

**T R I B A L**

# **ANNUAL REPORT + ACCOUNTS**

For the twelve months ended 31 December 2010



## Our mission

People have a right to great public services. Tribal's mission is to help deliver them.


We believe that high quality public services enrich people's lives. We also think that everyone should have a good education, accessible healthcare and the opportunity to fulfil their potential.

That's why we are passionate about working in partnership with our clients to ensure people receive the best possible public services.

## Our services

- **Service delivery** – programmes and services we deliver for clients, usually under long-term contracts
- **Technology** – our range of market-leading software and related services
- **Advisory** – based on our sector expertise and focused on supporting change

## Our core markets are:

- **Education**
  - **Health**
  - **Government**
- 

## Contents

### About us

Tribal is a leading provider of service delivery, technology and advisory solutions focused on improving the quality and effectiveness of public services.

## Business review

- 02 ■ Summary
- 03 ■ Financial summary
- 04 ■ Overview of our business
- 06 ■ Strategy for growth
- 07 ■ Market opportunities
- 09 ■ Operating review
- 14 ■ Our people
- 15 ■ Corporate responsibility
- 16 ■ Principal risks and uncertainties
- 18 ■ Key performance indicators (KPIs)
- 20 ■ Financial review

## Governance

- 26 ■ Board of directors
- 27 ■ Directors' report
- 30 ■ Corporate governance
- 35 ■ Remuneration report
- 40 ■ Directors' responsibilities statement

## Financial statements

- 42 ■ Independent auditor's report to the members of Tribal Group plc
- 43 ■ Consolidated income statement
- 44 ■ Consolidated statement of comprehensive income
- 45 ■ Consolidated balance sheet
- 46 ■ Consolidated statement of changes in equity
- 47 ■ Consolidated cash flow statement
- 48 ■ Notes to the financial statements
- 92 ■ UK GAAP Tribal Group plc – company financial statements
- 100 ■ Five year summary

## Summary

- **Revenue of £175.4m (2009: £193.7m)**
- **Adjusted profit before tax<sup>1</sup> of £5.9m (2009: £13.8m)**
- **Adjusted diluted earnings per share<sup>1</sup> of 5.0p (2009: 10.7p)**
- **Final dividend of 0.65p (2009: 2.75p)**
- **Committed income of £217m, an increase of 7%**
- **Cash generated from operations<sup>2</sup> of £20.1m (2009: £20.3m)**
- **Net debt of £18.5m (2009: £27.8m)**
- **Implementation of substantial restructuring programme to reduce the Group's cost base, dispose of non-core activities and improve the Group's operating structure:**
  - **annualised savings of £28.0m**
  - **exceptional costs of £10.4m**
  - **sale of support services businesses completed**
- **Goodwill impairment of £51.6m in respect of Health and Government businesses**
- **Bank facilities committed to February 2015**

### Commentary

"2010 was a year of considerable change for Tribal. Our markets in the UK, particularly for advisory activities, were impacted by public sector spending constraints. Internally, we implemented a substantial change programme to reduce costs, streamline our operations and dispose of non-core assets. We maintained our focus on working capital management and negotiated revised banking facilities committed to 2015.

"Since the publication of the Comprehensive Spending Review in October 2010, we have seen some stability return to our advisory markets and an increase in new business activity across all parts of the Group. Public sector reform will continue, with Tribal well positioned to play an increasing role in the transformation and delivery of public services.

"Tribal remains in an offer period and further announcements will be made with regard to any potential offer for the Group as and when appropriate.

"Peter Martin will be standing down as Chief Executive at the end of April. On behalf of the Board, I should like to thank Peter for his leadership of the Group during a very challenging period.

"Our committed income levels remain strong and our sales pipeline, particularly internationally, is very encouraging. As a result of the actions we have taken, the Group now has a sound footing from which to make progress in 2011."

John Ormerod, Chairman, Tribal



## Financial summary

	Year ended 31 December 2010	Year ended 31 December 2009	Change
Revenue	£175.4m	£193.7m	-9%
Adjusted profit before tax <sup>1</sup>	£5.9m	£13.8m	-57%
Goodwill impairment	£51.6m	£30.7m	
Loss before tax	(£57.8)m	(£17.8)m	
Adjusted diluted earnings per share <sup>1</sup>	5.0p	10.7p	-53%
Loss per share	(59.6)p	(23.9)p	
Dividend per share	2.50p	4.60p	-46%
Operating cash flow <sup>2</sup>	£20.1m	£20.3m	
Net debt	£18.5m	£27.8m	

## Notes:

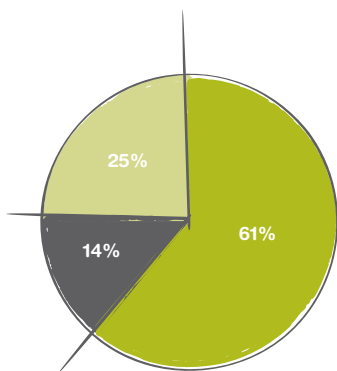
<sup>1</sup> The adjusted profit before tax and adjusted diluted earnings per share are in respect of continuing operations, excluding goodwill impairment of £51.6m (2009: £30.7m), intangible asset amortisation of £1.0m (2009: £1.0m), exceptional costs of £10.4m (2009: £nil), financial instruments charge of £0.6m (2009: credit £0.1m) and, in the case of earnings per share, the related tax of £3.2m (2009: £0.3m).

<sup>2</sup> Operating cash flow is defined as net cash from continuing operating activities less interest.

## Overview of our business >

### Revenue by business stream (2010)<sup>1</sup>

■ Education	<b>61%</b>
■ Health	<b>14%</b>
■ Government	<b>25%</b>



<sup>1</sup> The data refers to the Group's continuing operations during 2010.

### Education

Percentage of 2010 Group revenue: 61%  
2010 revenue: £107m

Tribal is a leading provider of services to the education, skills and training sectors. Our services support key government policy initiatives aimed at improving standards, increasing quality and delivering better outcomes for learners. Much of our work is underpinned by our software and technology solutions, which accounted for nearly 40% of the revenue of our Education business in 2010.

We are the largest provider of school, college and early years inspections in England and have carried out over 14,000 school inspections for Ofsted.

We work with schools, teachers and other providers of children's services to improve their performance, raise pupil attainment and manage their resources more effectively. Our work in prisons is helping offenders develop the skills they need to lead productive lives when they are released.

We help major employers improve the skills of their workforce through web-based learning services. More than a million people use our e-learning products and services.

Our student management software for colleges and universities is the UK market leader.

Our business has successfully expanded overseas and we are now active in North America, Australia, New Zealand and the Middle East.

### Health

Percentage of 2010 Group revenue: 14%  
2010 revenue: £26m

Tribal has one of the largest providers of professional services to the health market in the UK. We operate at all levels, from the Department of Health and strategic health authorities, to primary care trusts (PCTs), hospitals and healthcare clients in the private sector.

At the strategic level, our work includes helping government develop its commercial strategy and use information more effectively.

We support PCTs in their commissioning role so that they can improve patient care and reduce costs, and we work with NHS providers to design more efficient services which meet the needs of their local community. The UK Government's programme to reform the NHS is creating opportunities for us to support the new GP commissioning consortia that are being established.

Our analytics services ensure hospitals get paid for the work they do and our 'Healthy FE' team has helped students and staff at over 70% of colleges in England to stay fit and well.

## > Overview of our business

### Government

Percentage of 2010 Group revenue: 25%  
2010 revenue: £45m

Tribal works with central and local government in the UK, and development agencies and governments internationally, to transform public services.

We help the public sector - from government departments to social housing providers - improve how services are shaped, commissioned and delivered.

We provide strategic advice and change management support which enables government organisations to innovate and deliver better value for money.

Our financial management and accountancy services are helping governments around the world identify their priorities and make the most of their budgets.



## Strategy for growth

During the past year, we have completed the disposal of our support services businesses.

In the UK, the new government is implementing two important and interrelated initiatives: one, an ambitious programme of public service reform, particularly in education and health, and two, a sustained drive to reduce costs and increase efficiencies.

Whilst the pressures on public sector spending will continue to have an impact on demand in certain areas of our business, particularly our advisory activities, we expect to see significant opportunities emerging over the medium term for us to support and participate in the public sector reform programme. In February 2011, we were pleased to announce that we had reached agreement to assist the UK Government further in the delivery of efficiency savings, the terms of which are reflected in a Memorandum of Understanding now signed between ourselves and the government.

Overseas, we are principally operating in the fields of education and international development, both of which remain policy priorities for all governments across the developed and developing world.

The development of our strategy has reflected the changing market environment in the UK and the increasing opportunities to develop our business internationally.

