (2006 42 days) but the age profile of older debts continues to improve

Interest rate risk
Forward rate agreements and interest rate swaps are used to achieve the desired mix of fixed and floating rate debt At the year end, the Group held a hedged fixed interest rate swap over £25m of core borrowings and an unhedged discount rate swap over a further £25m of core debt The non-recourse Mercury Health facility of up to £33 5m is fully hedged over the term through two fixed rate swaps Following the sale of Mercury Health and the cancellation of the unhedged discount swap, the Group has retained the following swap instrument

Instrument	Expiry date	Tribal pay	Tribal receive
£25m hedge against core debt	30 09 2010	4 99%	6 month LIBOR

Business review
Corporate responsibility

Corporate responsibility framework
Over the course of the last twelve months, we have built on the results of our extensive corporate responsibility (CR) audit and developed a framework that defines how we will transform our priorities into tangible outcomes

To Tribal, corporate responsibility means a commitment to our staff, clients, stakeholders and the communities who benefit from our services that we live up to our core purpose of 'improving people's lives and life chances' in a responsible way

Due to the nature of our operations, our social and environmental impacts are comparatively low However, managing our business responsibly is part of our culture and helps shape our overall strategy, planning and daily activities

Our CR framework is built on four strands

1 Our customers
Following the CR review, we identified that due to the diverse nature of our business and projects, a universal mechanism for evaluating customer satisfaction was not appropriate Our priority moving forward is therefore to agree on a consistent set of customer satisfaction and service improvement standards, and ensure each part of the business has relevant formal mechanisms in place for evaluating and reporting its performance Targets will be set for the next financial year to ensure we continue to deliver excellent services and value for money to our customers

Over the next twelve months, we plan to undertake a survey across our key markets to benchmark customer perceptions of Tribal and our services and highlight areas for improvement

2 Our people
As a professional services business, our people are our most important asset We therefore regard staff satisfaction, consultation and involvement as a top priority Staff engagement has improved through a range of initiatives, including the annual Group-wide staff satisfaction survey which had a 51 per cent response rate and our staff forums Our annual awards, based on our core values, attracted over 200 nominations

We have reviewed and developed our Group-wide terms and conditions and overall package of benefits to ensure we continue to attract and retain the best people with the relevant skills We have introduced a new policy to promote and develop people internally wherever possible

3 Our community
Tribal recognises we have a duty to support the communities in which we work and we actively encourage employee participation in local community projects Through our staff payroll giving scheme, employees make a regular tax-free donation to charity and Tribal Group matches these donations Last year saw the launch of the Tribal Foundation 'Give it up' week, where staff devised and participated in a range of activities, and again Tribal matched the donations

We support and encourage employees who wish to undertake volunteer work, charitable activities and social sabbaticals and are looking at ways to formalise volunteering arrangements throughout the business We were highly commended at the Charities Aid Foundation's companies and communities awards 2006 for our work in the effective giving category

4 Our environment
Due to the nature of our business, our environmental impact is comparatively low However, we are committed to continuously improving our environmental performance and minimising adverse environmental impact Our Group environmental policy promotes good practice and sets out the minimum standards for all parts of the business To support our businesses in assessing their environmental impact, a set of guidelines will be produced on areas for review, measurement and targets In due course, each business will be accountable for assessing and reporting on its main environmental impacts, including utilities, waste, recycling and transport

A number of initiatives are already in place to minimise environmental impact These include the introduction of teleconferencing facilities in regional business centres and the appointment of 'green officers' We are in the process of setting up a Cycle2Work scheme, giving employees a great way to get hold of a new bicycle, tax free We plan to make further progress in these areas during the next year

'We were highly commended at the Charities Aid Foundation awards 2006 for our work in the effective giving category.'

The Tribal Foundation
The Foundation was established in 2005 as a registered charity to support activities which reflect our involvement in areas such as education and health, both in the UK and the developing world We do this through both financial support and the sharing of our skills and expertise The Foundation is principally funded by donations from our Group profits and by additional funds raised through our payroll giving scheme and staff fundraising initiatives

In response to the worldwide campaign to 'Make Poverty History', we decided to concentrate primarily on projects in the developing world where our support is able to have a real impact We work with Skillshare International, an NGO with over 100 years' experience This ensures our support is effectively targeted and sustainable, with continuing support from Skillshare's development workers in the field

Over the past two years, we have supported five projects and established a secondment programme

- Over 400 disabled people in Kwazulu Natal in South Africa have received basic education opportunities through the provision of premises, tutors and vital equipment including Braille machines
- Our financial support has helped to train 414 village health workers, benefiting 70,000 people in south-east India These community health workers provide vital information and training to help prevent malaria and reduce infant mortality
- The People Living with HIV and AIDS project covers four southern African countries which have infection rates of over 35 per cent of the adult population It is establishing support networks for 1,200 people and training 400 community volunteers and carers
- The Lesotho Disability project helps integrate disabled learners into mainstream education and training It aims to raise the status of disabled people by enabling them to get work or become self-employed
- The Railway Children project in Gorakhpur, India, assists orphans forced to live on railway platforms by giving them access to shelter and education

While Tribal has contributed just under £100,000 towards these projects, our support also attracts significant matched funding from the Department for International Development and the European Union

However, perhaps our greatest resource is the skills, expertise and enthusiasm of our staff Our secondment programme has gained considerable momentum over the past year and Tribal staff have shared their expertise in IT and information management in Lesotho, Botswana and Swaziland

FTSE4Good
Tribal Group is a member of the FTSE4Good Index Series, the index for companies which meet globally recognised corporate responsibility standards We have been a member for the last five years

Board of directors

Strone Macpherson
Age 58
Non-Executive Chairman

Strone Macpherson was appointed as an independent non-executive chairman of Tribal Group in March 2004 He was formerly executive deputy chairman of Misys plc which he joined in 1989 after 15 years at Flemings His current positions include non-executive director of AXA UK plc and Close Brothers Group plc Strone is a member of the General Council of the King's Fund

Peter J Martin
Age 49
Chief Executive

Peter Martin joined Tribal Group in June 2001 as Group development director, becoming chief executive of Mercury Health in April 2004 until its sale in April 2007 He was appointed chief executive of Tribal Group on 4 June 2007 Peter was formerly a founding partner of corporate finance firm, Anvil Partners, and prior to that a director of the corporate finance division of Kleinwort Benson Limited He is a non-executive director of WIN plc

Simon M Lawton FCA
Age 46
Group Finance Director

Simon Lawton joined Tribal Group in March 2000 He was formerly director of finance at Securicor Electronics Limited, a subsidiary of Securicor Group plc, and before that, finance director of Dawes Group Limited Simon originally qualified at KPMG where he became a senior manager in audit and advisory services

David G F Thompson
Age 53
Non-Executive Director

David Thompson joined Tribal Group in March 2004 and is chairman of the Audit Committee He is chairman of Marstons plc which he joined in 1977 and a non-executive director of Caledonia Investments plc and Persimmon plc

Timothy E P Stevenson OBE
Age 59
Non-Executive Director

Tim Stevenson joined Tribal Group as a non-executive director in May 2004 and is chairman of the Remuneration Committee and senior independent director Tim worked for Burmah Castrol Group plc from 1975 until 2000, latterly as group chief executive He is currently chairman of Travis Perkins plc, Morgan Crucible plc and of the board of governors of Oxford Brookes University

Sheila M Forbes CBE
Age 60
Non-Executive Director

Sheila Forbes joined Tribal Group in May 2004 as a non-executive director and will not be seeking re-election at Tribal's Annual General Meeting on 3 September 2007 Since 1996, she has held a number of non-executive positions including Lloyds TSB Group plc and the British Library, having previously served as group personnel director at Storehouse plc and then director of human resources at Reed Elsevier plc

Henry J Pitman
Age 44
Non-Executive Director

Henry Pitman founded Tribal Group in September 1999 and resigned as chief executive on 4 June 2007 He was appointed a non-executive director on and from the same date Henry was formerly managing director of JHP Group Limited, a UK vocational training and business services company, which he joined in 1995 Prior to this, he worked for the Property Corporation of South Africa from 1990 to 1995 In May 2007, he was appointed as a non-executive director of Grainger plc

Richard H Collins
Age 44
Group Company Secretary

Richard Collins joined Tribal in 2004 He qualified as a solicitor in 1988 and practised in the City of London before joining CAMAS plc (subsequently Aggregate Industries plc) in 1995 as head of legal, also becoming company secretary in 1997 In 1998 he joined support services company Blick plc where he was group solicitor and company secretary

Directors' report

The directors have pleasure in presenting their annual report on the affairs of the Group, together with audited consolidated financial statements and independent auditors' report for the year ended 31 March 2007

Principal activities
Tribal Group plc is a holding company with a number of trading subsidiaries

The principal activities of the Group are the provision of a broad range of consultancy and professional support services The majority of our customers are in the UK public sector, predominantly within education and training, health and social care, local and regional government, housing and regeneration, and central government The review of the year's operations, key risks and future developments are contained in the Chairman's statement, the Chief Executive's statement, the Business review and the Corporate governance statement The Group's policy with regards to financial instruments and the risk to the Group is discussed on page 25 in the 'Financial risks and treasury management' section of the business review

Our services are delivered through Consulting services, Education services and Mercury Health

Business review
A detailed review of the Group's performance is provided in the section headed 'Business review' on pages 12 to 27

Since the balance sheet date, the Company disposed of its investment in Mercury Health This significant event is detailed in the section headed 'Disposal of Mercury Health' on page 23

Results
The results of the Group are shown on page 40 and show a decrease of 24 per cent in group operating profit before amortisation, impairment, share option costs and Mercury Health disposal costs from £24 1m to £18 3m Loss before tax was £6 1m (2006 profit £17 5m) and the adjusted diluted earnings per share has decreased by 40 per cent from 17 2p to 10 3p (see note 13)

Proposed dividend
The directors recommend a final dividend of 2 42p per share which, together with the interim dividend of 1 05p paid on 2 February 2007, makes a total of 3 47p for the year (2006 3 3p)

The final dividend will be paid on 15 October 2007 to shareholders on the register on 21 September 2007

Directors and Directors' interests
The Board of directors' interests are detailed on page 37

Research and development
The Group continues to invest in research and development This has resulted in a number of new products being launched recently which are expected to contribute to the growth of the business

Employment policies
We are a people business We seek to attract, develop and retain high calibre staff and, as a consequence, our customers can be assured that the service they receive is among the best available The Group's commitment to its people is discussed in the section of the business review on page 17 headed 'Our people'

The Group is an equal opportunities employer and bases all decisions on individual ability regardless of race, religion, gender, sexual orientation, age or disability

Applications for employment by disabled persons will always be fully considered, having regard to their particular aptitudes and abilities Should any employee become disabled, every practical effort is made to provide continued employment Depending on their skills and abilities, they enjoy the same career prospects and scope for realising their potential as other employees Appropriate training is arranged for disabled persons, including retraining for alternative work for employees who become disabled, to promote their career development within the organisation

Supplier payment policy
The Group does not follow any specified code or standard on payment practice However, it is the Group's policy to negotiate terms with its suppliers and to ensure that they are aware of the terms of payment when business is agreed It is the Group's policy to make prompt payment to those suppliers meeting their obligations The Group year end trade payables represented approximately 41 days (2006 44 days)

Charitable and political donations
During the year, the Group made charitable donations of £19,836 (2006 £25,789) The Group made no political donations during the year (2006 nil)

Substantial shareholdings
At 4 July 2007, the following voting interests (other than directors) in the ordinary share capital of the Company, disclosable under the Financial Services Authority's Disclosure and Transparency Rules (which replaced Part VI of the Companies Act 1985, with effect from 20 January 2007), had been notified to the Directors

	Ordinary shares of 5p each	%
BT Pension Scheme Trustees Limited	14,103,152	16 64
Caledonia Investments plc	8,836,232	10 43

Directors' report continued

Special business at the Annual General Meeting
A separate document accompanying the Annual Report and Accounts 2007 contains the notice convening the Annual General Meeting and an explanation of the special business to be conducted at that meeting

Audit information
In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself 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 s234ZA of the Companies Act 1985

Auditors
A resolution for the re-appointment of Deloitte & Touche LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the Board

Richard H Collins
Company Secretary
4 July 2007

87-91 Newman Street
London
W1T 3EY
Registered in England and Wales number 4128850

Corporate governance

Introduction
Tribal Group plc is committed to achieving high standards of corporate governance, integrity and business ethics The Group supports the Principles of Good Corporate Governance and Code of Best Practice appended to the Listing Rules of the Financial Services Authority (the 'Combined Code') In July 2003 the Financial Reporting Council issued the 'FRC 2003 Combined Code', which is the version of the Combined Code applicable to the Group in the year under review In June 2006 the Financial Reporting Council published the 'FRC 2006 Combined Code', and recommended that this amended Code be adopted by listed companies for reporting years starting sooner than the effective date for the amendments The Group has followed this recommendation

The remainder of this report sets out how the Group applied the FRC 2003 Combined Code during the year under review

Compliance with the Code of Best Practice
The Group has complied throughout the year with the Code provisions set out in the FRC 2003 Combined Code

Board of directors
The Board comprised seven directors being Sheila Forbes Simon Lawton, Strone Macpherson (non-executive chairman), Peter Martin, Henry Pitman, Tim Stevenson and David Thompson The terms and conditions of non-executive directors are available for inspection on request from the company secretary The directors' profiles are set out on page 28

On 4 June 2007 Henry Pitman stood down as an executive director, but continues on the board in a non-executive capacity At the company's 2007 Annual General Meeting, Sheila Forbes will not seek re-election as a non-executive director

Independence
The Board believes that the non-executive directors (excluding Henry Pitman) are independent as defined by the Code The senior independent non-executive director is Tim Stevenson

David Thompson is also an independent non-executive director of Caledonia Investments plc which has become a significant shareholder in the Group This connection between the Group and one of its current shareholders does not affect the director's objectivity, particularly as he is independent of executive decision making processes at both companies All of the non executive directors bring a wide range of experience to the Board including building large and mid-cap public company businesses, hands-on operational CVs, strategy and human resources

The chairman has other significant time commitments, as indicated in his profile These have not changed materially during the year and they do not affect his ability to devote sufficient time to the Company's activities

The chairman, Strone Macpherson, is chairman of the Nomination Committee and Tim Stevenson is chairman of the Remuneration Committee David Thompson is chairman of the Audit Committee and has the relevant experience to chair this Committee as required by the Combined Code

The independent non-executive directors and the chairman were initially appointed for a three-year term Other than Sheila Forbes, each non-executive director and the chairman is seeking re-election at the 2007 Annual General Meeting

The Board exercises full and effective control over the Group The Board maintains a formal schedule of matters reserved for the Board's decision, and its responsibilities include strategy and management of performance, acquisitions, capital expenditure and safeguarding the Group's assets The actual results of the Group and a summary of operating company performance are reported to all members of the Board Executive members of the Board meet formally with business stream management each month to review business performance and to discuss operational and strategic issues Key points from these meetings are discussed at Group board meetings

A procedure exists for the Board of Directors, in the furtherance of their duties, to take independent professional advice if necessary, at the Company's expense All directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring that all rules, regulations and agreed procedures are observed Richard Collins, an experienced public company secretary and a qualified solicitor, was appointed in November 2004

On appointment, and throughout their tenure, directors receive appropriate training and presentations

The roles of the chairman and chief executive are separate and clearly defined The chairman is primarily responsible for the running of the Board and the chief executive for the running of the Group Information is provided to the Board on a timely basis In advance of each board meeting, directors receive a board pack including detailed monthly management accounts, proposed acquisitions, a corporate governance update and major capital expenditure requests

All directors are appointed by the Board as a whole following recommendations from the Nomination Committee and each director submits himself for re-election at least every three years None of the executive directors has a service contract with a notice period greater than 12 months

During the year under review, a performance evaluation of the Board, its committees and its individual directors was conducted, by means of a combination of written and oral processes, under the control of the chairman and facilitated by the company secretary The senior independent director, with input from the other directors, has evaluated the chairman's performance

Board committees
The Board has established three committees to deal with matters in accordance with written terms of reference They are an Audit Committee, a Nomination Committee and a Remuneration Committee The chairmen of the Board committees will be available to answer questions at the 2007 Annual General Meeting

Terms of reference for the Audit, Nomination and Remuneration Committees can be found on the company's website

Audit Committee
The Audit Committee meets at least twice each year The Committee is chaired by David Thompson and the members comprise Sheila Forbes and Tim Stevenson The Group finance director also attends all meetings The Committee monitors the effectiveness of internal financial controls and considers matters relating to accounting, financial reporting, accounting policies, business risks and the external audit To do this, it receives and considers written and oral reports from company officers, the Group finance director and the external auditors Procedures to correct weaknesses identified in these reports are put in place by the Group finance director and reviewed at subsequent meetings The Audit Committee holds discussions with the auditors without the Group finance director present at least once a year The Audit Committee considers annually the need for an internal audit function It currently believes that the Group is not of sufficient size or complexity to obtain value from such a function at this stage

Corporate governance continued

In order to safeguard auditor objectivity and independence, the Committee keeps these matters under review and also reviews the cost effectiveness of the external auditors and the nature of the non-audit services provided by them

The Group has a formal policy for use of auditors for non-audit work During the year the auditors were engaged to provide assurance services and advice in respect of the disposal of Mercury Health The Committee consider these engagements to be appropriate due to the auditors' familiarity with the company's business

Nomination Committee
The Nomination Committee is chaired by Strone Macpherson and the members comprise Sheila Forbes, Tim Stevenson, David Thompson and the chief executive The Committee deals with appointments to the Board, monitors potential conflicts of interest and reviews annually the independence of the non-executive directors The Committee is responsible for proposing candidates for appointment to the Board having regard to the balance and structure of the Board Suitable candidates for non-executive roles have in the past been identified by use of external recruitment consultancies, and the Committee would expect to use a similar process in the future

Remuneration Committee
The Remuneration Committee is chaired by Tim Stevenson and the members comprise Sheila Forbes and David Thompson The chairman is not a member of the Committee but he is invited to attend all committee meetings

The Committee meets at least twice a year and on behalf of the Board sets the remuneration packages for the directors, including basic salary, bonuses and other compensation payments The Committee ratifies policy and framework proposals made by executive directors in respect of the remuneration for senior executives within the Group The Committee is assisted by the company secretary and takes advice as appropriate from external advisers The remuneration report is set out on pages 34 to 37

Attendance at Board and Committee meetings

Board/Committee name	Board*	Audit	Nomination	Remuneration	Current role
Number of meetings in year	10	3	1	5	
Number of meetings attended by members					
Strone Macpherson	10	n/a	1	n/a	Chairman of Board and Nomination Committee
Henry Pitman[1]	10	n/a	1	n/a	Non-executive director
Peter Martin[2]	10	n/a	n/a	n/a	Chief executive
Simon Lawton	10	n/a	n/a	n/a	Executive Group finance director
Sheila Forbes	8	3	1	5	Non-executive director
Tim Stevenson	10	3	1	5	Non-executive director, chairman of Remuneration Committee
David Thompson	10	3	1	4	Non-executive director, chairman of Audit Committee

Note excludes unscheduled or purely administrative meetings
1 H Pitman resigned as chief executive on 4 June 2007 and was appointed a non executive director on the same date
2 P Martin was appointed chief executive on 4 June 2007

Maintenance of a sound system of internal control
The directors undertake a periodic review of the effectiveness of the Group's system of internal controls using a common strategic risk framework

The Group's assessment includes a review of the major financial and non-financial risks to the business and the corresponding internal controls The output is continuously reviewed by the executive directors to enhance further the internal control and risk management culture of the Group throughout its subsidiaries Clear responsibilities have been allocated for key risk areas such as acquisitions, human resources, treasury, capital expenditure, insurance and information technology Other risks fall within the scope of the Audit, Remuneration and Nomination Committees as appropriate No potential issues warranting disclosure in the accounts have been identified

The executive directors will review these action plans on a regular basis to ensure that the Board's plans for improvement are being implemented and that the outputs of the strategic risk assessments remain relevant to the Group A review will be carried out and an action plan prepared for all new acquisitions as part of the integration process The action plans and their ongoing review form a process for identifying, evaluating and managing risks faced by the Group Such a process has been in place for the year under review and up to the date of approval of the audited financial statements and conforms to the requirements of the Turnbull guidance

Review of effectiveness of internal control
The directors are responsible for the Group's system of internal control and for reviewing its effectiveness Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives In establishing and reviewing the system of internal control, the directors have regard to the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control It follows that the system of internal control can only provide reasonable and not absolute assurance against the risk of material misstatement or loss

In addition to the process of assessment of internal control and the monitoring of the effectiveness of internal financial control by the Audit Committee, explained above, the process used by the Board to review the effectiveness of the system of internal controls includes the following

Control environment
The directors are committed to maintaining a control-conscious culture across the Group whilst allowing the business streams sufficient autonomy to manage and develop their businesses This is communicated to all employees by way of regular management briefings, training and mentoring An organisational structure is in place within which the business can be planned, controlled and monitored This structure includes appropriate written delegation of authority, physical controls and procedures such as authorisation limits and segregation of duties The business stream chief executives and managing directors regularly review their responsibilities and compliance with the Group's policies and procedures The Group operates a quarterly letter of representation reporting framework for operating companies' chief executives/managing directors and finance directors/controllers to assess and report on the adequacy of internal financial controls and completeness and accuracy of the management accounts

Financial reporting
There is a comprehensive system of financial reporting to the Board based on an annual budget prepared in line with the Group's strategic plan and formally adopted by the Board, quarterly rolling forecasts and monthly reporting of financial and operating results Budgets and plans are prepared at the individual business unit level and summarised at business stream and group level Key operational performance indicators including weekly cash flow forecasts, and daily cash balances, are continuously monitored by the executive and business stream directors

Group procedures manual
Responsibility levels are communicated throughout the Group as part of the Group procedures manual, which sets out delegation of authority and authorisation levels and other control procedures, together with accounting and reporting procedures The manual is updated regularly and has been during the year to take account of new Accounting Standards, performance criteria, operational effectiveness, investment returns and other regulatory requirements All senior finance professionals are provided with training and guidance to ensure that the current and future needs of the Group are met

Shareholder relations
The chief executive and Group finance director are the Group's principal spokesmen with investors, analysts, fund managers, the press and other interested parties Access is available to the chairman and/or the senior independent director and other non-executive directors if this is required The chairman has met with principal shareholders in the year under review The full Board is kept informed about shareholder relations and in particular the senior independent director is kept informed of the views of major shareholders This is done by a combination of reports to the Board on meetings held and feedback to the Board from the Group's financial advisers The Group holds briefing meetings with analysts and institutional shareholders, usually following the interim and final results announcements, to ensure that the investing community receives a balanced and complete view of the Group's performance and the issues faced by the business

The Group reports formally to all shareholders twice a year when its half year and full year results are announced The Annual General Meeting is attended by all directors, and private investors are encouraged to participate in the meeting

These results and all other Stock Exchange announcement information are available on the Group's website We are aware that a growing number of shareholders are taking advantage of improvements in technology and accessing the wealth of information on corporate websites Recent changes in legislation mean that, subject to the necessary authority being obtained at the forthcoming Annual General Meeting, in future we will be able to offer electronic copies of the Report and Accounts, Notice of Annual General Meeting and other documents addressed to shareholders

Going concern
After making due enquiries and following the successful sale of Mercury Health, the directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason, the directors continue to adopt the going concern basis in preparing the financial statements

Remuneration report

Introduction
The remuneration report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations') The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved

The Regulations require the auditors to report to the company's members on the 'auditable part' of the remuneration report The report has therefore been divided into separate sections for audited and unaudited information

Information not subject to audit

Composition and terms of reference
The Committee is comprised of three independent non-executive directors Sheila Forbes, David Thompson and Tim Stevenson (Chairman) It operates in accordance with written terms of reference which are determined by the Board and take account of best practice and the requirements of the Combined Code The terms of reference will be available at the Annual General Meeting

Advisers to the Remuneration Committee
During the year under review the Committee commissioned and received advice on remuneration matters from New Bridge Street Consultants

Remuneration policy
The key objective of the Group's policy on executive directors' remuneration is that the overall package should be sufficiently competitive to attract, retain and motivate high quality executives to achieve the Group's business objectives and reward them for enhancing shareholder value

The package consists of basic salary, benefits, share options, performance related bonuses and pension contributions In line with the Group's growth strategy, a significant proportion of the package is based on performance and dependent upon the achievement of growth in adjusted diluted earnings per share For certain LTIP awards made in April 2007 the performance measures also relate to the company's share price performance

The Group has a range of share incentive plans in place to provide the necessary mechanisms for employees and executive directors to participate in the long term success of the Group

The Committee believes that the schemes align the interests of key employees, as well as all staff generally, with those of shareholders

Non-executive directors
The fees for non-executive directors are determined by the Board and are reviewed periodically They do not participate in any bonus scheme, share option scheme, pension scheme or receive any other benefits However, Henry Pitman (who became a non-executive director in June 2007) continues to participate in a sharesave contract which commenced while he was an executive director

Executive directors
A summary of each element of the executive directors' remuneration is set out below

Basic salaries and benefits
Basic salaries and benefits are determined by reference to market levels for similar jobs in comparable companies based on independent surveys Salaries are reviewed annually at the start of each financial year and when an individual changes position or responsibility

Benefits (normally a car allowance, pension, permanent health cover, private medical insurance and a death in service benefit of four times salary) are set at a comparable level with those granted to executives at a similar level in like companies

Performance related bonuses
Bonus entitlement is a contractual calculation set out in each director's service agreement and is based on the growth in the Group's adjusted diluted earnings per share but, in all cases, subject to the overriding discretion of the Remuneration Committee The terms are reviewed and determined annually The threshold earnings per share target is adjusted each year to the audited figure disclosed in note 13 Bonus payments are made if the threshold target is exceeded, and for specific directors there is also an element of the total bonus that is dependent upon performance measured against personal targets The total contractual bonus is subject to a fixed maximum of 75 per cent of individual's basic salary Bonus payments do not form part of salary for pension purposes

In addition to any contractual bonus entitlement, the Committee has the discretion to make ad hoc bonus payments, on such terms and subject to such performance or other targets as it sees fit Typically, an ad hoc bonus payment could be made to reflect exceptional performance

Any bonus payments relating to the year under review are detailed in the remuneration report on page 36 In respect of the year under review, contractual bonus payments in part were achieved by two directors for achieving personal targets The base threshold was not met for the adjusted earnings per share target In addition, in line with the policy described above, bonus payments were also made to Peter Martin in his capacity as chief executive of Mercury Health In the year under review, he received his entitlement to a bonus under the Mercury Health senior management profit share scheme, and also an ad hoc bonus reflecting Mercury Health's success in winning major contracts

Executive directors' service contracts
It is Group policy to fix notice periods for executive directors for a period of no more than 12 months The Committee believes that the entitlement of directors to the security of 12 months notice of termination of employment is in line with practice in many comparable companies

Copies of each director's service agreement will be available for inspection at the Annual General Meeting

The Committee aims always to deal fairly with cases of termination, whilst attempting to limit compensation The service agreements make allowance for specific amounts of compensation that may become payable in the event of early termination of contracts in order to enable the Committee to respond appropriately to particular circumstances

Details of service agreements and notice periods are as follows

Name of director	Effective date of contract	Expiry/ retirement date	Notice period for company (months)	Notice period for directors (months)
S M Lawton	08 02 2001	Ongoing	12	12
P J Martin	25 06 2001	Ongoing	12	12
H J Pitman	08 02 2001	Terminated 04 06 2007	12	12

Non-executive directors' contracts

Non-executive directors have a three-month notice period and no compensation or other benefits are payable

Details of their agreements and notice periods are as follows

Name of director	Effective date of contract	Expiry/ retirement date	Notice period for company (months)	Notice period for directors (months)
S M Forbes*	25 05 2004	2007 AGM	3	3
P S S Macpherson	10 03 2004	2007 AGM	3	3
T E P Stevenson	25 05 2004	2007 AGM	3	3
D G F Thompson	22 03 2004	2007 AGM	3	3
H J Pitman**	04 06 2007	2007 AGM	3	3

* S Forbes will not seek re election at the Annual General Meeting on 3 September 2007

** H J Pitman was appointed a non-executive director on 4 June 2007

Current share incentive schemes

The Group currently operates five share incentive schemes two employee share option schemes ('option schemes'), a long term incentive plan ('LTIP'), a savings related share option scheme ('SAYE') and a share incentive plan ('SIP') The executive schemes were established to provide a continuing incentive for executive directors and selected key employees

1 *Option schemes*

There are two employee share option schemes the Tribal Group plc Employee Share Option Scheme ('the PLC scheme') and the Tribal Holdings Limited Employee Share Option Scheme ('the Limited scheme') The Limited scheme was used to grant options prior to admission on AIM Options can no longer be granted under the Limited scheme

At the discretion of the Committee, grants are normally made under the option schemes on an annual basis Such grants are subject to scheme limits, and in particular there is a cap of £30,000 on the market value of tax approved options Both the option schemes contain HMR&C approved and unapproved parts

The exercise of options granted under the option schemes is conditional on the annual growth in adjusted diluted earnings per share exceeding the rise in the retail prices index ('RPI') +8 per cent compound over the two-year period from grant Options commence vesting after the publication of results at an equal amount (1/24th) over a further two-year period Options are exercisable in one tranche between four and ten years from the later of the date of grant and the results announcement date

2 *LTIP*

The plan was designed to provide an incentive for selected executive directors and senior key employees

Two changes to the plan were effected in 2003 following approval at that year's Annual General Meeting The total length of the award period was reduced from five years to four years, and participants are able to acquire free loyalty shares

Awards from 19 September 2003 under the LTIP comprise of two elements

a a nil cost option over ordinary shares, referred to as 'performance shares', which participants will be able to acquire on a fully vested basis at the end of a three-year performance period, subject to satisfying the performance targets

The performance target is linked to the growth in adjusted diluted earnings per share exceeding the annual growth in the RPI over the three-year period from grant For awards granted to 31 March 2005, vesting will be on a straight line basis with zero per cent if the annual adjusted diluted earnings per share growth is less than RPI +10 per cent compound, up to 100 per cent if the annual adjusted diluted earnings per share growth is equal to RPI +20 per cent compound or more, for awards granted after 31 March 2005 the growth rates are RPI +4 per cent and RPI +12 per cent respectively Under the LTIP scheme rules, alternative or additional performance targets may be applied The Committee will use this power if it considers this appropriate, and

b a nil cost option over additional ordinary shares, referred to as 'loyalty shares', which participants will be able to acquire at the end of a holding period of one year, subject to remaining in employment

The number of loyalty shares that can be awarded to any participant will be 25 per cent of the number of performance shares which vest in favour of each participant at the end of the performance period

In the year under review LTIP awards were made to the executive directors, as detailed in the note on page 37

3 *SAYE*

The Group's HMR&C approved SAYE scheme is open to all employees and directors who have been in continuous service for such minimum period as is determined by the Committee Eligible employees may save up to £250 per month under a three year SAYE contract and then apply the savings to buy shares in the Company

The option price for grants prior to 2005 was set at 20 per cent below the market value at the date of grant However there was no discounted option price for the SAYE contracts entered into in January 2005 and January 2006, and participation had to be scaled back because of pressures on available shares for use by the scheme In the light of these pressures the Committee has decided that there may be limited future SAYE contracts