- **Market focus.** Following the disposals made during the year, we now operate through three business streams: Education, Health and Government.
- **Activity focus.** Across our business, we are engaged in three areas of activity: service delivery (long-term service/programme management contracts); technology (proprietary software and technology services); and advisory.
- **Growth.** We anticipate that the primary sources of growth will be our service delivery and technology activities, supported by the domain expertise that resides within our advisory capability. Each of our three business streams has developed a series of growth initiatives to support our overall expansion plans.
- **Technology.** We are seeing a rising number of opportunities to deploy our software and technology capability across our Education business and, over time, our other markets in the public sector. The creation last year of an integrated software development and support capability will generate significant productivity improvements.

- **International.** Our sales from our international business represented approximately 10% of overall group revenue last year. Given the scale of opportunity in our overseas markets, we expect to increase this percentage significantly over the medium term.
- **Operational efficiencies.** During the course of last year, we implemented a substantial cost reduction and efficiency programme and, as a result, we entered 2011 with a cost base some 15% below the comparable point a year earlier.





## Market opportunities >

Tribal operates in the public services industry and provides a wide range of service delivery, advisory and technology solutions to its clients. Our work helps to improve the quality and efficiency of public services.

Whilst the constraints on public spending in the UK have created a more subdued environment for our advisory activities, the radical nature of the government's reform programme and the need to drive down costs and improve efficiency are expected to create significant opportunities across all of our markets.

In particular, we expect to see increasing opportunities to:

- assist organisations through transformation;
- deliver services through lower cost business models; and
- deploy technology to enhance and improve the delivery of services.

Internationally, Tribal's combination of domain expertise, technology capability and our service delivery record is generating a strengthening pipeline of opportunities to support the education and public sector reform programmes of overseas governments.

### Education

**UK.** For much of 2010, our markets were affected by political and economic uncertainty. The comprehensive spending review in late October provided greater clarity over future spending patterns and, in some areas, a consequent increase in budgets. Whilst we expect certain sectors, such as local authorities and further education colleges, to experience funding constraints, overall we anticipate more consistency in spending and investment decisions. The policy to move away from large central initiatives and major city Challenges towards individual schools and chains is already changing the operating environment. In particular, new government initiatives (such as those around 'academies' and 'free schools') are expected to gain traction. In the adult learning arena, significant government investment in apprenticeships, the evolution of the Work Programme and our position as a major deliverer and provider of management software, both at the prime and sub-contractor level, are all positive developments.

**International.** Education performance and improvement is seen as a key priority for all governments, many of which are increasingly looking abroad for international best practice.

- In the USA, the Race to the Top and other federal initiatives, combined with a significant focus on school performance at state and district levels, are generating major opportunities for Tribal. Our offer ranges from the provision of inspection and professional development services through to complex and innovative solutions based on a unique combination of software and domain expertise to provide school turnaround and improvement programmes.
- A similar dynamic, although with very different funding streams, exists in the Middle East, with a primary focus on teacher development and school inspection. A key driver in being able to access opportunities is the ability to evidence an existing track record of delivery. The strength of our Ofsted inspections and national professional development contracts in the UK, combined with our software and technology expertise, places us in a strong position to bid for emerging opportunities.
- Tribal occupies a leading position in the UK in student management software. The ability of our technology to measure results against investment and to demonstrate value for money has helped significantly to accelerate growth in international sales. The focus is currently on English-speaking markets that operate similar higher education and further education systems. We have made excellent progress in building our business in Australia and New Zealand and we will be extending our reach into additional markets during 2011.

### Health

In July last year, the Coalition Government published its plans for the reform of the NHS in England. With the emphasis on informed patient choice and competition, coupled with the creation of GP commissioning consortia and the abolition of strategic health authorities (SHAs) and primary care trusts (PCTs), these plans will result in the most radical reorganisation of the NHS in a generation. The implementation of these reforms should present Tribal with significant growth opportunities. The pace and scale of the changes will encourage NHS organisations to seek the support and help of our advisory services. At the same time, the government's encouragement of outsourcing and joint ventures between NHS organisations and the private sector will present a major opportunity for us to grow and invest in our services business in areas such as commissioning support and informatics outsourcing.

## > Market opportunities

As the leading provider of commissioning support services to PCTs, Tribal is well placed to provide similar services to GP commissioning consortia, who will have an estimated budget for their management costs of some £1.5bn. The consortia will become legal entities in April 2012 and we are currently in discussion with the Department of Health, SHAs, PCTs and pathfinder consortia regarding the support and services that we can provide.

At the core of Tribal's offering to commissioners will be our advanced informatics and patient management services, which will support consortia proactively to manage their patients' health and any clinical interventions that patients may need. These approaches will provide the opportunity for consortia not only to improve clinical outcomes but also to deliver a much better experience for patients.

The growing pressures on revenue and increasing competition from new providers will require NHS organisations to look for ways to reduce costs and increase productivity. We are already working with an increasing number of providers to transform their productivity, focusing on improving the performance and quality of their clinical services. During 2011, we will build on our current audit and advisory work to offer to NHS providers a range of outsourced services focusing on resource utilisation, medicines management, informatics and clinical coding.

### Government

The budgetary future for local government has become clearer, and with a frontloading of savings in 2011/12, many local authorities are undertaking significant restructuring activities. Whether these are the fundamental changes that some authorities are making to become 'commissioning councils' which would not be directly involved in service provision, or the more traditional form of transformation effected through service redesign and process change, Tribal is well placed to help local government face the challenges of the next few years. Specific areas of opportunity range from assisting local authorities establish shared service arrangements to working with both local authorities and central government to create highly innovative, employee-led organisations such as the new Social Work Practices in children's services.

The UK social housing stock is divided between local authorities and housing associations. The sector is facing some of the most radical reforms in decades with changes in benefits, planning, regulation and funding. Tribal is well placed to assist with many of these changes, having worked on the original government proposals for council housing reform that are now being implemented. This is presenting various opportunities, particularly around business planning and treasury functions. Housing associations are facing a new regime of reduced grant funding but greater rent and tenancy flexibility. This is providing opportunities to work with landlords and strategic authorities to assist clients with the implementation of new development, allocation, governance, rationalisation and funding policies.

Although the demand for advisory work in central government remains subdued, we see significant opportunities to grow our business through investment in technology and service delivery solutions, particularly for frontline and middle office services.

Key propositions include:

- Managing major capability-building programmes - in support of the government's public services reform agenda;
- Big Society - forming consortia with third-sector partners from across the UK to deliver the government's 'Big Society' agenda;
- Inspections – using our education inspections infrastructure to deliver inspections for other government bodies;
- Rehabilitation revolution – forming a network of partner organisations with experts in providing drug rehabilitation, women's services and restorative justice to those in prison or at risk of offending;
- Policing middle office services – we have formed some key partnerships to deliver on an outsourced basis those 'middle office' policing services for which warranted powers are not required.

International aid remains a policy priority for most governments and overseas aid budgets have been largely protected. We therefore see opportunities to develop our Tribal HELM international development business. We will continue to build on our public financial management reform capabilities and to increase our presence in new areas, in particular, education. We have broadened the number of agencies with which we work and strengthened our marketing and business development capability.



## Operating review >

The Group encountered challenging market conditions during 2010 with reduced levels of government spending in the UK, particularly on advisory work in our Health and Government businesses, coupled with delays in procurement decisions. As a result, our Health and Government businesses performed significantly below our expectations, particularly in the second half of the year.

Despite the challenges, the Group continued to make progress in a number of key areas. The level of committed income increased and our international business, particularly in Education, made encouraging progress. We also undertook a restructuring of our technology activities in order to create a more integrated and coherent approach to product development and customer support.

During the course of 2010, we implemented an extensive programme of actions to reduce our cost base significantly, dispose of non-core activities and create a more integrated and coherent operating structure. Our staff numbers at the start of 2011 were 1,937 against 2,246 twelve months earlier and, in our continuing businesses, we expect to achieve overall annualised savings of £28.0m.

In the year ended 31 December 2010, the Group's revenue from continuing operations was £175.4m (2009: £193.7m). Adjusted operating profit was £7.4m (2009: £14.9m) and adjusted operating margin was 4.2% (2009: 7.7%). Adjusted profit before tax was £5.9m (2009: £13.8m) and adjusted diluted earnings per share were 5.0p (2009: 10.7p). The adjusted numbers set out above exclude exceptional costs of £10.4m associated with our restructuring programme and a goodwill impairment charge against our Health and Government businesses of £51.6m. The statutory loss before tax was £57.8m.

During 2010, the Group generated operating cash flows of £20.1m (2009: £20.3m) and, at 31 December 2010, net debt was £18.5m (2009: £27.8m). A significant part of the reduction in net debt was generated through favourable working capital terms from third parties which will have reversed by the end of the first quarter of 2011. The Group has operated in full compliance with its banking covenants during 2010 and, in order to provide additional flexibility and headroom during 2011, the Group has recently agreed with its lenders a revised set of banking covenants. The Group's borrowing facilities total £45m, of which £40m are committed until February 2015.

The Board is proposing a final dividend of 0.65p per share, making a total of 2.50p for the year. The final dividend will be paid on 15 July 2011 to shareholders on the register on 17 June 2011.

The Group's committed income has continued to increase and, at the end of 2010, stood at £217m (2009: £203m), an increase of 7% on a year earlier. At the start of 2011, 52% of our planned revenue for the year had already been secured with the balance of our committed income to be realised over the following four years. Our sales pipeline has also remained strong, totalling £289m at the end of the year (2009: £256m).

### Goodwill impairment

In undertaking our goodwill impairment review, we have adopted future growth assumptions and appropriate discount rates to reflect the challenging market conditions referred to above. The carrying value of goodwill for our Education business has significant headroom. However, we have taken a non-cash goodwill impairment charge of £51.6m in relation to our Health and Government businesses. In respect of our discontinued Support services businesses, we took additional impairment charges of £4.8m on the Communications and Resourcing operations during 2010.

## Operating review

### Education

Year ended 31 December	2010 £'000	2009 £'000
Revenue	106,621	101,264
Segment operating profit	14,079	15,226
Operating profit margin	13.2%	15.0%

Despite funding constraints in certain of our UK markets, our Education business performed well, recording revenue growth of 5.3%, supported by new contract wins in the UK and the expansion of the business internationally.

Revenue increased to £106.6m (2009: £101.3m). Operating profit decreased to £14.1m (2009: £15.2m) with the operating margin falling to 13.2% (2009: 15.0%) as a result of a change in the mix of products and services and investment in new business initiatives. At 31 December 2010, committed income had increased to £186m (2009: £152m) and the pipeline of sales opportunities had increased to £201m (2009: £168m). The pipeline now contains a larger proportion of higher value contracts than a year ago and includes an increasing overseas component.

## > Operating review >

A number of cost reduction activities have been completed to plan during the year in order to improve efficiency and reduce exposure to variations in government programmes. We expect that a significant future benefit, in terms of both productivity and innovation, will be realised as a result of the pooling of our technology teams, products and programmes.

**Early years.** Our contract with the Children's Workforce Development Council to develop qualifications and competencies within the early years workforce continued to operate successfully during 2010. In addition, the implementation of our major new contract with Ofsted to inspect early years provision in the south of England (£64m contracted income over five years) has established further our leading position in the sector.

**Schools.** Our contract with Ofsted to inspect circa 45% of all schools and colleges in England continues to deliver excellent results. Outside of this contract, we have made good progress in building our schools improvement capability. We have had a successful year running the national professional development programme for maths teachers, which has made a real impact on the quality of maths education in schools. Our Children's Services software suite made good progress and has continued to increase its market share. The Government's 'academies' programme stalled during the middle of the year but is now re-emerging and, coupled with our winning two of the first 'free schools' project management contracts, will allow us to remain a leading provider of schools improvement services.

**Further education (FE).** Our further and vocational education software businesses in the UK have performed well, showing resilience in the face of funding constraints and linking well with our benchmarking service for colleges which had a strong year. We were successful in renewing our contracts to provide national support programmes to FE colleges, although our learning materials publishing business was adversely impacted by a change in funding allocations.

**Higher education (HE).** Our HE software business had an excellent year, with a strong trading performance confirming its leading position in the UK. We have also seen good growth in our benchmarking services to the HE sector and were awarded a £1.7m contract by a consortium of ten universities to provide a shared student placement service across London for up to 10,000 students studying in seven health-related disciplines.

**Lifelong learning.** We have seen strong operational performance and significant growth in this area, particularly in our careers advisory and apprenticeship contracts. We were successful in winning two major new contracts in the south west of England, one for an Integrated Adult Careers Service (£4.5m) and the second to support the work of the National Offender Management Service (£5.4m). At the end of the year, we won, in collaboration with Tribal's Health business, a major e-learning contract to provide professional development training to NHS staff, also in the south west.

**International review.** Our investment in developing our international business is proving successful with over 10% of Education's revenue in 2010 coming from overseas sales. In Australasia, our implementation of a major new student administration system at the University of Sydney is progressing well, we have won our first HE student system contract in New Zealand with the University of Otago, and our first FE student system contract with the Wairiki Institute in New Zealand and we have extended our existing FE benchmarking contract in New Zealand for a further two years. We have also generated a significant pipeline of further software opportunities in the region.

In the Middle East, we have extended our existing contracts in Abu Dhabi for the delivery of private school inspections and for monitoring the Emirate's Schools PPP programme. We have also successfully delivered projects in Bahrain and Qatar and we have generated a promising pipeline of new opportunities across the region.

In the USA, we acquired and integrated the Class Measures business in Massachusetts, enabling us to link our UK inspection and professional development expertise with Race to the Top and Teacher Incentive Fund opportunities in the USA.

We have placed on hold our discussions regarding a possible joint venture in China.

During 2010, we initiated a strategic initiative to access donor aid funded international education projects. The pipeline for such projects is now strong and we have been successful in winning a significant contract to provide special education needs advice to the Turkish government (€5.6m).

## > Operating review >

**Technology.** Technology accounted for 37% of the Education revenue during 2010. In order to create a more efficient software development and support capability, we announced in July 2010 that we were planning to pool our existing technology skills and assets and align our product and service offerings around common technology platforms for deployment across our principal markets. The new operating structure became effective in December 2010. We have already seen in the early weeks of 2011 improvements in delivery times, reductions in development costs and improved levels of productivity.

Our student management systems form the core of our portfolio of software products and, during the year, we have maintained our leading market position in the further and higher education and work-based learning markets. Technology is an increasingly important component of our education services, providing an important underpin to our inspections, professional development and benchmarking activities. We have continued to invest in product development with work beginning on a new mobile platform which is planned to provide secure, high quality and tailored mobile access right across our product range.

### Health

Year ended 31 December	2010 £'000	2009 £'000
Revenue	26,088	25,674
Segment operating profit	392	2,432
Operating profit margin	1.5%	9.5%

Despite the challenging trading conditions, particularly for advisory work, revenue in the Health business increased by 2% to £26.1m (2009: £25.7m). This revenue has been underpinned by major long-term commissioning and informatics contracts with primary care trusts (PCTs) on which margins are typically lower than advisory services. The arrival of the new government in the UK significantly reduced activity across the health sector, especially in the second half of the year, in particular as a result of the decision to impose a moratorium on all central government consulting contracts. In response to these challenges, the Health business cut its cost base significantly in the second half of the year, reducing staff numbers and overheads.

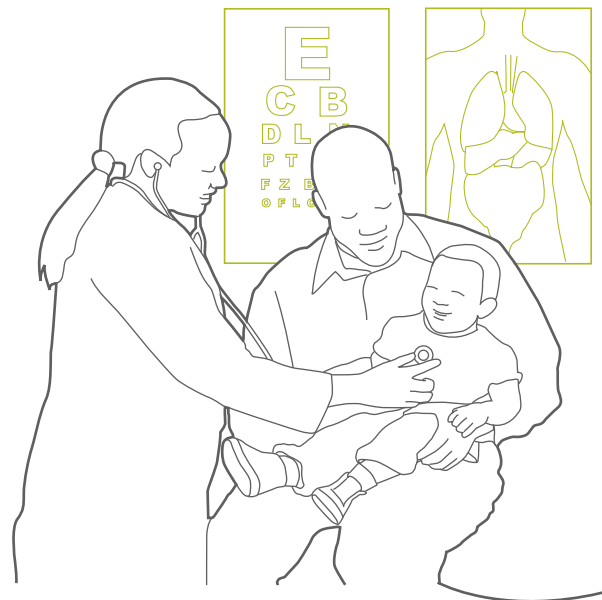
Major commissioning support contracts with Ashton Leigh and Wigan PCT and North Yorkshire PCT operated successfully throughout the year, delivering savings and quality improvements for our NHS clients and their patients.

Our five year contract to deliver informatics services to support NHS commissioners in nine PCTs in South Central SHA commenced implementation at the beginning of 2010 and has progressed satisfactorily. This contract, one of the largest of its type ever let by the NHS, provides a model for how commissioning support services might be delivered across the NHS under the government's proposed reforms for the NHS in England.

The challenges facing the NHS have been reflected in the development of our services to healthcare providers. During 2010, we have established successfully our support programme for major acute hospitals seeking to improve clinical productivity in the face of increasingly difficult financial problems. We expect the demand for these services to grow in the coming year.

In December, Tribal won a £22m, five-year contract to deliver training and learning services, based on Tribal's e-learning platform, to healthcare staff in the South West SHA. The programme is designed to support multi-disciplinary staff working in NHS and other healthcare organisations across seven clinical pathways. The programme will provide blended learning, combining a specially designed e-learning platform with traditional face-to-face learning opportunities. The e-learning platform will give learners access to the majority of learning content that they need to progress their professional development, along with tools to share and discuss their knowledge.