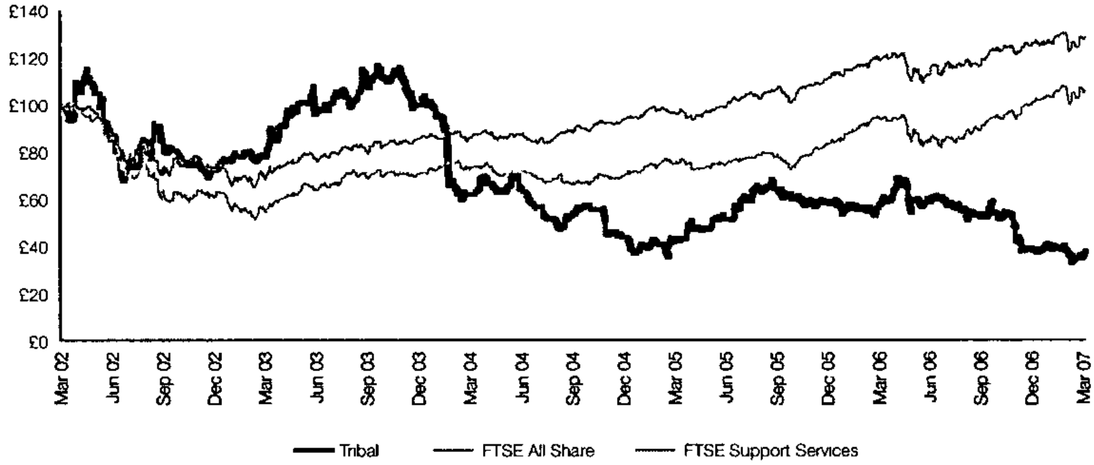
Remuneration report continued

4 *SIP*
At the 2005 Annual General Meeting the Company proposed and shareholders approved the establishment of a new all-employee Share Incentive Plan

The SIP is HMR&C approved It currently provides all employees with the opportunity to acquire 'partnership shares' in a tax-efficient manner

Performance graph
The following graph compares the value of an investment of £100 in Tribal Group plc shares with an investment in the FTSE All Share Index and the FTSE Support Services Index over five years from 31 March 2002

The Committee believes that this comparison provides a clear picture of how the company has performed relative to both a wide range of companies in the UK and also a specific group of companies in the same sector



A £100 investment in Tribal shares on 31 March 2002 would be worth £37 compared to £128 for an investment in the FTSE All Share Index or £106 for an investment in the FTSE Support Services Index as at 31 March 2007

Information subject to audit

Directors' remuneration
The remuneration of individual directors was as follows

	Salary or fees £'000	Performance related bonus £'000	Benefits £'000	Pension costs £'000	2007 Total £'000	2006 Total £'000
Chairman						
P S S Macpherson	100	–	–	–	**100**	100
Executive directors						
H J Pitman	275	–	11	33	**319**	451
S M Lawton	180	16	10	22	**228**	296
P J Martin	200	98	10	24	**332**	312
Non-Executive directors						
S M Forbes	25	–	–	–	**25**	25
T E P Stevenson	35	–	–	–	**35**	35
D G F Thompson	35	–	–	–	**35**	35
Aggregate emoluments	850	114	31	79	**1,074**	1,254

During the year, Peter Martin served as a non-executive director of WIN plc The Board has agreed that he should be allowed to retain the director's fees paid to him by WIN plc, which during the year were £22,000 (2006 £20,500)

On 26 April 2007 Peter Martin received an ad hoc bonus payment of £135,700 as part of a transaction bonus arrangement established by the Remuneration Committee for the Mercury Health senior management team, which related any bonus paid to the sale price achieved for Mercury Health This was regarded as a related party transaction in the context of the Group's disposal of its investment in Mercury Health and was referred to in the circular issued to shareholders before their approval of the transaction The Committee believes that a transaction bonus was necessary in order to incentivise the Mercury Health management team to maximise the benefits to the Group from this transformational corporate transaction

The interests of directors in share options were as follows

	At 31 March 2006	Granted	Lapsed	Exercised	At 31 March 2007	Exercise price £	Date from which exercisable	Expiry date
H J Pitman								
SAYE scheme	3,289	–	–	–	**3,289**	£1 44	01 03 2008	01 08 2008
LTIP	120,250	–	–	–	**120,250**	£nil	30 06 2008	30 09 2009
LTIP	–	137,868	–	–	**137,868**	£nil	30 06 2010	30 09 2011
S M Lawton								
Limited scheme	18,744	–	–	–	**18,744**	£1 33	30 06 2003	23 01 2011
PLC scheme	45,444	–	–	–	**45,444**	£1 65	30 06 2003	07 02 2011
LTIP	90,909 *	–	–	(90,909)	–	£nil	31 03 2006	30 09 2006
SAYE scheme	945	–	(945)	–	–	£2 00	01 02 2006	01 08 2006
LTIP	77,940	–	–	–	**77,940**	£nil	30 06 2008	30 09 2009
LTIP	–	90,241	–	–	**90,241**	£nil	30 06 2010	30 09 2011
P J Martin								
PLC scheme	40,000	–	–	–	**40,000**	£2 83	30 06 2003	26 06 2011
LTIP	60,000 *	–	–	(60,000)	–	£nil	31 03 2006	30 09 2006
LTIP	77,940	–	–	–	**77,940**	£nil	30 06 2008	30 09 2009
SAYE scheme	2,422	–	–	–	**2,422**	£1 93	01 03 2009	01 09 2009
LTIP	–	100,267	–	–	**100,267**	£nil	30 06 2010	30 09 2011

There have been no variations to the terms and conditions or performance criteria for share options during the financial year The LTIP awards marked with an asterisk (*) relate to a five-year period and do not qualify for any loyalty shares as the awards were granted prior to the changes passed at the Annual General Meeting on 19 September 2003 The performance criteria for these awards have been achieved and they were fully exercised by Simon Lawton and Peter Martin during the year

LTIP awards were granted during the year to Henry Pitman, Simon Lawton and Peter Martin The market value of Tribal Group plc shares at the date of grant was £1 87

Options granted under the SAYE schemes are not subject to performance criteria The performance criteria, as detailed on page 35, have been met for the Limited Scheme and the PLC scheme as far as these awards relate to Simon Lawton and Peter Martin

The market value of the Company's shares at the year end was £1 22 The highest market value during the year was £2 26 and the lowest market value £1 10

Directors' interest in shares of Tribal Group plc
The directors who held office at the end of the financial year had the following interests in the shares of the Company according to the register of directors' interests

	Interest at end of year	Interest at start of year
H J Pitman	11,691,871*	11,691,871*
S M Lawton	663,484**	600,724**
P J Martin	390,888	375,888
P S S Macpherson	50,000***	50,000***
T E P Stevenson	26,000	26,000
D G F Thompson	217,500****	17,500****
S M Forbes	nil	nil

* Of these, 1,200 000 ordinary shares are held by his wife and 811,760 ordinary shares by the trustees of the Henry Pitman 2001 Accumulation and Maintenance Trust
** Of these, 20,000 ordinary shares are held by his wife
*** Of these, 25 000 ordinary shares are held by members of his family
**** Of these 17,500 ordinary shares are held by members of his family

Directors' retirement benefits
All of the executive directors' pension arrangements are of the defined contribution type No pension arrangements are provided for non-executive directors

During the year the company made employer contributions of 12 per cent of basic salary into the company's defined contribution scheme or equivalent personal pension plan

Approval
This report was approved by the Board of directors on 4 July 2007 and signed on its behalf by

Timothy E P Stevenson OBE
Chairman, Remuneration Committee

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, directors' remuneration report and the financial statements in accordance with applicable law and regulations

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

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

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

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

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

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

Independent auditors' report to the members of Tribal Group plc

We have audited the Group financial statements of Tribal Group plc for the year ended 31 March 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 41 These Group financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

We have reported separately on the parent company financial statements of Tribal Group plc for the year ended 31 March 2007

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the directors' report is consistent with the Group financial statements The information given in the directors' report includes that specific information presented in the business review that is cross referenced from the business review section of the directors' report In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

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

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

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

Opinion
In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the Group financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom
4 July 2007

Notes An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements 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 statements differs from legislation in other jurisdictions

Consolidated income statement

for the year ended 31 March 2007

	Note	Group excluding Mercury Health £'000	Mercury Health £'000	2007 Total £'000	Group excluding Mercury Health £'000	Mercury Health £'000	2006 Total £'000
Continuing operations							
Turnover		**234,462**	**37,795**	**272,257**	245,347	14,550	259,897
Direct agency costs		**(40,406)**	**–**	**(40,406)**	(45,103)	–	(45,103)
Revenue	3	**194,056**	**37,795**	**231,851**	200,244	14,550	214,794
Cost of sales		**(114,633)**	**(19,975)**	**(134,608)**	(115,358)	(6,650)	(122,008)
Gross profit		**79,423**	**17,820**	**97,243**	84,886	7,900	92,786
Administrative expenses before amortisation of IFRS 3 intangibles, goodwill impairment, share option costs and Mercury Health disposal costs		**(64,957)**	**(14,035)**	**(78,992)**	(62,284)	(6,424)	(68,708)
Operating profit before amortisation of IFRS 3 intangibles, goodwill impairment, share option costs and Mercury Health disposal costs		**14,466**	**3,785**	**18,251**	22,602	1,476	24,078
Share option costs	27	**(4)**	**(6)**	**(10)**	(446)	(3)	(449)
Amortisation of IFRS 3 intangibles	15	**(320)**	**–**	**(320)**	(316)	–	(316)
Goodwill impairment	14	**(14,429)**	**–**	**(14,429)**	–	–	–
Mercury Health disposal costs	8	**–**	**(3,300)**	**(3,300)**	–	–	–
		(14,753)	**(3,306)**	**(18,059)**	(762)	(3)	(765)
Total administrative expenses		**(79,710)**	**(17,341)**	**(97,051)**	(63,046)	(6,427)	(69,473)
Operating (loss)/profit		**(287)**	**479**	**192**	21,840	1,473	23,313
Investment revenues	9	**1,225**	**285**	**1,510**	394	52	446
Finance costs	10	**(5,279)**	**(2,561)**	**(7,840)**	(5,197)	(1,090)	(6,287)
(Loss)/profit before tax		**(4,341)**	**(1,797)**	**(6,138)**	17,037	435	17,472
Tax	11	**(2,846)**	**376**	**(2,470)**	(5,595)	941	(4,654)
(Loss)/profit for the year from continuing operations	5	**(7,187)**	**(1,421)**	**(8,608)**	11,442	1,376	12,818
Attributable to							
Equity holders of the parent		**(7,958)**	**(1,421)**	**(9,379)**	11,168	1,376	12,544
Minority interest	32	**771**	**–**	**771**	274	–	274
		(7,187)	**(1,421)**	**(8,608)**	11,442	1,376	12,818
Earnings per share from continuing operations							
Basic	13	**(9 8)p**	**(1 7)p**	**(11 5)p**	14 4p	1 8p	16 2p
Diluted	13	**(9 8)p**	**(1 7)p**	**(11 5)p**	13 7p	1 7p	15 4p
Adjusted basic before amortisation of IFRS 3 intangibles, goodwill impairment, share option costs, financial instrument (credit)/charge and Mercury Health disposal costs	13	**8 1p**	**2.3p**	**10 4p**	16 3p	1 8p	18 1p
Adjusted diluted before amortisation of IFRS 3 intangibles, goodwill impairment, share option costs, financial instrument (credit)/charge and Mercury Health disposal costs	13	**8 0p**	**2.3p**	**10.3p**	15 5p	1 7p	17 2p

Consolidated balance sheet

at 31 March 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Goodwill	14	**192,099**	206,392
Other intangible assets	15	**3,786**	3,255
Property, plant and equipment	16	**45,056**	41,162
Investments	17	**149**	151
Amounts recoverable on contracts	18	**11,833**	8,082
Deferred tax assets	26	**772**	823
		253,695	259,865
Current assets			
Inventories	19	**1,298**	1,130
Trade and other receivables	20	**63,205**	59,126
Amounts recoverable on contracts	18	**2,840**	2,327
Cash and cash equivalents		**33,483**	22,615
Collateralised cash	21	**949**	1,392
		101,775	86,590
Total assets		**355,470**	346,455
Current liabilities			
Trade and other payables	22	**(81,499)**	(69,788)
Tax liabilities		**(2,742)**	(5,399)
Obligations under finance leases	23	**(98)**	(78)
Bank loans and loan notes	24	**(5,530)**	(2,907)
Provisions	25	**(450)**	(150)
Shares to be issued	33	**(489)**	(6,102)
		(90,808)	(84,424)
Net current assets		**10,967**	2,166
Non-current liabilities			
Bank loans	24	**(102,307)**	(96,556)
Pension liabilities	35	**(1,436)**	(1,977)
Deferred tax liabilities	26	**(2,358)**	(939)
Obligations under finance leases	23	**(327)**	(351)
Shares to be issued	33	**-**	(135)
		(106,428)	(99,958)
Total liabilities		**(197,236)**	(184,382)
Net assets		**158,234**	162,073
Equity			
Share capital	28	**4,234**	4,008
Share premium account	29	**74,633**	80,771
Other reserves	30	**67,823**	60,936
Retained earnings	31	**9,941**	15,173
Equity attributable to equity holders of the parent		**156,631**	160,888
Minority interest	32	**1,603**	1,185
Total equity		**158,234**	162,073

Notes 1 to 41 form part of these financial statements

These financial statements were approved by the Board of directors and authorised for issue on 4 July 2007 and were signed on its behalf by

Peter J Martin
Director

Simon M Lawton
Director

Consolidated cash flow statement

for the year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Net cash from operating activities	36	**24,280**	26,194
Investing activities			
Interest received		**1,873**	446
Proceeds on disposal of investments		**2**	-
Proceeds on disposal of property, plant and equipment		**213**	34
Purchases of property, plant and equipment – excluding Mercury Health		**(4,622)**	(4,039)
Purchases of property, plant and equipment – Mercury Health		**(7,574)**	(26,569)
Purchases of property, plant and equipment		**(12,196)**	(30,608)
Expenditure on product development		**(1,564)**	(1,048)
Acquisitions (deferred consideration and minority interests)		**(556)**	(3,642)
Net cash outflow from investing activities		**(12,228)**	(34,818)
Financing activities			
Interest paid		**(7,905)**	(7,524)
Equity dividend paid		**(2,685)**	(2,362)
Dividends to minorities		**(95)**	-
Issue of shares		**487**	304
Repayment of borrowings		**(2,352)**	(15,400)
Repayments of obligations under finance leases		**(83)**	(57)
New bank loans		**10,576**	31,538
Movements in collateralised cash		**443**	133
Purchase of own shares		**(105)**	(1,668)
Loan to third party		**535**	(535)
Net cash (used in)/from financing activities		**(1,184)**	4,429
Net increase/(decrease) in cash and cash equivalents		**10,868**	(4,195)
Cash and cash equivalents at beginning of year		**22,615**	26,810
Cash and cash equivalents at end of year		**33,483**	22,615

Notes 1 to 41 form part of these financial statements

Consolidated statement of recognised income and expense

for the year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Actuarial gain/(loss) on defined benefit plans	35	**436**	(594)
Transfer to cash flow hedge reserve	30	**1,194**	51
Deferred tax	26	**(489)**	163
Net income/(expense) recognised directly to equity		**1,141**	(380)
(Loss)/profit for the year		**(8,608)**	12,818
Total recognised income and expense for the year		**(7,467)**	12,438
Attributable to			
Equity holders of the parent		**(8,238)**	12,164
Minority interest		**771**	274
		(7,467)	12,438

Notes 1 to 41 form part of these financial statements

Notes to the financial statements

1. Accounting policies

Basis of accounting
The financial statements on pages 40 to 67 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union

The financial information has been prepared on the historical cost basis, modified to include the revaluation of certain fixed assets and financial instruments