The operational efficiencies implemented during the second half of 2010 have ensured a significantly reduced cost base for the business. Our sales pipeline in Health remains encouraging and, at 31 December 2010, our committed income for 2011 represented approximately 39% of planned revenue for the year.





## > Operating review >

### Government

Year ended 31 December	2010 £'000	2009 £'000
Revenue	45,405	69,440
Segment operating (loss)/profit	(1,294)	5,269
Operating (loss)/profit margin	(2.8)%	7.6%

During the year, the Government business experienced very challenging trading conditions, particularly in its central government markets. The impact of a post-election environment characterised by a high level of uncertainty in advance of the Comprehensive Spending Review (CSR), and substantially reduced spending on central government advisory work, was very significant.

During the year, revenue fell to £45.4m (2009: £69.4m) and the business incurred an operating loss of £1.3m (2009: profit £5.3m). The cost base has been realigned by reducing the level of spend on third-party subcontractors and significantly reducing the number of employed consulting staff.

The local government market experienced reduced activity but the slowdown was not as significant as in other markets. Despite the subdued levels of demand, we successfully delivered a number of large cost reduction advisory projects, including supporting the London Borough of Sutton on its Smarter Services Sutton initiative and assisting with Comprehensive Spending Reviews in both Guernsey and Jersey.

In Jersey, we conducted peer reviews on a cost reduction programme to achieve £50m savings over three years. More recently, we have provided programme delivery expertise to drive the implementation of the CSR.

The social housing market was also the subject of some uncertainty as a result of radical changes in the way that both the local authority and housing association sectors are being funded and regulated. Key areas such as stock transfers and support for inspections have been affected and the significant reduction in development grants plus new planning regulations has resulted in a slowdown in new affordable housing programmes.

Nevertheless, during the year, we secured a significant development agency role at Westminster and we are also one of the lead consultancies assisting authorities with the implementation of the new system for council housing finance, having played a significant role in its original development. Tribal supported Westminster Community Homes with the development of its £30m intermediate housing programme and, in addition to delivering a number of stock transfers in Wales and the north of England, we have also been working on a number of innovative approaches to stock transfers.

Although the central government advisory market presented significant challenges, we delivered several large projects for clients such as the UK Border Agency, supporting the design and implementation of its identity cards for the Foreign Nationals Programme, and the Foreign and Commonwealth Office. We secured, in partnership with PA Consulting, a contract to support the Police Continuous Improvement Programme. The three-year contract was let by the Home Office and the National Policing Improvement Agency to provide support to all 43 police forces in England and Wales in delivering challenging cost saving targets. We were also involved in supporting two eastern forces in developing their business case for merger.

During the year, we developed growth platforms for our international development business (Tribal HELM) in the six regions of Europe, the Middle East and North Africa, Africa, Asia, Australasia and the Americas. A number of successful partnerships in 2010 have ensured progress in expanding our services offer and opening up routes to new donor markets such as AusAID and USAID.

Although the market for new business became increasingly competitive, Tribal HELM has delivered a number of strategic reviews, continuing our long-standing track record with DFID and the World Bank. We successfully completed our fifth public financial management (PFM) reform project with the Government of the Philippines and are now recognised as a leading authority on PFM in the Philippines.

Since the end of the year, Tribal HELM (in conjunction with our Education business) has been successful in winning a significant contract to provide special education needs advice to the Turkish government (€5.6m).

### Support services

During 2010, we sold our Architectural Design and Communications businesses and, in February 2011, we completed the sale of our Resourcing activities. We have now concluded the programme of selling our Support services businesses that we announced in March 2010. During the year ended 31 December 2010, our support services activities were treated as discontinued, recording an adjusted operating profit of £1.5m (2009: £2.2m) on revenue of £26.6m (2009: £48.4m).

### People

The period under review has been one of considerable change, both in terms of our external markets and our internal operating structure. Every member of staff across the Group has had to adapt to a changing environment. We are fortunate that our people have a strong commitment to working with our clients to improve the quality and efficiency of public services. The Board of Tribal is very appreciative of the hard work and commitment shown by everyone in the organisation and the consistently high quality of service provided to clients.

## > Operating review

### Board changes

On 1 January 2010, Steve Breach was appointed Group Finance Director. Following the AGM in May 2010, John Ormerod was appointed Chairman in succession to Strone Macpherson. On 1 June 2010, Simon Ball joined the board as an independent non-executive director and was appointed Chairman of the Audit Committee.

In November 2010, we announced that our Chief Executive, Peter Martin, would be leaving at the end of the year and that we had started the search for a new chief executive. Following the announcement of a potential offer for the company in December 2010, we announced that Peter would defer leaving the Group, and he will now be standing down as Chief Executive at the end of April. The Board would like to thank Peter for his leadership of the Group during a very challenging period.

We announced last month that Keith Evans, previously our Group Commercial Director, had joined the Board as Chief Operating Officer. We will resume the search for a new chief executive once the uncertainties surrounding the current potential offer have been resolved.

### Outlook

Over the next few years, public sector organisations in the UK will be adapting to an environment of spending constraints. The need for reform will continue, creating opportunities for organisations that are able to support changes in the way public services are commissioned and delivered. Tribal is well placed to participate in this reform process through a combination of its domain expertise, technology capability and track record of service delivery.

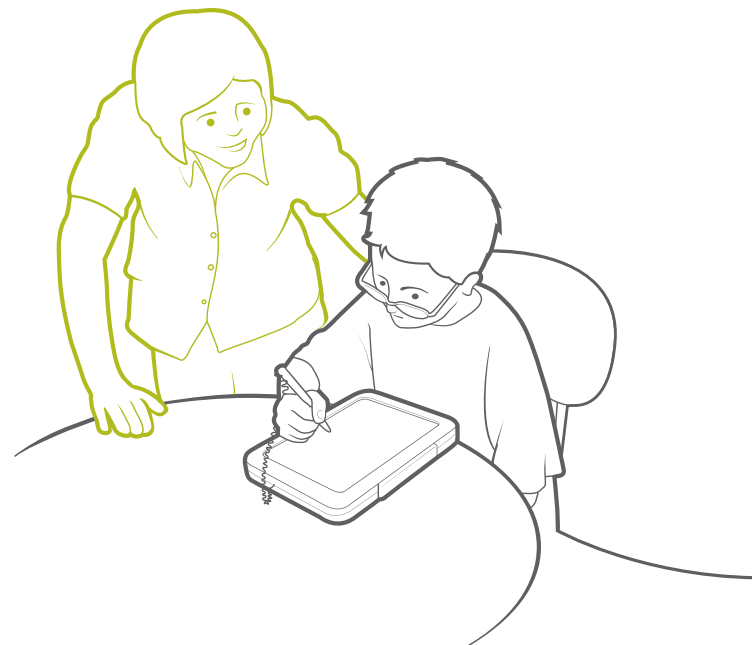
During the past year, the Group has implemented a substantial change programme to address both the short-term trading challenges facing the business and the longer-term market opportunities. The key elements in this programme included:

- the disposal of non-core assets;
- a significant reduction in the Group's cost base;
- the establishment of a single integrated software development and customer support capability; and
- the securing of revised bank facilities that are committed until 2015.

Strategically, we remain focused on growing our service delivery and technology activities, both in the UK and overseas. We have maintained strong levels of committed income and our sales pipeline, particularly internationally, remains healthy. At 1 March 2011, we had secured 62% of our planned revenue for the year (2010: 65%), with a further 10% of 2011 revenue at preferred bidder stage, and our sales pipeline totalled £260m.

The Group has traded in line with expectations during the first two months of the year. As a result of the actions we have taken across the Group, the Board is confident that the Group now has a sound footing from which to make progress during 2011.

30 March 2011



## Our people

Tribal's reputation continues to be founded on the talent of its people, meeting the high expectations of our clients and driving our position as a market leader.

Despite the market and organisational challenges in 2010, our staff and associates continued to demonstrate high levels of commitment and focus resulting in much success across the business and making a real difference to our clients and to the quality of public services.

Tribal remains intrinsically a people business and continues to provide a supportive environment where people can develop their careers.

We provide employees with tools and support to enable them to grow and develop to their potential. This strategy is reflected in a number of ways, particularly through the high number and calibre of employee award nominations during 2010, both for internal awards and prestigious external awards from organisations such as the Management Consultants Association (MCA).

### Developing our capability

In 2010, we continued our programme of professional development focusing on enhancing cross-company programmes that build on Tribal's values and business strategy. This included the development and launch of a new e-induction module for employees, piloting an e-learning portal, which is due to go live shortly, and delivering equality and diversity training programmes across Tribal. We introduced online content, toolkits and master classes to enable greater flexibility in the delivery of training and development.