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006 In the current year, the Group has adopted all of the new and revised standards and interpretations that are relevant to its operations and effective for the current annual reporting period This adoption had no financial impact on the financial statements

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and all its subsidiary undertakings made up to 31 March each year

All intra group transactions, balances, income and expenses are eliminated on consolidation

Revenue and turnover recognition
Turnover comprises the gross amounts billed to clients in respect of commission-based income together with the total of other fees earned Revenue comprises commission and fees earned in respect of turnover and is measured at the fair value of the consideration derived from the provision of goods and services to third party customers in the normal course of business Turnover and revenue are stated exclusive of VAT, sales tax and trade discounts The particular recognition policies applied are

- Consultancy – on performance of the contracted services,
- Courses, training and software support and maintenance services – over the provision of the related services,
- Product sales – on delivery of the related goods,
- Permanent recruitment – on performance over the search and selection period,
- Temporary recruitment – when the recruit joins the organisation,
- Recruitment advertising – when the advertisement is placed, and
- Healthcare services – see below

Direct agency costs comprise media payments and production costs in respect of commission based income Cost of sales includes the direct expenditure incurred in providing the goods and services described above, including the cost of associates and the salary costs of employed fee earners Administrative expenses include the salary cost of non-fee earners

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable

Healthcare services
The principal activity of Mercury Health is the delivery of healthcare services to supplement existing NHS capacity These services principally relate to delivery of contracts within the public sector The deliverables under these contracts are the design, construction and commissioning of surgical and diagnostic treatment centres and their subsequent operation over an initial five year period Revenue is in the form of minimum guaranteed payments in respect of the provision of these facilities and a variable element in respect of the number of day-care patients treated Revenue from healthcare services is recognised as follows

- Revenue in respect of the provision of facilities is recognised evenly over the related contract term (typically five years) commencing on the date that capacity is made available by the successful commissioning of the respective treatment or diagnostic centre, and
- Variable revenue in relation to patient treatments is recognised on the discharge of day-care patients back to NHS care

Business combinations
On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to income and expense in the period of acquisition

The interests of minority shareholdings are stated at the minority's proportion of the fair values of the assets and liabilities recognised Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent

On acquisition of minority shareholdings, any excess of consideration paid over the carrying value of the minority interest is recognised as goodwill

The profit or loss on the disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account

The results and cash flow relating to a business are included in the consolidated income statement and the consolidated cash flow statement from the date of acquisition or up to the date of disposal

Notes to the financial statements continued

1. Accounting policies (continued)

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary

Goodwill is recognised as an asset and reviewed for impairment at least annually Any impairment is recognised immediately in the income statement and is not subsequently reversed

Where the amount of purchase consideration is contingent on one or more future events, the cost of acquisition includes a reasonable estimate of the fair value of amounts expected to be payable in the future The cost of acquisition is adjusted when revised deferred consideration estimates are made, with consequential adjustments continuing to be made to goodwill until the ultimate deferred consideration is known

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal

Acquired intangibles
Intangible assets acquired in business combinations are accounted for in accordance with IFRS 3 'Business Combinations' Such intangible assets are recognised separately if they meet the criteria for recognition, and are amortised over their expected useful economic lives unless these are indefinite in which case they are reviewed regularly for impairment in accordance with IAS 38 'Intangible assets'

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 the impairment (if any) 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

The recoverable amount is the higher of fair value less costs to sell and the 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Except for goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset or 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 or cash-generating unit in prior years A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

Business systems
In accordance with IAS 38, the Group's business systems are treated as an intangible asset Costs included are those directly attributable to the design, construction and testing of new systems (including major enhancements) from the point of inception to the point of satisfactory completion, namely where the probable future economic benefits arising from the investment could be assessed with reasonable certainty at the time the costs are incurred Maintenance and minor modifications are expensed against the income statement as incurred

Internally generated intangible assets – research and development costs
Expenditure on research activities is recognised as an expense in the period in which it is incurred

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met

- an asset is created that can be identified,
- it is probable that the asset created will generate future economic benefits, and
- the development cost of the asset can be measured reliably

Internally generated intangible assets are amortised on a straight-line basis over their useful lives Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation and any recognised impairment loss Depreciation is charged so as to write off the cost of each asset, other than properties in the course of construction, by equal instalments over their estimated useful economic lives as follows

Leasehold – life of the lease
Fixtures, fittings and other equipment – 15 to 33 per cent

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease

Assets in the course of construction relate to Mercury Health sites and are not depreciated until brought into use by the business

Leases
Assets acquired under finance leases are capitalised at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease The outstanding future lease obligations are shown in the balance sheet as a finance lease obligation The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged directly against income

Operating lease rentals are charged against income on a straight line basis over the period of the lease

1 Accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets and long-term contract costs are capitalised as part of the cost of those assets The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the assets ready for use are in progress Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete All other borrowing costs are recognised in income or expense in the period in which they are incurred

Investment properties

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date Gains or losses arising from changes to the fair value of investment property are included in income or expense for the period in which they arise

Investments

Investments are initially measured at cost, including transaction costs Investments are classified as either held-for-trading or available-for-sale They are measured at subsequent reporting dates at cost where they relate to unquoted equity investments where fair value cannot be reliably measured and at fair value otherwise

Inventories

Inventories are stated at the lower of cost and net realisable value Cost comprises materials, direct labour and a share of production overheads appropriate to the relevant stage of production Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs

Contract costs

Long-term contracts balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as revenue, less foreseeable losses and payments on account not matched with revenue Contract work in progress is recognised as revenue by reference to the value of work carried out to date

Profits are recognised on long-term contracts where the final outcome can be assessed with reasonable certainty In calculating this, the percentage of completion method is used to calculate the profit based upon the proportion of costs incurred to the total estimated costs Cost includes direct staff, outlays and an appropriate proportion of overheads Full provision is made for all known losses immediately such losses are forecast on each contract

Amounts recoverable on contracts are valued at the proportion of the anticipated net sales value of the work done to date, including uncertified amounts where the directors have satisfied themselves that entitlement has been established less billed on account Advance payments are included in creditors to the extent that they exceed the related work in progress

Directly attributable contract costs in Mercury Health, incurred from the point where there is virtual certainty that the contract will be awarded through to commencement of the contract, are capitalised and amortised over the contract period and are also shown as 'Amounts recoverable on contracts' Previously, such amounts were disclosed within 'Inventories' as long term contract balances and have been reclassified for the 31 March 2007 financial statements The amount reclassified for 2006 was £10 4m which is split £2 3m / £8 1m between current and non-current assets There is no other impact on net assets, profit or cash flows in any period from this reclassification All other pre-contract costs are expensed as incurred

Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view

Retirement benefit costs

The Group operates various defined contribution pension schemes that are established in accordance with employment terms set by the subsidiary undertakings The assets of these schemes are held separately from those of the Group in independently administered funds The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period

As a consequence of certain acquisitions a small number of employees participate in various defined benefit schemes The expected cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits vest

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan

Government grants

Government grants are recognised over the periods necessary to match them with the related costs and are deducted in reporting the related expense

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material

Operating profit

Operating profit is stated before investment revenues and finance costs

Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based Payment' to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005 No charge is made in respect of instruments awarded before this date because under the terms of IFRS 2 the Group is not permitted to apply the standard to these instruments The Group issues equity-settled share-based payments to certain employees Equity settled share based payments are measured at fair value at the date of grant This is expensed on a straight-line basis over the vesting periods of the instruments based on the Group's estimate of the number of shares that will vest

Fair value is measured by use of a Black-Scholes model There is no effective liability in relation to national insurance on share options at the year end as the Company has obtained tax indemnities from employees in relation to employers' national insurance

Notes to the financial statements continued

1 Accounting policies (continued)

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax

Current 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 tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax in the income statement is charged or credited, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Shares to be issued
In accordance with IAS 32 'Financial Instruments Disclosure and Presentation', shares to be issued are recognised as a financial liability as they relate to obligations to settle acquisition related deferred consideration in Tribal Group plc shares The number of shares to be issued will vary depending upon the share price at the date of settlement

Cash, cash equivalents and collateralised cash
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand These instruments are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value

Collateralised cash comprises funds reserved for financial guarantee contracts and are carried at fair value

Derivative financial instruments
The Group's activities expose it primarily to the financial risks of changes in interest rates The Group uses interest rate swap contracts to hedge these exposures

The use of financial derivatives is governed by the Group's policies approved by the Board, which provides written principles on the use of financial derivatives

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss

For an effective hedge of an exposure to changes in fair values, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in income or expense Gains or losses from re-measuring the derivative are recognised in equity, except for any ineffective element which is recognised in income or expense

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 time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net income or expense for the period

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement

Trade receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

Borrowings
Borrowings are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

1. Accounting policies (continued)

Equity instruments
Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs

New standards and interpretations not applied
During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements

	Effective date (periods beginning on or after)
Amendment to IAS 23 'Borrowing Costs'	1 January 2009
IFRS 7 'Financial Instruments Disclosures'	1 January 2007
IFRS 8 'Operating Segments'	1 January 2009
IFRIC 8 'Scope of IFRS 2'	1 May 2006
IFRIC 9 'Reassessment of Embedded Derivatives'	1 June 2006
IFRIC 10 'Interim Financial Reporting and Impairment'	1 November 2006
IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'	1 March 2007
IFRIC 12 'Service Concession Arrangements'	1 January 2008

The directors do not anticipate that the adoption of these standards and interpretations will have a material financial impact on the Group's financial statements in the period of initial application

2 Critical accounting judgements

In the process of applying the Group's accounting policies, which are described in note 1, management have made the following judgements that have the most significant effect on the amounts recognised in the financial statements

Goodwill
The carrying value of goodwill at the year end is £192 1m (2006 £206 4m) An annual impairment review is required under IFRS 3 'Business Combinations' involving judgement of the future cash flows for cash generating units The Group prepares such cash flow forecasts derived from the most recent budgets approved by management for the next two years Further details of the other assumptions used are given in note 14

Mercury Health assets
The implementation phase of the main delivery contract has resulted in significant expenditure on fixed assets and working capital in order to provide the contracted services These assets are a requirement of the contract and this leads to judgements regarding the appropriate capitalisation and amortisation rates of these assets

Revenue recognition
The Group's revenue recognition policies are disclosed in note 1 In some cases, judgement is required in order to determine the appropriate level of income to recognise where delivery of services is performed over time or where the basis of delivery may vary from the contractually agreed terms

3 Revenue

An analysis of the Group's revenue is as follows

	2007 £'000	2006 £'000
Continuing operations		
Sales of services	**231,851**	214,794
Investment revenues	**1,510**	446
Total revenue	**233,361**	215,240

Sale of goods is not material and is therefore not shown separately

4 Business segments

The Group is currently organised into three business streams – Consulting services, Education services and Mercury Health

Principal activities are as follows

Consulting services – one of the largest consultancy businesses operating in the public sector providing a broad range of management consultancy, PR and communications, resourcing and property services

Education services – one of the largest providers of education services to the public sector including software, managed services, school inspection services, consultancy, benchmarking, publishing and training

Mercury Health – comprises the Group's healthcare delivery business providing diagnostic, elective, GP and primary care services

The Group has been further reorganised in order to simplify its reporting structure and as a consequence the four segments which were previously disclosed separately under Consulting services have been amalgamated Accordingly the business segment information for the year ended 31 March 2006 has been restated to show the current business stream structure As a result, there has been an adjustment to inter-segment sales and eliminations

Notes to the financial statements continued

4. Business segments (continued)

Segment information about the businesses is presented below

Year ended 31 March 2007

	Consulting services 2007 £'000	Education services 2007 £'000	Mercury Health 2007 £'000	Eliminations 2007 £'000	Consolidated 2007 £'000
Revenue					
External sales	115,863	78,193	37,795	–	231,851
Inter-segment sales	1,462	507	–	(1,969)	–
Total revenue	117,325	78,700	37,795	(1,969)	231,851
Segment profit	6,797	14,102	3,785	–	24,684
Unallocated corporate expenses					(6,433)
Amortisation of IFRS 3 intangibles					(320)
Share option costs					(10)
Goodwill impairment					(14,429)
Mercury Health disposal costs					(3,300)
Operating profit					192
Investment revenues					1,510
Finance costs					(7,840)
Loss before tax					(6,138)
Tax					(2,470)
Loss for the period					(8,608)

Inter-segment sales are charged at prevailing market prices

Balance sheet information

	Consulting services 2007 £'000	Education services 2007 £'000	Mercury Health 2007 £'000	Unallocated 2007 £'000	Consolidated 2007 £'000
Assets					
Segment assets	162,033	94,521	57,986	40,930	355,470
Liabilities					
Segment liabilities	35,502	28,879	46,241	86,614	197,236
Other segment information					
Capital additions	2,059	2,470	6,550	245	11,324
Depreciation, amortisation and impairment	12,693	5,239	2,318	724	20,974

The Group's operations are wholly undertaken in the United Kingdom and hence, no secondary business segment by geography is presented

Year ended 31 March 2006

	Consulting services 2006 £'000	Education services 2006 £'000	Mercury Health 2006 £'000	Eliminations 2006 £'000	Consolidated 2006 £'000
Revenue					
External sales	121 444	78,800	14,550	–	214,794
Inter-segment sales	1,299	384	–	(1,683)	-
Total revenue	122,743	79,184	14,550	(1,683)	214,794
Segment profit	15,464	13,735	1,476	–	30,675
Unallocated corporate expenses					(6,597)
Amortisation of IFRS 3 intangibles					(316)
Share option costs					(449)
Operating profit					23,313
Investment revenues					446
Finance costs					(6,287)
Profit before tax					17,472
Tax					(4,654)
Profit for the period					12,818

Inter-segment sales are charged at prevailing market prices

4 Business segments (continued)

Balance sheet information

	Consulting services 2006 £'000	Education services 2006 £'000	Mercury Health 2006 £'000	Unallocated 2006 £'000	Consolidated 2006 £'000
Assets					
Segment assets	173,292	94,351	46,349	32,463	346,455
Liabilities					
Segment liabilities	32,488	30,051	33,071	88,772	184,382
Other segment information					
Capital additions	1,799	6,381	28,006	1,025	37,211
Depreciation and amortisation	1,565	1,506	632	648	4,351

The Group's operations are wholly undertaken in the United Kingdom and hence, no secondary business segment by geography is presented

5 (Loss)/profit for the year

	2007 £'000	2006 £'000
(Loss)/profit for the year is stated after charging/(crediting)		
Depreciation and other amounts written off property, plant and equipment		
Owned	**5,177**	3,474
Leased	**179**	126
Increase in fair value of investment property	**-**	(20)
Staff costs (see note 7)	**102,667**	92,510
Amortisation of acquired intangible assets	**320**	316
Amortisation of business systems	**113**	78
Goodwill impairment	**14,429**	-
Cost of inventories recognised as an expense	**4,694**	1,962
Write down of inventories recognised as an expense	**87**	48
Research and development expenditure	**926**	512
Amortisation of development costs	**756**	357

The analysis of auditors' remuneration is as follows	2007 £'000	2006 £'000
Fees payable to the company's auditors for the audit of the company's annual report (including IFRS restatement in 2006)	**96**	142
Fees payable to the company's auditors and their associates for other services to the Group		
– the audit of the company's subsidiaries pursuant to legislation	**178**	205
– the review of interim results	**27**	25
Total audit fees	**301**	372
– tax services	**322**	229
– corporate finance services	**895**	52
– other services	**29**	14
Total non-audit fees	**1,246**	295
Total auditors' remuneration	**1,547**	667

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

Included within tax services payable to the auditors are fees of £185,000 (2006 £nil) in relation to the disposal of Mercury Health, tax compliance fees of £87,000 (2006 £180,000), tax advisory fees of £50,000 (2006 £31,000) and VAT advice of £nil (2006 £18,000)