### Our culture and values

Tribal people have a strong commitment to improving public services and ensuring the best possible use of public funds. They choose to work for us because they want to be part of a business that has a positive impact on the lives of communities, not just in the UK but across the world. Our culture is based on a synthesis of this powerful public service ethos, combined with the highest levels of professionalism and commercial rigour.

Tribal's values were this year reflected in the annual staff awards, which provide a means of recognising how 'living the values' underpins success at Tribal.

Our values are:

- **Innovation through collaboration.** At Tribal, we believe the best results are achieved by bringing together talented people with complementary expertise and experiences. Partnership and collaboration are integral to the Tribal work ethic, and we believe that this style of working will always facilitate the most innovative solution.
- **Making promises we will keep.** Ethics and integrity are at the core of Tribal. We understand our strengths and capabilities and we will only make a commitment if we know we will deliver.
- **Success follows great people.** We believe that if you get the people right, success will follow, both for our clients and for Tribal. Tribal people are diverse and have original ideas. They are great people to work with and attract other great people to join our company.

### Engaging people

This year has continued to be a challenging one and with the restructuring of Tribal business streams and the pooling of our technology capabilities, senior managers have been integral to effective engagement. Our employee communications focused on using a range of channels including regular face-to-face 'town hall' meetings, online web communications and podcasts to ensure employees clearly understood the changes taking place in the organisation.

The exceptional commitment and success of our staff was highlighted at our annual internal staff awards, the 'Outstanding Achievement Awards 2010'. Over 10% of the employee population was nominated to win an award. Externally, we have again been shortlisted for two of the MCA's annual awards: the Innovation award for the Government team's work on Social Work Practices at the Department for Education and HR Consultant of the Year for Shaun Scantlebury. The results of this awards process will be announced on 7 April 2011.

Our employer brand continues to be an important element of what will make us a success in the future. In 2010, we continued to work towards further Investors in People accreditation and increase our ISO accreditation 9001 (quality management systems), 14001 (environmental management systems) and 27001 (information technology), where appropriate.



## Corporate responsibility

Tribal's corporate commitment to sustainability aims to make a positive difference to our business, the market place in which we operate, the wider community and the environment.

In 2010, we consolidated our strategic sustainability framework activities, which included a sustainable procurement policy and revised environmental policy. These were given internal visibility through regular communications and updates specifically on sustainability and volunteering.

We maintained progress in a number of key areas of our strategy. We continued to use a 'green' electricity supplier and confirmed our carbon footprint remains below the threshold required by the Carbon Reduction Commitment scheme. As part of our cost reduction programme, we actively sought ways to do things differently, such as estate rationalisation, which have sustainability benefits as well as generating savings. The increased use and support for our virtual meetings service saved precious time and money spent by staff travelling to meetings, and also reduced our carbon emissions.

In 2010, we built on existing sustainability good practice across Tribal and introduced incentive schemes such as the Cycle to Work scheme. These will form part of the broader Wellness policy and programme for all staff launching in 2011.

We continue to see our role as a market leader in focusing on the promotion of good governance and sustainable practice. We apply this approach in our organisation, to our supply chain and in the competitive marketplace. For example, Tribal's key group of suppliers are expected to complete an annual return detailing their policy and approach to protecting the environment. We will continue to work with our suppliers to ensure that we can demonstrate environmental and social sustainability in all our activities.

We will also continue to engage with our employees to ensure sustainable practices are embedded in our daily work.

### Tribal Foundation

Tribal's charity, the Tribal Foundation, supports sustainable projects in the UK and the developing world which reflect Tribal's expertise in areas such as education and health. Through both financial aid and sharing our skills and knowledge, we aim to make a positive difference in communities all over the world. The Foundation is a registered charity and is funded by staff fundraising initiatives, our payroll giving scheme and donations from the Group's profits.

We are currently supporting a range of programmes overseas, such as providing primary health care for tribal people in India and collaborating with further education institutions in Africa to create a mentorship scheme. In Mali, we are working with young people to develop football skills and raise their awareness of HIV and Aids through Coaching for Hope.

In the past year, we have helped a number of charities through our local giving initiative, where several Tribal offices nominated a local charity to receive a £1,000 donation. The charities benefiting include the Birmingham Children's Hospital, where our donation has contributed towards a second cardiac theatre; Bluebell Wood Children's Hospice; and the Papworth Trust, which helps disabled people gain independence.

We hold an annual campaign which gives our employees the opportunity to get involved in a variety of fundraising activities in support of the Foundation. In addition to the activities organised by Tribal's team of Foundation Champions, individuals and staff groups take part in sponsored activities; the highlights of 2010 included a rugby tour of Tanzania, the Great Glen Walk in Scotland and a trek up Mount Kilimanjaro.



## Principal risks and uncertainties >

Risk is an accepted part of doing business. The challenge for any business is to identify the principal risks and to develop and monitor appropriate controls. A successful risk management process balances risks and rewards and relies on a sound judgement of their likelihood and consequences.

### Risk management

The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. The Board establishes the overall risk framework and the risk management process is embedded within Tribal by:

- setting strategic direction including targets;
- maintaining a clear authorisation framework;
- reviewing and approving annual plans and budgets for the Group and each business stream;
- maintaining documented policies and procedures; and
- 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; and
- review and report risk.

The Group maintains a risk framework which contains the key risks faced by the Group, including their impact and likelihood, as well as the controls and procedures implemented to mitigate the risks.

The executive directors provide the central leadership to ensure our strategy is effectively communicated throughout the organisation. This is achieved through regular meetings of the senior leadership team, annual strategic planning meetings with individual business units and by clear guidance within the annual budget and three-year planning instructions issued to all business units. The senior management of each business unit is specifically responsible for the management of risk within their operating business. In addition, 'risk owners' have been identified from amongst the Group's senior management to take the leadership role in managing certain risks.

Business stream performance is reviewed through regular meetings, enabling risks or other issues to be efficiently addressed and appropriate actions to be taken. Risks are also assessed and monitored at a Group level at the regular meetings of the Board.

The principal risks that the Group manages are described below:

### Responding to changes in the market

During 2010, the Group faced significant uncertainty as a result of the general election and the changes in government policy and spending that followed. The pace and scale of spending cuts has been much greater than was anticipated at the beginning of 2010. Consequently, the ability of the Group to accurately forecast activity levels has been challenged materially. This exposes the Group to a number of risks, particularly around the operational capacity which should be maintained in the business, the structuring of our banking arrangements to cope with such uncertainty, and maintaining financial capacity to support restructuring activities when required.

On a proactive basis, we continue to manage this risk through the following initiatives: (1) improving our future revenue visibility through longer-term contractual arrangements; (2) closely managing our cost base, and seeking to ensure our costs can be adjusted quickly to match evolving market conditions; (3) seeking to maintain long-term banking facilities with suitable levels of headroom; (4) developing our business internationally to reduce our exposure to macro-economic impacts in the UK market and (5) continuing to engage actively with policy makers to ensure that we are well positioned to support the domestic public sector in achieving its deficit reduction plans. We have made significant progress in all of these initiatives throughout the year, whilst responding to the unprecedented changes in demand in some of our businesses.

## > Principal risks and uncertainties

### Revenue visibility

The Group has a significant fixed cost base, and revenue visibility to support the appropriate levels of resource is critical to the Group's future success. Measurement of the Group's pipeline of opportunities and committed income is a key performance indicator and we have made further improvements to the quality and timeliness of information available to assist management decision-making. In addition, we are prioritising business opportunities that leverage long-term service arrangements and our technology expertise, as growth in these areas will enhance revenue visibility and stability.

### Resource planning and management

During 2010, the uncertainty in some of our markets has unfortunately meant that we have been unable to retain all of the high quality people within Tribal. Tribal needs to attract and retain the right people to ensure it is well positioned to take advantage of available growth opportunities. Developing, engaging, recognising and rewarding our people is key to this and we continue to look for new ways to retain and incentivise our staff. Throughout the last financial year, we have made a series of changes to our organisational structure to ensure that we use our resources effectively and efficiently.

### International growth

Tribal continues to make significant progress in the pursuit of opportunities to grow the business internationally. However, this exposes the Group to a number of new risks, including greater competition, increased investment in overseas markets, foreign exchange volatility and staff safety and security. We operate an Investment Committee, which reviews all significant investment proposals, including overseas expansion plans, and we continuously review our policies and procedures to ensure that they are appropriate for the additional complexities associated with doing business overseas.

### Service delivery implementation

During 2010, we have entered into a number of long-term risk/reward contracts as an alternative to traditional short-term advisory contracts. In these agreements, buyers risk paying more fees for the work but aim to be rewarded by having their objectives exceeded, whilst suppliers risk reduced profits if they fail to deliver (more fees are at risk for more output-based targets) but are rewarded for superior performance. Tribal is passionate about working in partnership with our clients and we have an unrivalled depth of expertise across a broad range of services, which we are able to use to help us work even more closely with our clients and to align our objectives with theirs to help deliver shared benefits. Due to the innovative nature of these contracts, there is an increased risk of mismatched expectations between the customer and supplier. Tribal has adopted rigorous processes to manage the performance of these contracts and contract performance and progress is reported at every Board meeting.