Corporate finance services include fees of £845,000 (2006 £nil) relating to the disposal of Mercury Health and fees as reporting accountants of £50,000 (2006 £52,000), (see page 32 for Group policy on use of auditors for non-audit work)

Other services include accounting advice of £29,000 (2006 £9,000) and £nil (2006 £5,000) for the preparation of other statutory reports

Notes to the financial statements continued

6 Remuneration of directors

	2007 £'000	2006 £'000
Directors' emoluments	**1,074**	1,254

Included within directors' emoluments are pension costs of £79,000 (2006 £74,000) in respect of payments made to three (2006 three) directors' individual defined contribution pension schemes

Disclosures on directors' remuneration, share options, long-term incentive schemes, and pension contributions are contained in the 'Directors' remuneration' section within the audited part of the remuneration report and form part of these audited financial statements

7 Staff numbers and costs

The average number of persons employed by the Group (including executive directors) during the year was as follows

	2007 No.	2006 No
Selling, operations and marketing	**1,849**	1,690
Finance and administration	**445**	433
	2,294	2,123

The aggregate payroll costs of these persons were as follows	2007 £'000	2006 £'000
Wages and salaries	**86,931**	80,253
Social security costs	**11,017**	8,005
Pension costs	**4,709**	3,803
Share option costs	**10**	449
	102,667	92,510

8. Mercury Health disposal costs

Mercury Health disposal costs of £3 3m (2006 £nil) represent the committed costs incurred by 31 March 2007 in relation to the disposal of Mercury Health Holdings Limited and its subsidiaries The disposal received shareholder approval on 19 April 2007 and was completed on 20 April 2007, (see note 37 'Post balance sheet events')

9 Investment revenues

	2007 £'000	2006 £'000
Interest on bank deposits	**1,041**	446
Gain arising on derivatives	**469**	-
	1,510	446

10 Finance costs

	2007 £'000	2006 £'000
Finance charges		
Interest on bank overdrafts and loans	**7,785**	6,500
Interest on loan notes	**66**	249
Interest on obligation under finance leases	**33**	23
Net interest payable on retirement benefit obligations	**30**	26
Total borrowing costs	**7,914**	6,798
Less - amounts included in the cost of qualifying assets	**(365)**	(1,276)
	7,549	5,522
Financial instruments		
Loss arising on derivatives	**127**	322
Discounting charge for deferred consideration	**164**	443
	291	765
	7,840	6,287

Borrowing costs included in the cost of qualifying assets during the year arose on the Mercury Health ISTC contract for which the related borrowings are separately identifiable and are capitalised at the average rate incurred of 6 9 per cent (2006 6 9 per cent)

11 Tax

	2007 £'000	2006 £'000
Current tax		
UK corporation tax	**3,412**	5,495
Adjustments in respect of prior years	**(1,923)**	(1,493)
	1,489	4,002
Deferred tax		
Current year	**981**	652
Tax charge on profits	**2,470**	4,654

The charge for the year can be reconciled to the (loss)/profit per the income statement as follows

(Loss)/profit before tax	**(6,138)**	17,472
Tax (credit)/charge at standard rate of 30% (2006 30%)	**(1,841)**	5,242
Effects of		
Intangible amortisation and impairment	**4,292**	242
Expenses not deductible for tax purposes	**1,942**	396
Adjustments in respect of prior years	**(1,923)**	(1,493)
Share based payments and discounting charges	**-**	267
Tax expense for the year	**2,470**	4,654

In addition to the income tax charged to the income statement, a deferred tax charge of £489,000 (2006 credit of £163,000) has been taken directly to equity (see consolidated statement of recognised income and expense on page 42)

The expected reduction in the corporation tax rate to 28% from 1 April 2008 is expected to affect the future tax charge accordingly

12 Dividends

	2007 £'000	2006 £'000
Amounts recognised as distributions to equity holders in the period		
Final dividend for the year ended 31 March 2006 of 2 25 pence (2005 2 0 pence) per share	**1,812**	1,530
Interim dividend for the year ended 31 March 2007 of 1 05 pence (2006 1 05 pence) per share	**880**	832
	2,692	2,362
Proposed final dividend for the year ended 31 March 2007 of 2 42 pence (2006 2 25 pence) per share	**2,050**	1,804

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements

13 Earnings per share

Earnings per share and diluted earnings per share are calculated by reference to a weighted average number of ordinary shares calculated as follows

	2007 thousands	2006 thousands
Weighted average number of shares outstanding		
Basic weighted average number of shares in issue	**81,889**	77,255
Employee share options	**176**	763
Shares to be issued in respect of deferred consideration	**410**	3,255
Weighted average number of shares outstanding for dilution calculations	**82,475**	81,273

Notes to the financial statements continued

13. Earnings per share (continued)

The adjusted basic and adjusted diluted earnings per share figures shown on the consolidated income statement on page 40 are included as the directors believe that they provide a better understanding of the underlying trading performance of the Group A reconciliation of how these figures are calculated is set out below

Year ended 31 March 2007

	Group excluding Mercury Health		Mercury Health		Total	
	Earnings £'000	(Loss)/earnings per share pence	Earnings £'000	(Loss)/earnings per share pence	Earnings £'000	(Loss)/earnings per share pence
Basic and adjusted basic (loss)/earnings per share						
Loss and basic loss per share	(7,958)	(9 8)p	(1,421)	(1 7)p	(9,379)	(11 5)p
Adjustments						
Share option costs	4	–	6	–	10	–
Amortisation of IFRS 3 intangibles (net of tax)	224	0 3p	–	–	224	0 3p
Goodwill impairment	14,429	17 6p	–	–	14,429	17 6p
Mercury Health disposal costs	–	–	3,300	4 0p	3,300	4 0p
Financial instruments net credit (net of tax)	(40)	–	(51)	–	(91)	–
Adjusted earnings and adjusted basic earnings per share	6,659	8 1p	1,834	2 3p	8,493	10 4p
Diluted and adjusted diluted (loss)/earnings per share						
Loss and diluted loss per share	(7,958)	(9 8)p	(1,421)	(1 7)p	(9,379)	(11 5)p
Adjustments						
Share option costs	4	–	6	–	10	–
Amortisation of IFRS 3 intangibles (net of tax)	224	0 3p	–	–	224	0 3p
Goodwill impairment	14,429	17 5p	–	–	14,429	17 5p
Mercury Health disposal costs	–	–	3,300	4 0p	3,300	4 0p
Financial instruments net credit (net of tax)	(40)	–	(51)	–	(91)	–
Adjusted earnings and adjusted diluted earnings per share	6,659	8 0p	1,834	2 3p	8,493	10 3p

Year ended 31 March 2006

	Group excluding Mercury Health		Mercury Health		Total	
	Earnings £'000	(Loss)/earnings per share pence	Earnings £'000	(Loss)/earnings per share pence	Earnings £'000	(Loss)/earnings per share pence
Basic and adjusted basic (loss)/earnings per share						
Profit and basic earnings per share	11,168	14 4p	1,376	1 8p	12,544	16 2p
Adjustments						
Share option costs	446	0 6p	3	–	449	0 6p
Amortisation of IFRS 3 intangibles (net of tax)	316	0 4p	–	–	316	0 4p
Financial instruments charge (net of tax)	659	0 9p	9	–	668	0 9p
Adjusted earnings and adjusted basic earnings per share	12,589	16 3p	1,388	1 8p	13,977	18 1p
Diluted and adjusted diluted earnings per share						
Profit and diluted earnings per share	11,168	13 7p	1,376	1 7p	12,544	15 4p
Adjustments						
Share option costs	446	0 6p	3	–	449	0 6p
Amortisation of IFRS 3 intangibles (net of tax)	316	0 4p	–	–	316	0 4p
Financial instruments charge (net of tax)	659	0 8p	9	–	668	0 8p
Adjusted earnings and adjusted diluted earnings per share	12,589	15 5p	1,388	1 7p	13,977	17 2p

14 Goodwill

	2007 £'000	2006 £'000
Cost		
At beginning of year	**234,094**	232,949
Additions – including minority interests	**274**	4,136
Revisions to prior years	**(138)**	(2,991)
At end of year	**234,230**	234,094
Accumulated impairment losses		
At beginning of year	**27,702**	27,702
Impairment charge	**14,429**	-
At end of year	**42,131**	27,702
Net book value		
At end of year	**192,099**	206,392
At beginning of year	**206,392**	205,247

14. Goodwill (continued)

During the year options were exercised by certain employees of Tribal Resourcing Limited over ordinary 'B' shares in that company These were immediately repurchased by the company through the issue of Tribal Group plc shares The excess of the value paid over the consideration received for the options is shown as an addition to the cost of goodwill

Additions in respect of Mercury Health represent the purchase of trade and assets of a small business together with the minority shareholding in Mercury Health Primary Care Limited

Revisions to prior years primarily relate to changes, both increases and decreases, in estimates of the likely final settlement values under various earn out agreements, which are dependent on post acquisition performance

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

	2007 £'000	2006 £'000
Consulting services		
Communications	**17,677**	17,677
Consulting	**64,994**	71,207
Property	**21,272**	21,245
Resourcing	**21,614**	26,927
	125,557	137,056
Education services	**66,374**	69,336
Mercury Health	**168**	-
	192,099	206,392

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

The recoverable amounts of the cash generating units are determined from value in use calculations The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period 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 cash generating units The growth rates are based on internal budgets in the short term and general market rates thereafter Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next two years and extrapolates cash flows for two further years at 4% and into perpetuity based on an estimated growth rate of 2 5% This rate does not exceed the average long-term growth rate for the relevant markets

The rate used to discount the forecast cash flow is 8 7%

As a result of the annual impairment test carried out during the current year, the Group has made goodwill impairments totalling £14 4m allocated as follows

	£'000
Consulting services	
Consulting – medical equipping	1,644
Consulting – other	4,000
Resourcing – Action Medical	5,431
Education services – FE training	3,354
	14,429

The cash generating units in question have all been identified on the basis that they are separately identifiable business streams within the Group In the case of medical equipping and FE training, this impairment reflects management's decision to terminate the related business streams and as a consequence of this the goodwill in relation to these units has been fully impaired

Action Medical, whose principal activity is the provision of temporary staff to the medical profession has faced a fundamental change in its business during the year due to a move in the industry towards national supply contracts which favour the larger temporary recruitment providers ahead of the niche market provider This in turn has had a significant adverse effect on its profitability At the Interim, management assessed the impact as a £2m reduction in goodwill, but in the light of continuing results have now concluded that the goodwill of this business should be impaired in full

Following the disappointing performance of the Consulting business stream in the year, management has taken a prudent view when preparing its forecast As a result, the impairment review for the remainder of the Consulting business stream produced a value in use which is £4m below the carrying value of the related goodwill, hence the impairment charge As the forecast recoverable amount is now equal to the carrying value, it follows that if future results were to fall below those assumed for the purposes of the value in use calculations, a further impairment charge would arise In this respect the Group considers that the anticipated recovery in operating cash flows in the period to December 2008 is the most sensitive assumption

Management do not believe there to be any other cash generating units for which there is a 'reasonably possible' change in the key assumptions that would result in an impairment

Notes to the financial statements continued

15. Other intangible assets

	Business combinations £'000	Development costs £'000	Business systems £'000	Total £'000
Cost				
At 1 April 2005	2,732	1,993	384	5,109
Additions	–	1,048	7	1,055
Acquired	197	–	–	197
Fair value adjustment	(725)	–	–	(725)
At 1 April 2006	2,204	3,041	391	5,636
Additions	–	1,564	156	1,720
Disposals	–	(471)	–	(471)
At 31 March 2007	**2,204**	**4,134**	**547**	**6,885**
Amortisation				
At 1 April 2005	322	1,253	55	1,630
Charge for the year	316	357	78	751
At 1 April 2006	638	1,610	133	2,381
Charge for the year	320	756	113	1,189
Disposals	–	(471)	–	(471)
At 31 March 2007	**958**	**1,895**	**246**	**3,099**
Carrying amount				
At 31 March 2007	**1,246**	**2,239**	**301**	**3,786**
At 31 March 2006	1,566	1,431	258	3,255
At 31 March 2005	2,410	740	329	3,479

In accordance with IFRS 3, the intangible assets acquired on business combinations comprise software maintenance revenue, trading relationships, intellectual property and contract pipeline They are amortised over their estimated useful lives, which on average is five years

The amortisation period for development costs incurred on the Group's software development and product development is two to three years based on the expected life cycle of the product

The Group's corporate business systems software is amortised over five years

The fair value adjustment relates to a reduction in the estimate of the likely final settlement value under an earn-out agreement which was dependent on the post acquisition performance

16 Property, plant and equipment

	Investment property £'000	Long term leasehold buildings £'000	Short term leases £'000	Fixtures, fittings and other equipment £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation						
At 1 April 2005	180	584	2,381	13,169	5,829	22,143
Additions	–	–	1,352	4,849	25,819	32,020
Increase in fair value	20	–	–	–	–	20
Reclassification	–	20,780	–	–	(20,780)	–
Acquired with subsidiaries	–	–	–	230	–	230
Disposals	–	–	(24)	(769)	–	(793)
At 1 April 2006	200	21,364	3,709	17,479	10,868	53,620
Additions	–	4,855	718	3,741	16	9,330
Reclassification	–	10,868	–	–	(10,868)	–
Disposals	–	–	(14)	(1,160)	–	(1,174)
At 31 March 2007	**200**	**37,087**	**4,413**	**20,060**	**16**	**61,776**
Depreciation						
At 1 April 2005	–	30	628	8,767	–	9,425
Charge for year	–	379	433	2,788	–	3,600
Acquired with subsidiaries	–	–	–	155	–	155
Disposals	–	–	(18)	(704)	–	(722)
At 1 April 2006	–	409	1,043	11,006	–	12,458
Charge for year	–	1,654	522	3,180	–	5,356
Disposals	–	–	(14)	(1,080)	–	(1,094)
At 31 March 2007	**–**	**2,063**	**1,551**	**13,106**	**–**	**16,720**
Net book value						
At 31 March 2007	**200**	**35,024**	**2,862**	**6,954**	**16**	**45,056**
At 31 March 2006	200	20,955	2,666	6,473	10,868	41,162
At 31 March 2005	180	554	1,753	4,402	5,829	12,718

16. Property, plant and equipment (continued)

Included in the total net book value of fixtures, fittings and other equipment is £266,000 (2006 £362,000) in respect of assets held under finance leases Depreciation for the year on these assets was £179,000 (2006 £126,000) Of the fixed asset additions of £9 3m (2006 £32 0m) during the period, £6 5m (2006 £28 8m) relates to Mercury Health

The fair value of the Group's investment property at 31 March 2007 has been arrived at on the basis of a valuation carried out at that date by Bernard Marcus, independent valuers not connected with the Group The valuation was arrived at by reference to market evidence of transaction prices for similar properties

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £10,000 (2006 £9,000) Direct operating expenses arising on the investment property in the period amounted to £9,000 (2006 £3,000)

17. Investments

	Investment in associates 2007 £'000	2006 £'000
Cost		
At beginning of year	**151**	151
Disposals	**(2)**	-
At end of year	**149**	151

The directors have considered the value of the above investments and are satisfied that the aggregate value of the investments is not less than their carrying value The results of associates are excluded as they are not material to the results of the Group

18 Amounts recoverable on contracts

	2007 £'000	2006 £'000
Non-current	**11,833**	8,082
Current	**2,840**	2,327
	14,673	10,409

Included within amounts recoverable on contracts are directly attributable contract costs of £14 4m (2006 £10 4m) incurred after the point when there was virtual certainty that the Mercury Health ISTC contract and subsequent contracts would be awarded, and related mobilisation costs that represent implementation costs incurred prior to the contract delivery phase These are included within amounts recoverable on contracts and amortised over the contract period which is approximately five years

These amounts were previously disclosed as part of inventories and trade and other receivables (see notes 19 and 20)