### Technology obsolescence

The Group has a substantial technology offering. Changing customer requirements and the introduction of new technologies may render the Group's existing software offerings and associated services obsolete. This risk is addressed through significant investment in the development of new or enhanced software to ensure that the Group's offering can deliver the latest requirements on a timely basis. In addition, we have strengthened the Group's technology development resources by pooling all of our existing technology skills and assets into one team within the Education business.

### Information security

The consequences of a failure to ensure the confidentiality, integrity and availability of data continue to be a key focus for the business. Some of our competitors have suffered lapses in information security that have been reported in the media. These experiences emphasise the risks associated with data handling. Tribal has established an Information Security Working Group, which is tasked with identifying and mitigating key information assurance risks and establishing best practice. We have established a network of representatives across the business to reinforce the importance of information assurance amongst staff. We have also implemented a formal Information Assurance Incident reporting process and regularly review and communicate our IT and Information Security policy to all staff.

### Pension obligations

The Group is seeking to grow its service delivery activities, a significant proportion of which may come through contracts with the UK public sector. This may involve TUPE transfers of staff from the public sector to Tribal, under which Tribal will be obliged to provide matching defined benefit pension arrangements. The Group already provides such benefits to a proportion of its employees. Such pension commitments require significant funding over an extended period, and place risks for the provision of future pensions on the Group. The Group monitors the performance and investment strategy of pension funds carefully, and maintains a close working relationship with pension fund trustees to ensure it influences and manages these commitments effectively.

Financial risks are covered in the Financial review section on page 24 and principally relate to funding, credit risk, interest rate risk and foreign exchange risk.

## Key performance indicators (KPIs) >

The Board uses a range of performance measures to monitor and manage the business. Each business unit has established its own 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 in the future.

On this page, we set out each KPI for the year ended 31 December 2010. We will review our KPIs in 2011 in order to ensure they are properly aligned with our strategic objectives.



Performance in 2009: 0%

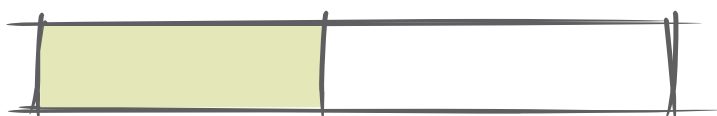


Performance in 2010: (9)%

### Organic revenue growth

**Performance in 2009:** 0%  
**Performance in 2010:** (9)%

**Commentary:** The significant downturn in advisory markets has offset a positive performance in our largest business stream, Education. The Education business saw organic growth of 5%, offset by a 35% decline in Government. Health was broadly flat.



Performance in 2009: 45%



Performance in 2010: 48%

### Labour costs as a % of gross revenue

**Performance in 2009:** 45%  
**Performance in 2010:** 48%

**Commentary:** For the year ended 31 December 2010, labour costs as a percentage of gross revenue exceeded our 45% target. This was largely as a result of a rapid decline in revenues in advisory work. The time lag required to reduce the workforce as the business declined adversely impacted this KPI.



Performance in 2009: 7.7%



Performance in 2010: 4.2%

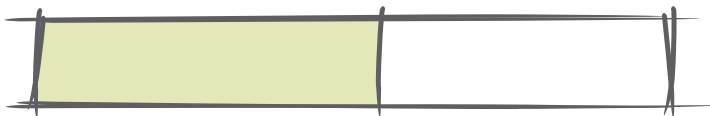
### Adjusted operating profit margin\*

**Performance in 2009:** 7.7%  
**Performance in 2010:** 4.2%

**Commentary:** Adjusted operating margin fell from 7.7% to 4.2% for the year ended 31 December 2010. The decline in revenues could not be fully mitigated by cost reduction in the short term.

\* Adjusted operating profit and adjusted operating profit margin is stated in accordance with the definition given on page 20.

## > Key performance indicators (KPIs)



Performance in 2009: 179%

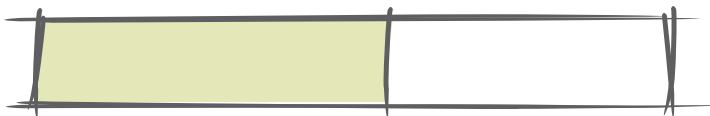


Performance in 2010: 330%

### Adjusted operating cash conversion\*

**Performance in 2009:** 179%  
**Performance in 2010:** 330%

**Commentary:** We remain a cash generative business and maintain a strong focus on effective working capital management.



Performance in 2009: 55%



Performance in 2010: 52%

### Percentage of planned annual revenue represented by committed income at the start of the year

**Performance in 2009:** 55%  
**Performance in 2010:** 52%

**Commentary:** There is ongoing positive momentum to improve the levels of committed income with, at 31 December 2010, an additional 18% of 2011 planned revenue at preferred bidder stage.

\* Adjusted operating cash conversion is stated in accordance with the definition given on page 23.

## Financial review >

The Group has faced many challenges in 2010. Our Education business performed well and has made good progress in developing its international opportunities. However, our Government and Health businesses have faced difficult trading conditions with high levels of uncertainty and contraction in markets for advisory services in the public sector.

These businesses have performed significantly below our earlier expectations, particularly in the second half of the year. Despite corrective actions, the reduction in activity in the Health and Government businesses has necessitated a further write-down of the carrying value of goodwill. This has resulted in a goodwill impairment charge of £51.6m, which is explained further on page 21 and in note 15.

We have responded to this environment with significant cost reduction actions. These activities have focused particularly on our Health and Government businesses and considerable progress has been made in reducing the cost base to recognise annual cost savings of £28.0m.

In the first half of the year, we made significant investment in working capital as we implemented a number of important long-term contracts in our Health and Government businesses. We have also borne the significant costs of our restructuring activities. We have therefore focused on working capital management and delivered excellent cash flow performance, particularly in the final quarter. A significant part of the strong performance was generated through favourable credit terms from third parties, which will reverse in the first quarter of 2011. The net cash proceeds from the disposal of our Architecture business of £6m have also helped to reduce debt further.

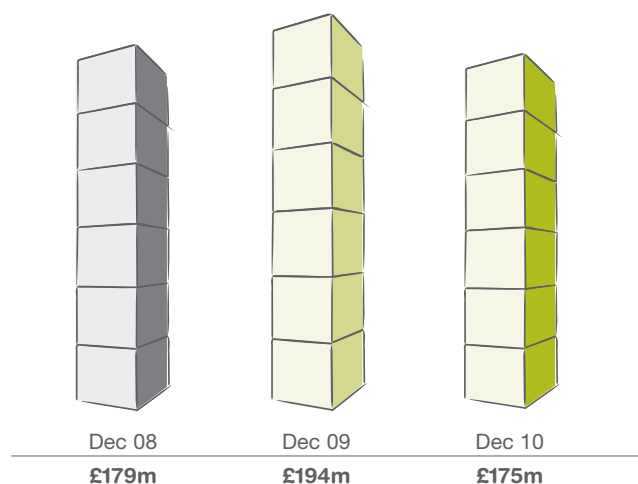
### Group trading summary

	2010 £'000	2009 £'000	Decrease
From continuing operations			
<b>Revenue</b>	<b>175,372</b>	193,654	(9%)
<b>Operating loss</b>	<b>(55,709)</b>	(16,768)	
Exceptional costs	<b>10,446</b>	-	
Amortisation of IFRS 3 intangibles	<b>1,027</b>	1,011	
Goodwill impairment	<b>51,610</b>	30,683	
<b>Adjusted operating profit</b>	<b>7,374</b>	14,926	(51%)
Net finance costs	<b>(1,491)</b>	(1,140)	
<b>Adjusted profit before tax</b>	<b>5,883</b>	13,786	(57%)
Adjusted effective tax rate*	<b>20.9%</b>	23.6%	
Adjusted diluted earnings per share*	<b>5.0p</b>	10.7p	(53%)

\*Before exceptional costs, goodwill impairment, amortisation of IFRS 3 intangibles and interest rate swap charges.

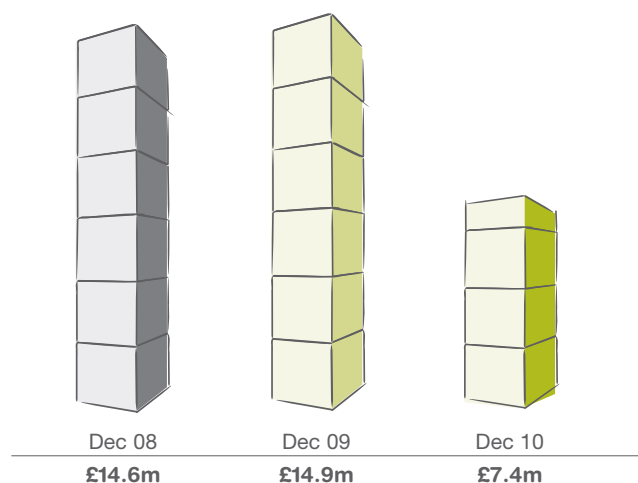
### Revenue

Revenue from continuing operations decreased by 9% to £175.4m (2009: £193.7m) due primarily to a significant decline in advisory activities in the Government business of 35%. The Education business delivered organic growth of 5%, and Health was broadly flat.



### Adjusted operating profit

Adjusted operating profit for the year ended 31 December 2010 fell from £14.9m to £7.4m. Adjusted operating margin fell from 7.7% to 4.2% as the significant decline in revenues could not be fully mitigated by cost reduction in the short term.





## > Financial review >

### Exceptional items

During the year, the Group incurred significant costs which are outside the normal course of trading. These costs are detailed in note 6 of the financial statements and relate primarily to restructuring costs, development of business opportunities in China (now placed on hold), onerous lease charges, professional advisory costs associated with expressions of interest made to acquire the Group and the write-down of the carrying value of investments made in the Group's management systems. These costs have been excluded from our adjusted operating profit as they distort the underlying trading performance of the Group.

Restructuring costs have been most substantial in our Government and Health businesses, where headcount reduction has been essential to adjust the cost base to the lower levels of trading volumes faced by these businesses. In addition, as a result of reduced headcount, we have taken the opportunity to simplify and reduce the property portfolio. We have exited a number of properties that are surplus to requirements and have taken an onerous lease charge for the remaining cost commitments, appropriately reduced for any mitigation.

At 31 December 2010, we undertook an assessment of the carrying value of our ERP system which has been deployed in our businesses over the last three years. The system is not delivering the levels of functionality and enhanced productivity that were initially envisaged. Accordingly, we have written down the value of the system by £1.9m.

Within discontinued operations, we have incurred exceptional costs in achieving the disposals. The single most significant charge in 2010 is for the Qube building, which was previously occupied by our Communications business. Following the disposal of this business, we have negotiated a sublease of this property which has reduced our future property cost exposure from £2.8m to £0.7m.

### Goodwill impairment

In the year ended 31 December 2009, we made a substantial goodwill impairment charge of £65.6m (continuing operations: £30.7m, discontinued operations: £34.9m). At that time, we gave careful consideration to the assumptions used in our review, the financial projections of our continuing businesses and, in the case of our support services businesses, the estimated net realisable values on disposal.

As required by relevant accounting standards, we have performed an impairment review at 31 December 2010. We have considered the expected future cashflows of our continuing business units of Education, Health and Government in the light of current and anticipated market conditions. The discount rates applied in our cash flows are consistent with those adopted at 31 December 2009, which we believe remain appropriate given the Group's cost of capital and the risk premia attached to each business unit. The risk premium attached to the Government business is greater than that for the Health and Education businesses as it is most exposed to future uncertainty. The results of the review show that there is significant headroom in the goodwill carrying value attributable to the Education business, but an impairment charge of £15.4m for Health and £36.2m for Government has been recorded.

### Pensions

As a consequence of certain acquisitions and contract awards a number of Group employees participate in various defined benefit schemes. The combined deficits calculated under IAS 19 at the end of the year totalled £1.2m, compared with £2.1m last year. The most notable reason for the reduction in the deficit has arisen from the LPFA fund valuation anticipating that future pension increases are likely to be based on CPI rather than RPI, and this accounts for £0.4m of the deficit reduction.

In addition, the Group's Government business participates in the Social Housing Pension Scheme (the Scheme), which is a funded multi-employer scheme, and accordingly the accounting charge for the period under IAS 19 represents the employer contribution payable.

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. We have been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scheme based on the financial position of the Scheme as at the latest actuarial update as at 30 September 2009. As of this date, the estimated employer debt for Tribal Group plc was £10.6m.

No provision has been made for this amount as the Government business has not withdrawn from the Scheme, and does not intend to do so for the foreseeable future.

## > Financial review >

### Discontinued operations

We announced in March 2010 that our strategy would focus on the core activities of Education, Health and Government and that we were considering strategic options for each of our Support services businesses.

In June 2010, we sold our Architecture business, Nightingale Architects Limited, to IBI Holdco Limited for a maximum consideration (after disposal costs) of £12.1m. Cash of £4.2m was generated on completion after disposal costs of £1.1m and cash disposed of with the business of £2.9m. A further £1.8m of deferred consideration was received on 30 December 2010 in accordance with the sale agreement. The remaining deferred, and partially contingent, consideration is receivable in two tranches in June 2011 and June 2012.

In October 2010, we sold the trade and assets of our Communications business, Kindred Agency Limited, for £1 to Weald Lane Limited, a company formed by Kindred's senior management team. The business was sold with cash of £605,000 on completion and up to an additional £190,000 is payable to Weald Lane between completion and 1 May 2011. The Communications business suffered a significant fall in trading volumes following the general election in May and the structure of the disposal reflects the significant uncertainty faced by the business in the future.

Our Resourcing business, Tribal Resourcing Limited, was actively marketed for sale during 2010 and we announced the sale of the business on 9 February 2011. The trade and certain assets were sold to TMP (UK) Limited for an estimated contingent consideration of £1.9m. This business has also suffered a significant degree of uncertainty during 2010 and this difficult trading environment is expected to continue for the foreseeable future. This has resulted in the disposal structure whereby the consideration is wholly contingent on the future net revenues of the transferred business over the three-year period to 31 January 2014. The estimated consideration is based on latest forecasts for this business and is payable in six half-yearly instalments starting in July 2011.

The terms of this transaction result in the net realisable value of the goodwill in this business being reduced to £nil, and accordingly we have booked an impairment charge of £2.5m in the year ended 31 December 2010 to reflect this. This element of the impairment charge is included within discontinued operations along with £2.25m booked in respect of the Communications business which was disposed of in October 2010.

### Group finance costs

	2010 £'000	2009 £'000
Investment income	(143)	(231)
Finance costs	1,634	1,336
Net finance costs	1,491	1,105
Discounting of deferred consideration	-	35
	1,491	1,140
Financial instruments	625	(95)
	2,116	1,045

Net finance costs for the year increased from £1.1m to £1.5m before financial instrument charges of £0.6m (2009: credits £0.1m). Following the renegotiation of our borrowing facility in August 2010, margins were increased as a result of prevailing market conditions in the credit markets. These increased margins, coupled with higher levels of debt resulting from restructuring costs and reduced trading levels, have resulted in increased finance costs.

### Tax

Due to the release of prior year tax provisions for closed tax enquiries, our effective tax rate based on our adjusted profit before tax for continuing operations is 21% (2009: 24%). The ongoing tax charge on current year profits is likely to be in line with or slightly above the standard rate, reflecting disallowed expenses and non-qualifying depreciation.

### Earnings per share

As a result of the significant goodwill impairment charge, the basic loss per share from continuing operations was 59.6p (2009: loss 23.9p). The adjusted diluted earnings per share from continuing operations before exceptional costs, goodwill impairment and intangible asset amortisation, which reflects the underlying trading performance of the Group, fell from 10.7p to 5.0p.

### Acquisitions

In May 2010, we acquired Class Measures Inc, a specialist education company in Massachusetts, USA for £0.3m on completion and a further £0.7m of deferred contingent consideration payable dependent upon the trading performance of the business in the two years ending 31 December 2011. The acquisition has been accounted for in accordance with IFRS 3 Business Combinations (revised 2008). Intangible assets of £0.1m have been recognised in relation to customer relationships and £0.9m of goodwill has been recognised on the transaction. In accordance with the revised accounting standard, any subsequent adjustment to the deferred contingent consideration will be recognised through the income statement.



## > Financial review >

### Shareholder returns and dividends

The statutory loss for the year ended 31 December 2010 was £62.1m (2009: loss £56.6m).

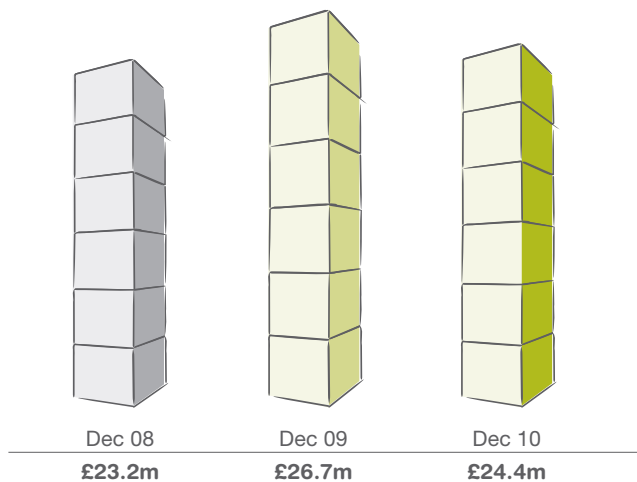
The goodwill impairment charges arising in 2009 and 2010 have significantly reduced the Group's consolidated reserves. During 2010, we received the approval of shareholders and the High Court to undertake a capital reduction process to increase the level of distributable reserves. In October 2010, we satisfied all of the undertakings that we had given to the Court to complete the restructuring and at this point the special reserve disclosed in our half-year results was transferred to distributable reserves.