19 Inventories

	2007 £'000	2006 £'000
Work in progress	**123**	213
Finished goods and goods for resale	**1,175**	917
	1,298	1,130

Long term contract balances of £10 4m in 2006 relating to the Mercury Health ISTC contracts have been reclassified as amounts recoverable on contracts as explained further in note 18

20 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	**48,363**	45,431
Other receivables	**725**	1,675
Prepayments and accrued income	**13,100**	12,020
Fair value of interest rate swaps	**1,017**	–
	63,205	59,126

Amounts recoverable under contracts previously within trade and other receivables of £44,000 have now been reclassified separately, see note 18

The directors consider that the carrying amount of trade and other receivables approximates their fair value An allowance has been made for estimated irrecoverable amounts from the sales of goods and services of £0 7m (2006 £0 4m) This allowance has been determined by reference to past default experience

The average credit period taken on the sale of goods and services is 42 days (2006 42 days)

Notes to the financial statements continued

21 Collateralised cash

Cash collateralised of £0 9m (2006 £1 4m) represents committed cash facilities that are specifically allocated to pay loan notes as described in note 24

22. Trade and other payables

	2007 £'000	2006 £'000
Trade payables	**24,046**	24,147
Other taxation and social security	**11,734**	12,503
Other payables	**4,251**	1,892
Accruals and deferred income	**41,468**	30,473
Deferred cash consideration	**–**	254
Fair value of interest rate swaps	**–**	519
	81,499	69,788

The average credit period taken for trade purchases is 41 days (2006 44 days)

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

£150,000 of accruals in 2006 has now been reclassified as provisions, see note 25

23. Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire fixtures, fittings and other equipment

The value of future minimum lease payments and their present values are analysed as follows

	Minimum lease payments 2007 £'000	Present value of minimum lease payments 2007 £'000	Minimum lease payments 2006 £'000	Present value of minimum lease payments 2006 £'000
Within one year	**105**	**98**	92	78
In the second to fifth years inclusive	**391**	**327**	398	340
After five years	**–**	**–**	15	11
	496	**425**	505	429

The Group has certain computer equipment and motor vehicles held under finance leases The average lease term is four years (2006 five) For the year ended 31 March 2007, the average effective borrowing rate was 7 1% (2006 7 1%) Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental periods

The Group's obligations under finance leases are secured by the lessors rights over the leased assets

The fair value of the Group's lease obligations approximates to their carrying value

24 Bank loans and loan notes

	2007 £'000	2006 £'000
Bank loans	**106,382**	96,556
Loan notes	**1,455**	2,907
	107,837	99,463

Maturity of bank loans and loan notes

	2007 £'000	2006 £'000
Bank loans and loan notes can be analysed as falling due		
On demand or within one year	**5,530**	2,907
In the second year	**5,110**	4,000
In the third to fifth years inclusive	**97,197**	92,556
	107,837	99,463

The bank arrangements are all denominated in UK sterling

	Fixed rate 2007 £'000	Floating rate 2007 £'000	Total 2007 £'000	Fixed rate 2006 £'000	Floating rate 2006 £'000	Total 2006 £'000
Bank loans	**57,500**	**48,882**	**106,382**	46,000	50,556	96,556
Loan notes	**–**	**1,455**	**1,455**	116	2,791	2,907
Total	**57,500**	**50,337**	**107,837**	46,116	53,347	99,463

24 Bank loans and loan notes (contmued)

The weighted average interest rates paid were as follows

	2007	2006
Bank loans	**6 3%**	7 2%
Loan notes	**4 0%**	3 5%

The weighted average fixed rate is 5 0% (2006 5 0%) and the weighted average period for which interest rates on fixed rate liabilities are fixed is three years (2006 four years) There are £51 3m (2006 £51 3m) undrawn committed borrowing facilities which all expire in three to five years

The directors estimate the fair value of the Group's borrowings as follows

	2007 £'000	2006 £ 000
Bank loans	**105,365**	97,075
Loan notes	**1,455**	2,907
	106,820	99,982

Bank loans comprise four elements

a) £125m is available under a revolving facility until 14 October 2010 The interest rate is reset for a period of one, three or six months at LIBOR plus a variable margin determined by covenant calculations The rate is managed through interest rate swaps At 31 March 2007, the amount drawn down (net of bank arrangement fees) was £72 7m (2006 £72 3m) The loan is secured by way of a fixed and floating charge over the assets of the Group

b) An unsecured revolving facility of £5m is available under a share option facility until 4 August 2010 The facility is used to on-lend funds to the Tribal Group Employee Share Ownership Trust for the sole purpose of acquiring shares in the company in connection with the company's employee share schemes The interest rate is reset for a period of one, three or six months at LIBOR plus 2 25% At 31 March 2007, the amount drawn down was £1 7m (2006 £1 7m)

c) A £33 5m non-recourse senior debt facility secured by Mercury Health to fund the construction of the facilities as part of the ISTC contract The lenders have a direct contractual relationship with the Secretary of State who has underwritten the loan The facility comprises two separate loans, £21m and £12 5m At 31 March 2007, the total amount drawn down (net of bank arrangement fees) was £31 5m (2006 £22 6m) The loans are repayable in instalments with full repayment due at the conclusion of the contract Of the amount outstanding, £4m is repayable within one year, £5m repayable in the second year and £22 5m is repayable in the third to fifth years

d) Two commercial loans, totalling £0 5m to fund Mercury Health asset purchases Both loans were entered into in January 2007 for a period of five years Quarterly fixed repayments of £30,300 commence in April 2007

The interest rates on the outstanding loan notes are at market rates determined by each separate agreement, with typical interest rates being one percent below base rate Repayment terms vary between one and five years, but all are redeemable for cash at the request of the loan note holders and are therefore recorded as current liabilities

Interest bearing loan notes are normally issued as part of the purchase consideration or deferred consideration on the new business or minority interest acquired All outstanding loan notes are redeemable for cash at par on or before 30 June 2010 at the option of the loan note holder

25 Provisions

Litigation provision	2007 £'000	2006 £ 000
At beginning of year	**150**	–
Additional provision in year	**450**	150
Utilisation of provision	**(150)**	–
At end of year	**450**	150

Provisions represent an estimate of the cost of settling potential litigation claims These claims are expected to be resolved within one year and are therefore shown within current liabilities Further details are contained in note 38

The opening balance of £150,000 has been reclassified from accruals (see note 22)

Notes to the financial statements continued

26 Deferred tax

The amounts provided for deferred taxation and the amounts for which credit has been taken are set out below

	2007 £'000	2006 £'000
Deferred tax assets		
Retirement benefit schemes	**431**	594
Holiday pay accrual	**253**	300
Capital allowances in excess of depreciation	**–**	(137)
Derivative financial instruments	**–**	(15)
Other timing differences	**88**	81
	772	823
Deferred tax liabilities		
Capital allowances in excess of depreciation	**1,010**	–
Intangible assets	**764**	728
Fair value adjustment on investment property	**36**	36
Leasehold property not qualifying for tax allowances	**175**	175
Derivative financial instruments	**373**	–
	2,358	939

The directors are of the opinion, based on currently available forecasts, that these timing differences will reverse in the near future and when they do there will be sufficient taxable profits Accordingly, the directors believe that it is more likely than not that the deferred tax assets will be recoverable

The movement in deferred tax assets and liabilities during the year was as follows

	Temporary differences on intangible assets £'000	Holiday pay accrual £'000	Retirement benefit schemes £'000	Derivative financial instruments £'000	Other temporary differences £'000	Total £'000
At 1 April 2006	(1,076)	300	594	(15)	81	(116)
(Charged)/credited to income statement	(909)	(47)	(32)	–	7	(981)
Items taken directly to equity	–	–	(131)	(358)	–	(489)
At 31 March 2007	**(1,985)**	**253**	**431**	**(373)**	**88**	**(1,586)**

The restated movement in deferred tax assets and liabilities during the previous year was as follows

	Temporary differences on intangible assets £'000	Holiday pay accrual £'000	Retirement benefit schemes £'000	Derivative financial instruments £'000	Other temporary differences £'000	Total £'000
At 1 April 2005	(587)	227	411	–	173	224
(Charged)/credited to income statement	(638)	73	5	–	(92)	(652)
Acquisitions	149	–	–	–	–	149
Items taken directly to equity	–	–	178	(15)	–	163
At 31 March 2006	**(1,076)**	**300**	**594**	**(15)**	**81**	**(116)**

27 Share-based payments

The Group recognised the following expenses related to equity-settled share based payment transactions

	2007 £'000	2006 £'000
LTIP	**(107)**	107
SAYE	**133**	337
Acquired schemes	**(16)**	5
	10	449

Employee Share Option Scheme (ESOS)

Options granted under the ESOS prior to 17 July 2003 have an award period of four years The options are granted at market value The extent to which an award vests is measured by the reference to the growth in the Group's adjusted diluted earnings per share over two financial years Options granted since 17 July 2003 have an award period of three years and vest based on the growth in the adjusted diluted earnings per share over a three year period The performance criteria for these schemes has either not been met or are unlikely to be met and therefore no expense has been recognised in either the current or prior year

27 Share-based payments (continued)

LTIP

Awards made to eligible employees under the LTIP are nil cost options with an award period of four years The extent to which an award vests is measured by reference to the growth of the Group's adjusted diluted earnings per share over the performance period of three financial years It is most unlikely that the LTIPs granted in 2006 will meet the performance criteria and therefore the charge made in 2006 has been reversed in the current year In addition the LTIPs granted in the current year are unlikely to meet the performance criteria and accordingly no charge has been made

SAYE

The SAYE scheme provides for a purchase price equal to mid market value at date of grant For grants prior to January 2005, a discount to market value of 20% was applied All schemes are three year saving schemes

Acquired schemes

The acquired schemes relate to share option schemes existing when the Group acquired certain businesses These option schemes have rolled into Tribal options and have no performance criteria The current year credit is a result of the options that have lapsed during the year

Options outstanding during the year are as follows

	ESOS		LTIP		SAYE		Acquired schemes	
	Number of options thousands	Weighted average exercise price	Number of options thousands	Weighted average exercise price	Number of options thousands	Weighted average exercise price	Number of options thousands	Weighted average exercise price
Outstanding at 1 April 2006	2,146	£2 49	969	£nil	1,500	£1 90	243	£1 59
Exercised during the year	(46)	£1 35	(481)	£nil	(10)	£1 91	(13)	£1 52
Granted during the year	–	–	1,008	£nil	–	–	–	–
Lapsed during the year	(383)	£2 71	(98)	£nil	(723)	£2 15	(34)	£2 27
Outstanding at 31 March 2007	1,717	£2 47	1,398	£nil	767	£1 66	196	£1 47
Exercisable at 31 March 2007	1,479	£2 50	113	£nil	10	£3 00	196	£1 47
Weighted average remaining contractual life (years)	5 3		7 3		1 4		4 8	
Weighted average share price at date of exercise	£1 90		£1 99		£1 72		£2 13	

Share options outstanding at the year end have a range of exercise prices, ESOS £1 33 – £3 62, LTIP £nil, SAYE £1 44 – £3 00 and Acquired schemes £0 22 – £2 45

In the year ended 31 March 2007 and 31 March 2006, the Group used the Black-Scholes model for measuring the fair value of the options granted The following table sets out the information about how the fair value of the grant is calculated for each of the schemes

	LTIP		SAYE	
	2007	2006	2007	2006
Share price	**£1 875**	£2 09	–	£1 925
Exercise price	**£nil**	£nil	–	£1 93
Expected dividend yield	**1 76%**	1 44%	–	1 58%
Risk free interest rate	**4 93%**	4 10%	–	4 18%
Expected volatility	**33 9%**	37 5%	–	33 7%
Term (years)	**3 6**	3 6	–	3 25

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

Expected volatility was determined by calculating the historical volatility of the Group's share price over the term commensurate with the expected term immediately prior to the date of grant (i e 3 6 years for the LTIP award)

For SAYE valuations, the model reflects the fact that the options are exercisable only for a short period of six months following their vesting An expected life of three years and three months is the mid point between the vesting and expiry dates

The following options over shares have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002 These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2

	ESOS		LTIP		SAYE		Acquired schemes	
	2007 thousands	2006 thousands	2007 thousands	2006 thousands	2007 thousands	2006 thousands	2007 thousands	2006 thousands
Options granted before 7 November 2002	**1,037**	1,231	**48**	584	–	–	**73**	107

Notes to the financial statements continued

28 Share capital

	2007 £'000	2006 £'000
Authorised		
125,000,000 (2006 125,000,000) ordinary shares of 5p each	**6,250**	6,250

	2007 number	2007 £'000	2006 number	2006 £'000
Allotted, called up and fully paid				
At beginning of year	**80,158,913**	**4,008**	74,964,271	3,748
Issued as consideration for acquisitions	**3,982,619**	**199**	4,970,908	249
Share option exercises	**541,738**	**27**	223,734	11
At end of year	**84,683,270**	**4,234**	80,158,913	4,008

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

During the year, 541,738 ordinary 5p shares with an aggregate nominal value of £27,000 were issued under share option schemes for a total consideration of £1,032,000

During the year, 3,982,619 ordinary 5p shares with an aggregate nominal value of £199,000 were issued as consideration for acquisitions for a total consideration of £6,704,000

29 Share premium

	2007 £'000	2006 £'000
At beginning of year	**80,771**	80,156
Premium on share issues (net of expenses)	**987**	615
Reclassification to merger reserve	**(7,125)**	-
At end of year	**74,633**	80,771

The share premium and merger reserve have been partially reallocated so that £7,125,000 of share premium is reclassified as merger reserve in accordance with the requirements of Section 131 of the Companies Act 1985 There is no impact on profit or net assets as a result of the reallocation

30 Other reserves

	Capital reserve £'000	Merger reserve £'000	Own share reserve £'000	Share based payment reserve £'000	Hedging reserve £'000	Total £'000
At 1 April 2005	9 545	43,387	-	597	(30)	53,499
Premium on share issues	-	8 777	-	-	-	8,777
Net income recognised directly in equity in the year	-	-	-	-	36	36
Own shares acquired	-	-	(1,668)	-	-	(1,668)
Credit in relation to share based payment charge	-	-	-	449	-	449
Transfers	-	-	-	(157)	-	(157)
At 1 April 2006	9,545	52,164	(1,668)	889	6	60,936
Reallocation from share premium account	-	7,125	-	-	-	7,125
Premium on share issues	-	6,504	-	-	-	6,504
Transfer re goodwill impairment (see note 31)	-	(7,007)	-	-	-	(7,007)
Net income recognised directly to equity in the year	-	-	-	-	835	835
Own shares acquired	-	-	(105)	-	-	(105)
Credit in relation to share based payment charge	-	-	-	10	-	10
Transfers	-	-	-	(475)	-	(475)
At 31 March 2007	**9,545**	**58,786**	**(1,773)**	**424**	**841**	**67,823**

The capital reserve of £9 5m (2006 £9 5m) resulted from a share exchange when Tribal Group plc was listed in February 2001

The merger reserve of £58 8m (2006 £52 2m) relates to the premium arising on shares issued subject to the provisions of Section 131 of the Companies Act 1985 (see also note 29), net of goodwill impairment of £7 0m (2006 £nil) in respect of related acquisitions now deemed to be impaired

The own share reserve of £1 8m (2006 £1 7m) represents the cost of 922,499 shares (2006 853,091) in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group's share option schemes and shares to satisfy bonus arrangements of certain employees

The share based payment reserve represents the liability arising from the application of IFRS 2

The hedging reserve represents movements relating to cash flow hedges net of deferred tax at 30%

31 Retained earnings

	2007 £'000	2006 £'000
At beginning of year	**15,173**	5,350
(Loss)/profit for the year	**(9,379)**	12,544
Dividends paid	**(2,692)**	(2,362)
Net income/(expense) recognised directly in equity	**306**	(416)
Transfer goodwill impairment to merger reserve (see note 30)	**7,007**	–
Share option exercises	**(949)**	(100)
Transfers from share based payment reserve	**475**	157
At end of year	**9,941**	15,173

32. Minority interest

	2007 £'000	2006 £'000
At beginning of year	**1,185**	1,894
Profit for the year	**771**	274
Dividends	**(95)**	(3)
New minorities	**4**	97
Purchase of minorities	**(262)**	(1,077)
At end of year	**1,603**	1,185

33 Shares to be issued

	2007 £'000	2006 £'000
At beginning of year	**6,237**	16,517
Fair value adjustments	**377**	(2,449)
Issued	**(6,125)**	(7,831)
At end of year	**489**	6,237

Of this amount £489,000 (2006 £6,102,000) is shown as a current liability and £nil (2006 £135,000) as a non-current liability

34 Capital and other commitments

There are capital commitments at 31 March 2007 of £2,305,000 (2006 £6,599,000) The current year commitments relate to a new Group finance system and to Mercury Health, the prior year commitments primarily relate to Mercury Health

The Group as lessee

	2007 £'000	2006 £'000
Minimum lease payments under operating leases recognised as an expense in the year	**4,623**	3,874

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

	2007 £'000	2006 £'000
Within one year	**991**	744
In the second to fifth years inclusive	**8,273**	5,998
After five years	**7,555**	11,774
	16,819	18,516

Operating lease payments mainly represent rentals payable by the Group for certain of its office properties Leases are negotiated for an average term of five years and rentals are fixed for an average of three years

Notes to the financial statements continued

35 Retirement benefit schemes

The Group operates a number of defined contribution and defined benefit pension schemes within individual subsidiaries and contributes to certain employees' personal pension plans. The pension cost charge for the year ended 31 March 2007 was £4,709,000 (2006: £3,803,000), of which £4,494,000 (2006: £3,596,000) related to defined contribution schemes and £215,000 (2006: £207,000) to defined benefit schemes.

Contributions amounting to £498,000 (2006: £372,000) were payable to the funds at the year end and are included in current liabilities.

Defined benefit schemes
One of the Group's subsidiary undertakings, Tribal Technology Limited, participates in the TfL Pension Fund (formerly LRT pension fund), which is a defined benefit arrangement. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 March 2006.

The Tribal Technology section of the TfL Pension Fund had four active members at the year end. Employer contributions amounting to £61,688 were paid in the year to 31 March 2007. These accounting figures have been calculated using the valuation as at 31 March 2006, updated on an approximate basis to 31 March 2007.

Another of the Group's subsidiary undertakings SDP Regeneration Services 2 Limited participates in the London Pensions Fund Authority Pension Fund ('the LPFA Pension Fund'), which is a defined benefit arrangement. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 March 2004.

The SDP Regeneration Services 2 Limited section of the LPFA Pension Fund had 23 active members, 19 deferred pensioners and 2 pensioners at the year end. Employer contributions amounting to £258,000 were paid in the year to 31 March 2007.

The assets of the funds have been taken at market value and the actuarial assumptions used to calculate scheme liabilities under IAS 19 'Employee Benefits' are:

	2007 % per annum	2006 % per annum	2005 % per annum
Inflation	**3.25**	3.10	2.75
Salary increases	**4.60**	4.60	3.75
Rate of discount	**5.45**	4.90	5.50
Pension in payment increases	**3.25**	3.10	2.75
Revaluation rate for deferred pensioners	**3.25**	3.10	2.75

The expected long term return on cash is equal to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected return on equities and property have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.

The fair value of the assets in the scheme, the present value of the defined obligations in the scheme and the expected long term rate of return at each balance sheet date were as follows:

TfL Pension Fund

	2007 %	**2007 £'000**	2006 %	2006 £'000
Equities	**7.50**	**175**	7.50	140
Bonds	**5.45**	**170**	5.00	126
Total fair value of scheme assets		**345**		266
Present value of defined obligations		**(606)**		(591)
Deficit in the scheme		**(261)**		(325)
Related deferred tax asset		**78**		98
Net pension liability		**(183)**		(227)

LPFA Pension Fund

	2007 %	**2007 £'000**	2006 %	2006 £'000
Equities	**7.70**	**2,216**	7.30	1,919
Target return funds	**6.40**	**796**	6.00	580
Alternative assets	**6.80**	**451**	6.50	359
Cash	**4.90**	**96**	4.60	187
Total fair value of scheme assets		**3,559**		3,045
Present value of defined obligations		**(4,734)**		(4,697)
Deficit in the scheme		**(1,175)**		(1,652)
Related deferred tax asset		**353**		496
Net pension liability		**(822)**		(1,156)

35 Retirement benefit schemes (continued)

Reconciliation of opening and closing balances of the fair value of scheme assets

	TfL 2007 £'000	LPFA 2007 £'000	TfL 2006 £'000	LPFA 2006 £'000
Fair value of scheme assets at 1 April	**266**	**3,045**	965	2,380
Expected return on assets	**19**	**215**	45	171
Actuarial (losses)/gains	**(2)**	**30**	(7)	342
Contributions by employer	**62**	**258**	66	128
Contributions by scheme participants	**6**	**46**	6	58
Benefits paid	**–**	**(35)**	–	(34)
Transfers	**(6)**	**–**	(809)	–
Fair value of scheme assets at 31 March	**345**	**3,559**	266	3,045

Reconciliation of opening and closing balances of the present value of the defined benefit obligations

	TfL 2007 £'000	LPFA 2007 £'000	TfL 2006 £'000	LPFA 2006 £'000
Defined benefit obligation at 1 April	**591**	**4,697**	1,142	3,573
Current service cost	**34**	**151**	28	151
Interest cost	**30**	**234**	41	201
Contributions by scheme participants	**6**	**46**	6	58
Actuarial (gain)/loss	**(49)**	**(359)**	183	748
Benefits paid	**–**	**(35)**	–	(34)
Transfers	**(6)**	**–**	(809)	–
Defined benefit obligation at 31 March	**606**	**4,734**	591	4,697

The contribution rate for 2007 was 20% of pensionable earnings plus £37,000 per annum for the TfL Pension Fund and 18 1% for the LPFA Pension Fund The contribution rate for the next 10 years has yet to be determined for the TfL Pension Fund and 18 1% for the LPFA Pension Fund

An additional annual past service contribution of £37,000 is to be paid into the TfL Pension Fund and additional lump sum payments will be made over the next three years into the LPFA Pension Fund to address the deficits in the schemes

Analysis of amounts recognised in the consolidated income statement

	TfL 2007 £'000	LPFA 2007 £'000	TfL 2006 £'000	LPFA 2006 £'000
Current service cost	**34**	**151**	28	153
Recognised in arriving at operating profit	**34**	**151**	28	153
Other finance costs				
Interest on pension scheme liabilities	**30**	**234**	41	201
Expected return on pension scheme assets	**(19)**	**(215)**	(45)	(171)
Net finance charge/(income)	**11**	**19**	(4)	30
Total charge to income statement	**45**	**170**	24	183

Analysis of actuarial gain/(loss) in the consolidated statement of recognised income and expense

	TfL 2007 £'000	LPFA 2007 £'000	TfL 2006 £'000	LPFA 2006 £'000
Actual return less expected return on pension scheme assets	**(2)**	**30**	(7)	388
Experience gains and losses arising on the scheme liabilities	**3**	**1**	(8)	(1)
Changes in assumptions underlying the present value of scheme liabilities	**46**	**358**	(175)	(791)
Total actuarial gain/(loss) recognised in the consolidated statement of recognised income and expense	**47**	**389**	(190)	(404)

Cumulative actuarial loss recognised in the consolidated statement of recognised income and expense since 1 April 2004 is £53,000 (2006 £489,000)

Notes to the financial statements continued

35 Retirement benefit schemes (continued)

Changes in the deficit are analysed as follows

	TfL 2007 £'000	LPFA 2007 £'000	Total 2007 £'000	TfL 2006 £'000	LPFA 2006 £'000	Total 2006 £'000
At beginning of year	**(325)**	**(1,652)**	**(1,977)**	(177)	(1,193)	(1,370)
Movement in the year						
Current employer service cost	**(34)**	**(151)**	**(185)**	(28)	(153)	(181)
Employer contributions	**62**	**258**	**320**	66	128	194
Actuarial gain/(loss)	**47**	**389**	**436**	(190)	(404)	(594)
Net finance income/(charge)	**(11)**	**(19)**	**(30)**	4	(30)	(26)
At end of year	**(261)**	**(1,175)**	**(1,436)**	(325)	(1,652)	(1,977)

The three year history of experience adjustments is as follows

	TfL 2007 £'000	LPFA 2007 £'000	TfL 2006 £'000	LPFA 2006 £'000	TfL 2005 £'000	LPFA 2005 £'000
Present value of defined benefit obligations	**(606)**	**(4,734)**	(591)	(4,697)	(1,142)	(3,573)
Fair value of scheme assets	**345**	**3,559**	266	3,045	965	2 380
Deficit in the scheme	**(261)**	**(1,175)**	(325)	(1,652)	(177)	(1 193)
Experience adjustments arising on scheme assets						
Amount	**(2)**	**30**	(7)	388	42	–
Percentage of the scheme assets	**(1%)**	**1%**	(3%)	13%	4%	–
Experience adjustments arising on scheme liabilities						
Amount	**3**	**1**	(8)	(1)	7	–
Percentage of the present value of the scheme liabilities	**0%**	**0%**	(1%)	0%	1%	–

No assets are invested in the Group's own financial instruments, properties or other assets used by the Group

36 Notes to the cash flow statement

	2007 £'000	2006 £'000
Operating profit from continuing operations	**192**	23,313
Depreciation of property, plant and equipment	**5,356**	3,600
Amortisation of development expenditure	**869**	435
Amortisation of intangible assets	**320**	316
Impairment of goodwill	**14,429**	–
Net pension charge	**(105)**	13
Gain on disposal of property, plant and equipment	**(133)**	(24)
Increase in fair value of investment property	**–**	(20)
Share based payments	**10**	449
Increase in receivables	**(4,724)**	(685)
Increase in amounts recoverable on contracts	**(4,041)**	(2,791)
Increase in payables	**16,118**	4,367
(Increase)/decrease in inventories	**(168)**	436
Increase in provisions	**300**	150
Net cash from operating activities before tax	**28,423**	29,559
Tax paid	**(4,143)**	(3,365)
Net cash from operating activities	**24,280**	26,194

37 Post balance sheet events

The sale of the Group's healthcare delivery business, Mercury Health, to Care UK was completed on 20 April 2007 The gross sale proceeds were £77m, which after deduction of debt and disposal costs, equates to net cash proceeds of £52m

The continuing operations of the Group will consist of the existing Consulting services and Education services business streams In order to show the financial impact of the disposal on the Group, the results of Mercury Health and its subsidiaries for the years ended 31 March 2007 and 31 March 2006 have been shown separately on the face of the income statement To give an indication of the balance sheet impact of the disposal the table below shows pro forma figures applying the disposal to the 31 March 2007 balance sheet

	Unadjusted Total £ 000	Mercury Health £'000	Disposal adjustments £'000	Pro forma £'000
Non-current assets				
Property, plant and equipment	45,056	(37,567)	-	7,489
Other non-current assets	208,639	(12,051)	-	196,588
	253,695	(49,618)	-	204,077
Current assets				
Cash and collateralised cash	34,432	(14,821)	-	19,611
Other current assets	67,343	(9,086)	-	58,257
	101,775	(23,907)	-	77,868
Total assets	355,470	(73,525)	-	281,945
Current liabilities				
Other current liabilities	(85,180)	40,778	(24,460)	(68,862)
Obligations under finance leases	(98)	92	-	(6)
Bank loans and loan notes	(5,530)	4,075	-	(1 455)
	(90,808)	44,945	(24,460)	(70,323)
Net current assets	10,967	21,038	(24,460)	7,545
Non-current liabilities				
Bank loans	(102,307)	27,906	52,000	(22,401)
Obligations under finance leases	(327)	325	-	(2)
Other non-current liabilities	(3,794)	2,042	-	(1,752)
	(106,428)	30,273	52,000	(24,155)
Total liabilities	(197,236)	75,218	27,540	(94,478)
Net assets	**158,234**	**1,693**	**27,540**	**187,467**

Adjustments reflect the inter-company loan of £24 5m between Tribal and Mercury that was extinguished on disposal together with the net cash inflow of £52m net disposal proceeds No account has been taken of any trading between 1 April 2007 and 20 April 2007 On the basis of the above pro forma net debt is £4 3m

The Mercury Health business stream has not been classified as discontinued or held for resale under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as shareholder approval for the transaction had not been received at the balance sheet date

Notes to the financial statements continued

38 Contingent liabilities

The Group has received notification of a number of potential litigation claims as set out below In all cases, the claims are being investigated by our lawyers and are being robustly contested as to both liability and quantum

- breach of contract arising out of the provision of services to a further education college,
- the return of funding received for the provision of learning assessment and delivery for job seekers provided through a third party,
- infringement of copyright relating to a software product, and
- claim for negligence in the treatment of a development contract as part of a transfer of council housing stock

A provision of £450,000 (2006 £150,000) has been made for defending these claims, where appropriate

These claims are expected to be resolved within one year and are therefore shown within current liabilities However, it is possible that these claims may take longer to resolve, or the Group may not be promptly notified that the claim has been dropped The claim may be settled at amounts higher or lower than that provided depending on the outcome of commercial or legal arguments The provision made is management's best estimate of the Group's liability based on past experience, commercial judgement and legal advice There is no expected reimbursement for any economic outflow that may be required

There are two parent company guarantees (PCGs) given by the company relating to leases of Mercury Health properties that were not released at the time of the sale of Mercury Health to Care UK These property leases have an aggregate annual commitment of approximately £0 4m over the outstanding term of approximately 17 years Care UK and Tribal Group have a formal agreement whereby Care UK shall use its best endeavours to obtain full release of the PCGs on a timely basis To some extent Tribal has no control over the release process required of the landlord of each property It is expected that releases will be obtained during the course of the year

A cross-guarantee exists between group companies in respect of bank facilities totalling £54,883,206 (2006 £53,337,000)

39 Financial instruments

The Group has entered into the following interest rate swaps

Amount	Expiry date	Tribal pays	Tribal receives	Fair value at 31 March 2007 £'000
£25m	30 09 2010	4 99%	6 month LIBOR	545
£25m*	30 09 2010	6 month LIBOR less 75 bps to 30 9 2006 4 99% or LIBOR less 10 bps thereafter at bank option	6 month LIBOR	79
£20m**	31 03 2009	5%	3 month LIBOR	220
£12 5m	31 03 2009	4 98%	3 month LIBOR	173
Fair value of interest rate swaps (see note 20)				**1,017**

This financial instrument does not meet the criteria for a hedge instrument On 31 March 2007 the bank exercised its option to convert this instrument into an annuity with Tribal receiving a net 10bps The other interest rate swaps are hedge accounted

This financial instrument is a structured swap that decreases in line with the repayment profile of the loan

The fair value of the interest rate swaps is based on market values of equivalent instruments at the balance sheet date

Financial risk
Treasury management is led by Group Finance and is responsible for managing the Group's exposure to financial risk It operates within a defined set of policies and procedures reviewed and approved by the Board

Interest rate risk
The Group's exposure to interest rate fluctuations on its interest bearing assets and liabilities is selectively managed, using interest rate swaps

Lenders of non-recourse debt generally require that the debt is maintained on fixed rate terms or is swapped to fixed rate terms The Group therefore hedges its interest rate risk on non-recourse debt and part of its recourse debt by using interest rate swaps to exchange floating interest cash flows to fixed interest cash flows

Credit risk
The Group's principal financial assets are cash and cash equivalents, trade and other receivables and amounts recoverable on contracts

The Group's credit risk is relatively low because a high proportion of trade and other receivables have a sovereign or close to sovereign credit rating

40 Related party disclosures

On 26 Apnl 2007, Peter Martin received an ad hoc bonus payment of £135 700 This was regarded as a related party transaction in the context of the Group's disposal of its investment in Mercury Health The sum was paid to Peter Martin as part of a transaction bonus arrangement established by the Remuneration Committee, which related any bonus paid to the sale price achieved for Mercury Health

Save as is described in this note, no material contract or arrangement has been entered into during the year, nor subsisted at 31 March 2007 in which a director had a material interest

Remuneration of key management personnel
The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'

	2007 £'000	2006 £'000
Short-term employee benefits	**1,074**	1,254
Share based payment	**(106)**	107
	968	1,361

The share based payment charge in the prior year primarily related to the LTIP granted in 2006 It is now considered most unlikely that this award will meet the performance criteria As a result this charge has been reversed in the current year

41 Principal subsidiary undertakings

The principal subsidiary undertakings at 31 March 2007 are shown below All subsidiary undertakings are registered in the United Kingdom and prepare accounts to 31 March each year

	Principal activity	Holding
Avail Consulting Limited	Management consultancy, IT services and solutions	62%
Geronimo Communications Limited	Public relations consultancy	100%
Mercury Health DTC(1) Limited*	Healthcare delivery	100%
Nightingale Architects Limited*	Architects	100%
Sportsvine Limited*	Development and marketing of distance learning products	51%
Tnbal Consulting Limited	Management consultancy services to local government	100%
Tnbal Education Limited	Education consultancy, training and Ofsted inspections	100%
Tnbal Holdings Limited	Holding company	100%
Tnbal Property Limited*	Property consultants	100%
Tnbal Resourcing Limited	Recruitment advertising in the public sector	99%
Tnbal Technology Limited	Software support and IT services	100%
Tnbal TGC Limited	Management consultancy, learning and training	66%

All investments are held by Tnbal Group plc other than those marked which are held by intermediate holding companies

The proportion of voting rights held is equivalent to the equity shareholdings

Full details of related undertakings will be attached to the relevant company's Annual Return to be filed with the Registrar of Companies

Five year summary

for the years ended 31 March

	IFRS			UK GAAP	
	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Summarised consolidated Group income statement					
Revenue	**231,851**	214,794	179,857	152,221	98,364
Profit before interest, goodwill and intangibles amortisation and impairment, share option costs and exceptional items	**18,251**	24,078	22,291	23,153	16,685
Goodwill impairment and intangibles amortisation	**(14,749)**	(316)	(6,987)	(10,690)	(6,288)
Share option costs	**(10)**	(449)	(134)	(1,025)	(580)
Exceptional items	**(3,300)**	-	(1,747)	(3,040)	(702)
Interest	**(6,330)**	(5,841)	(4,466)	(3,076)	(1,260)
Tax	**(2,470)**	(4,654)	(5,401)	(6,176)	(4,737)
Minority interests	**(771)**	(274)	(303)	(108)	-
Dividends	**(2,692)**	(2,362)	(2,150)	(2,090)	-
Retained (loss)/profit	**(12,071)**	10,182	1,103	(3,052)	3,118
Earnings per share adjusted (diluted)	**10 3p**	17 2p	15 3p	20 5p	18 6p
Dividend per ordinary share	**3 47p**	3 3p	3 0p	3 0p	-
Summarised consolidated Group balance sheet					
Intangible assets	**195,885**	209,647	208,726	201,355	142,623
Other non-current assets	**57,810**	50,218	14,151	6,546	3,635
Current assets	**101,775**	86,590	93,752	89,043	65,145
Current liabilities	**(90,808)**	(84,424)	(74,834)	(67,784)	(60,737)
Non-current liabilities	**(106,428)**	(99,958)	(80,383)	(72,015)	(36,225)
Net assets	**158,234**	162,073	161,412	157,145	114,441

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

UK GAAP audit report – Tribal Group plc – company
Independent auditors' report to the members of Tribal Group plc

We have audited the parent company financial statements of Tribal Group plc for the year ended 31 March 2007 which comprise the balance sheet and the related notes 1 to 10 These parent company financial statements have been prepared under the accounting policies set out therein

The corporate governance statement and the directors' remuneration report are included in the Group annual report of Tribal Group plc for the year ended 31 March 2007 We have reported separately on the Group financial statements of Tribal Group plc for the year ended 31 March 2007 and on the information in the directors' remuneration report that is described as having being audited

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP) are set out in the statement of directors' responsibilities Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the directors' report is consistent with the parent company financial statements The information given in the directors' report includes that specific information presented in the business review that is cross referenced from the business review section of the directors' report In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

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

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

Opinion
In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the parent company financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom
4 July 2007

Notes An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements 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 statements differs from legislation in other jurisdictions

Company balance sheet

at 31 March 2007

	Note		2007 £'000		2006 £'000
Fixed assets					
Investments	2		**254,016**		269,362
Current assets					
Debtors amounts falling due within one year	3	**29,389**		1,746	
Debtors amounts falling due after more than one year	3	**–**		1,220	
Cash at bank and in hand		**1,276**		1,984	
		30,665		4,950	
Creditors amounts falling due within one year	4	**(49,486)**		(44,293)	
Net current liabilities			**(18,821)**		(39,343)
Total assets less current liabilities			**235,195**		230,019
Creditors amounts falling due after more than one year	5		**(74,402)**		(74,137)
Provisions for liabilities and charges	6		**(210)**		–
Net assets			**160,583**		155,882
Capital and reserves					
Called up share capital	7		**4,234**		4,008
Share premium account	8		**74,633**		80,771
Merger reserve	8		**63,181**		52,164
Hedging reserve	8		**592**		103
Own share reserve	8		**(1,773)**		(1,668)
Share based payment reserve	8		**424**		889
Profit and loss account	8		**19,292**		19,615
Equity shareholders' funds			**160,583**		155,882

Notes 1 to 10 form part of these financial statements

These financial statements were approved by the Board of directors on 4 July 2007 and were signed on its behalf by

Peter J Martin
Director

Simon M Lawton
Director

Notes to the company balance sheet

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the parent company financial statements

Basis of preparation
The financial information has been prepared on the historical cost basis, modified to include the revaluation of certain fixed assets and in accordance with applicable United Kingdom law and accounting standards

In the company's balance sheet, the investment in Tribal Holdings Limited is stated at the nominal value of the shares issued in consideration for that company As required by sections 131 and 133 of the Companies Act 1985, no premium has been recorded on the shares issued as consideration

Under section 230(4) of the Companies Act 1985, the company is exempt from the requirement to present its own profit and loss account The loss for the company amounted to £243,000 (2006 profit £6,200,000)

The auditors' remuneration for audit services to the company was £94,000 (2006 £81,000)

FRS 20 'Share-based Payment' was adopted in the prior year The company has no employees and hence there is no charge to the company profit and loss account The cost for options granted to the company's subsidiaries' employees represents additional capital contributions by the company in its subsidiaries An additional investment in subsidiaries has been recorded with a corresponding increase in shareholders' equity The additional capital contribution is based on the grant date fair value of the options issued, allocated over the underlying grant's vesting period

Investments
Investments held as fixed assets are shown at cost less provision for any impairment

Taxation
Current 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

In accordance with FRS 19 'Deferred Tax', deferred taxation is provided in full on timing differences which represent an asset or liability at the balance sheet date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements Deferred tax is not provided on timing differences arising on unremitted earnings of subsidiaries, associates and joint ventures where there is no commitment to remit these earnings Deferred tax assets and liabilities are not discounted

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Cash flow statement
The results, assets and liabilities of the company are included in the consolidated financial statements of Tribal Group plc Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised) 'Cash flow statements'

Derivative financial instruments and hedging activities
Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability For hedges that do not result in the recognition of an asset or a liability amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss

Directors' remuneration
Detailed disclosures of directors' individual remuneration and share options are given in the audited part of the remuneration report on pages 36 to 37 and should be regarded as an integral part of this note The company has no employees

Notes to the financial statements continued

2 Fixed asset investments

	Shares in subsidiary undertakings £'000	Long term loans £'000	Total £'000
Cost			
At 1 April 2005	176,221	80,669	256,890
Additions	5,559	–	5,559
Impairment	(86,514)	–	(86,514)
Fair value adjustment	(816)	–	(816)
Transfers to other Group companies	(9,461)	–	(9,461)
Capital contribution relating to share based payments	292	–	292
Movement in long term loans	–	103,412	103,412
At 1 April 2006	85,281	184,081	269,362
Additions	25,380	–	25,380
Impairment	(7,667)	–	(7,667)
Fair value adjustment	444	–	444
Transfers to other Group companies	(15,111)	–	(15,111)
Capital contribution relating to share based payments	(465)	–	(465)
Movement in long term loans	–	(17,927)	(17,927)
At 31 March 2007	**87,862**	**166,154**	**254,016**

The directors have considered the value of the above investments and are satisfied that the aggregate value of each investment is not less than its carrying value

In the years ended 31 March 2007 and 2006 the Group carried out a significant restructuring of its businesses to reduce the number of legal entities that were trading As part of this process a number of subsidiaries became dormant and had their reserves paid up by way of dividend To the extent that the dividends reduced the net assets of these dormant companies below the carrying cost of the related investment, an impairment of the carrying value of those investments in the parent company accounts was recorded The total charge for the year ended 31 March 2007 is £7 7m (2006 £86 5m) There is no impact on the Group results from this

Additions in the year ended 31 March 2007 comprise £25 0m increase in share capital of Tribal Consulting Limited and £0 4m in respect of the acquisition of minority interests in Tribal Resourcing Limited

A listing of principal subsidiaries is included in note 41 to the Group financial statements

Fair value adjustments relate to revision of the estimates of deferred consideration payable net of the appropriate discounting charges

3 Debtors

	2007 £'000	2006 £'000
Amounts owed by group undertakings	**27,242**	2,966
Fair value of interest rate swaps	**623**	–
Corporation tax	**1,524**	–
	29,389	2,966

Amounts owed by group companies includes £nil (2006 £1,220,000) falling due after more than one year

4 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Bank overdraft	–	19,944
Loan notes	**1,355**	2,806
Amounts owed to group undertakings	**47,642**	14,820
Deferred consideration	–	255
Fair value of interest rate swaps	–	366
Shares to be issued (see note 9)	**489**	6,102
	49,486	44,293

5 Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Bank loan	**74,402**	74,002
Shares to be issued (see note 9)	**–**	135
	74,402	74,137

Maturity of bank and loan notes

	2007 £'000	2006 £'000
Bank and loan notes can be analysed as falling due		
In one year or less, or on demand	**1,355**	2,806
Between two and five years	**74,402**	74,002
	75,757	76,808

The bank loan (which has primary security) is at market rates of interest and is secured by way of a fixed and floating charge over the assets of the company and its subsidiary undertakings The interest rates on the other loans are a mixture of fixed and floating and are also at market rates Repayment terms vary between one and five years For further details see note 24 to the Group financial statements

6 Provision for liabilities and charges

	2007 £'000
Deferred taxation	
Items taken directly to equity	**210**
At 31 March 2007	**210**

Provisions for deferred taxation consist of the following amounts	2007 £'000
Derivative financial instruments	**210**

7 Called up share capital

	2007 £'000	2006 £'000
Authorised		
125,000,000 ordinary shares of 5p each (2006 125,000,000)	**6,250**	6,250

	2007 number	2007 £'000	2006 number	2006 £'000
Allotted, called up and fully paid				
At beginning of year	**80,158,913**	**4,008**	74,964,271	3,748
Issued as consideration for acquisitions	**3,982,619**	**199**	4,970,908	249
Share option exercises	**541,738**	**27**	223,734	11
At end of year	**84,683,270**	**4,234**	80,158,913	4,008

Allotment of shares

Between 1 April 2006 and 31 March 2007, new ordinary shares of 5p each in the Company were issued as follows

Number of shares	Value £'000	Price per share	Value/proceeds £'000	Purpose of issue
481,208	24	£nil	949	LTIP exercises
58,904	3	£1 16 to £1 90	81	Share option exercises
1,626	-	£1 44 to £1 93	2	SAYE exercises
3,674,323	184	£1 58 to £1 95	6,125	Earn outs
308,296	15	£1 85 to £1 99	579	Purchase of minorities
4,524,357	226		7,736	

Notes to the financial statements continued

7 Called up share capital (continued)

Details of options in respect of shares outstanding at 31 March 2007 are as follows

Employee share option schemes.	Number outstanding	Price payable	Date from which exercisable
Limited scheme	212,184	£1 33	30 06 2003
	118,860	£1 65	30 06 2003
	331,044		
PLC scheme	35,808	£2 50	30 06 2003
	62 400	£2 83	30 06 2003
	31,921	£2 86	30 06 2004
	177,277	£3 10	30 06 2004
	398,369	£2 46	30 06 2005
	138,521	£2 29	30 06 2005
	250,210	£3 26	30 06 2006
	53,394	£3 62	30 06 2006
	58,370	£3 45	30 06 2007
	179,522	£1 96	30 06 2007
	1,385,792		
LTIP	48,386	£nil	31 03 2006
	17,265	£nil	31 03 2007
	47,831	£nil	31 03 2007
	276,130	£nil	31 03 2009
	1,008,527	£nil	31 03 2010
	1,398,139		
Acquired schemes	6,668	£1 16	14 01 2003
	25,693	£1 90	27 03 2004
	40,866	£2 45	28 02 2005
	50,122	£2 31	24 01 2006
	72,636	£0 22	29 03 2004
	195,985		
Savings related option scheme			
SAYE	10,208	£3 00	01 02 2007
	450,148	£1 44	01 03 2008
	306,654	£1 93	01 03 2009
	767,010		
Total Tribal Group plc share option schemes	**4,077,970**		

8 Share premium and reserves

	Share premium account £'000	Merger reserve £'000	Hedging reserve £'000	Own share reserve £'000	Share based payment reserve £'000	Profit and loss account £'000
At beginning of year	80,771	52,164	103	(1,668)	889	19,615
Transfer	(7,125)	7,125	–	–	–	–
Loss for the year	–	–	–	–	–	(243)
Dividends	–	–	–	–	–	(2,692)
Fair value movement on cash flow hedges	–	–	699	–	–	–
Deferred tax	–	–	(210)	–	–	–
Premium on share issues (net of expenses)	987	6,504	–	–	–	–
Impairment of investments	–	(2,612)	–	–	–	2,612
Own share payments	–	–	–	(105)	–	–
Movement in relation to share based payments	–	–	–	–	(465)	–
At end of year	**74,633**	**63,181**	**592**	**(1,773)**	**424**	**19,292**

The merger reserve of £63 2m (2006 £52 2m) relates to the premium arising on shares issued subject to the provisions of section 131 of the Companies Act 1985 In accordance with the provision, £7 1m of share premium has been reclassified as merger reserve There is no impact on profit or net assets as a result of the reallocation

The own share reserve of £1 8m (2006 £1 7m) represents the cost of 922,499 (2006 853,091) shares in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group's share option schemes

9 Shares to be issued

	2007 £'000	2006 £'000
Deferred shares to be issued in future periods		
– within one year	**489**	6,102
– after more than one year	**–**	135
	489	6,237

Shares to be issued in future periods represent the directors' estimate of the fair value of the shares to be issued It represents additional consideration that is payable to the original vendors of some of the businesses (now subsidiaries) acquired by the company The final value of the shares to be issued is dependent upon the future financial performance of the subsidiaries The maximum value of shares to be issued under earn outs payable is £1 1m (2006 £12 1m)

10 Post balance sheet events

The sale of the company's investment in Mercury Health Holdings Limited to Care UK was completed on 20 April 2007 The gross sale proceeds were £77m, which after the deduction of debt and costs, equates to net cash proceeds of £52m See note 37 to Group financial statements for further details

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