In light of the difficult trading conditions in 2010 and the significant investment required to restructure the Group, the Board has reviewed its dividend policy. It has proposed a final dividend of 0.65p which, together with the interim dividend of 1.85p, gives a total dividend of 2.50p (2009: 4.60p). The dividend is covered two times by adjusted earnings per share.

### Cash management

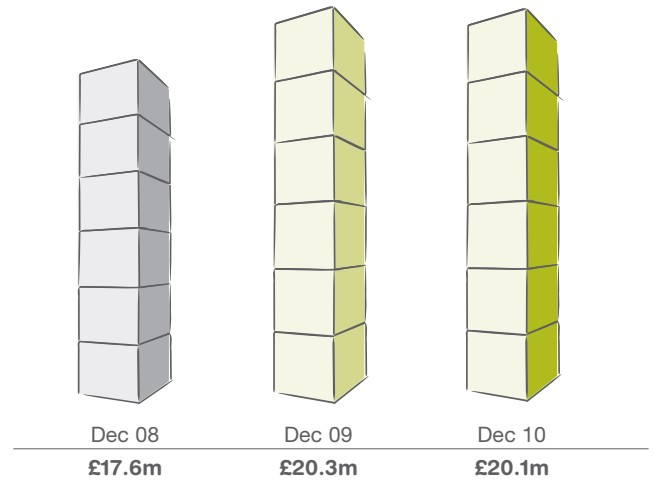
Cash conversion for the year from continuing operations was 330% (2009: 179%). This is defined as net cash from operating activities from continuing operations before tax (excluding restricted cash (£24.4m) (see note 35)) divided by adjusted operating profit (£7.4m).

### Net cash from operating activities before tax



Operating cash flow, defined as net cash from continuing operating activities less interest and tax, was £20.1m (2009: £20.3m).

### Operating cashflow



The Group generated free cash flow of £8.9m in the year (2009: £9.7m).

The Group's cash flow for the year ended 31 December is shown below:

	2010 £'000	2009 £'000
Net cash from continuing operating activities before tax	22,881	27,407
Net interest	(1,353)	(1,019)
Tax	(1,439)	(6,101)
<b>Operating cash flow</b>	<b>20,089</b>	20,287
Operating cash outflow from discontinued operations	(5,571)	(6,182)
Capital expenditure (net)	(2,402)	(1,904)
Expenditure on product development and business systems	(3,203)	(2,515)
<b>Free cash flow</b>	<b>8,913</b>	9,686
Acquisitions and deferred consideration	(839)	(13,348)
Disposal of discontinued operations	5,285	-
Dividends paid	(4,284)	(4,374)
Financing	(3,843)	3,514
Effect of foreign exchange rate changes	57	-
<b>Increase/(decrease) in cash and cash equivalents in year</b>	<b>5,289</b>	(4,522)

Tax paid was £1.4m (2009: £6.1m). The previous year's payments were above the equivalent tax charge, reflecting payments to HMRC of tax liabilities relating to acquired companies which fell outside the group payment arrangement.

## > Financial review

### Net debt

Group net debt decreased from £27.8m at 31 December 2009 to £18.5m at 31 December 2010 as shown below:

	2010 £'000	2009 £'000
Cash at bank and in hand	14,659	9,370
Short term loans	–	(381)
Syndicated bank facility (net of bank arrangement fees)	(33,157)	(36,780)
Gross debt	(33,157)	(37,161)
Net debt	(18,498)	(27,791)
Gearing	27%	20%
Interest cover	4.9	13.1

Included within cash at bank and in hand is restricted cash of £1.2m (2009: £2.7m). This represents pass-through funds restricted in use by the relevant commercial terms of specific trading contracts entered into and can be drawn down with 24 hours' notice.

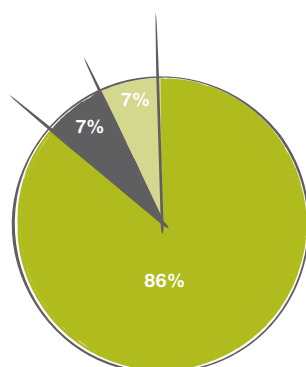
Net debt levels were unusually low at 31 December 2010 as they were supported by favourable credit terms that will unwind during the first quarter of 2011. Our total equity has also been reduced significantly by the further goodwill impairment that we have booked at 31 December 2010. These two factors partially counteract each other, but our gearing at 31 December 2010 of 27% (2009: 20%) is lower than our normalised position.

### Committed income

The total forward order book of the Group as at 31 December 2010 was up 7% at £217m (2009: £203m). This relates to the next five years. Over 52% of planned revenue for 2011 was committed at 31 December 2010. Our medium-term target is to start the financial year with over 60% of planned revenue committed.

#### Committed income by segment

■ Education	86%
■ Health	7%
■ Government	7%



### 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, fluctuations in interest rates and foreign exchange risk. These risks are managed as described as follows.

### Funding

The Group finances its operations by a combination of cash reserves from retained profits and bank borrowings. In August 2010, we renewed our committed £40m senior debt banking facility, which now runs until February 2015 with Lloyds Banking Group and HSBC, subject to compliance with covenants. Under the terms of the facility, £40m is available under a fully fluctuating revolving credit facility. In addition, the Group currently has a combined committed bonding and working capital facility of £12m, of which up to £5m may be used as an overdraft, renewable in March 2012.

The Group has operated in compliance with its banking covenants during 2010. In light of the challenging market conditions which the Group has experienced over the last year, the Board considered it prudent to secure additional flexibility and headroom in the revolving credit facility, and the Group has recently agreed a revised set of covenants with its lenders for 2011.

Treasury management is led by the Group finance team and operates within policies and procedures reviewed and approved by the Board. Liquidity matters are discussed in more detail in the going concern section of the corporate governance report.

### Credit risk

The Group seeks to reduce the risk of bad debts arising from non-payment from our customers. This risk is closely monitored by the Group finance team. We incurred no material bad debts (less than 0.25% of revenue) during 2010 due to our strong relationships with our predominantly public sector clients. However, to reflect the risk associated with the sharp slowdown in the UK economy, we have maintained a relatively high allowance for doubtful debts. Debtor days outstanding at 31 December 2010 were 43 days (2009: 51 days). This strong performance is in part a result of significant focus on working capital management during the final quarter of the year.

### Interest rate risk

Forward rate agreements and interest rate swaps are used to achieve the desired mix of fixed and floating rate debt. The Group currently holds a £25m designated hedge under which the Group paid 2.90% and received one month LIBOR until 31 December 2010. From 1 January 2011 until 31 December 2013, the Group will pay 4.90% and receive one month LIBOR.

### Foreign exchange risk

A proportion of the Group's business is transacted overseas, and the performance of the Group is therefore exposed to movements in foreign currency exchange rates. Management of this risk is overseen by the Group finance team and policies and procedures are in place that have been approved by the Board. Where appropriate, forward exchange contracts and options are taken out in order to reduce potential financial exposure to an acceptable level.

As the Group continues its international expansion, these policies and procedures are regularly reviewed to ensure that they are appropriate to the Group's operations.



## Board of directors

---



**John Ormerod**  
Chairman – Age 62

John joined the Board of Tribal Group in October 2009 and was appointed Chairman on 20 May 2010. He has been a non-executive director of several public and private companies. John is currently a non-executive director and chairman of the audit committees of Computacenter plc, ITV plc, Gemalto NV and Misys plc, where he is also the senior independent director. Prior to that, John, a chartered accountant, was a partner with Deloitte and before that Arthur Andersen. John is a trustee of The Design Museum.

---



**Peter Martin**  
Chief Executive – Age 53

Peter joined the Board of Tribal Group in June 2001. He was Chief Executive of Mercury Health, Tribal's healthcare business, from April 2004 until its sale in April 2007. In June 2007, he was appointed Chief Executive of Tribal Group. Prior to joining Tribal, Peter was a founding partner of the corporate finance firm Anvil Partners. He was also a director of Kleinwort Benson Limited. Peter will be standing down from the Board at the end of April 2011.

---



**Steve Breach**  
Group Finance Director – Age 42

Steve joined the Board of Tribal Group in January 2010 from Euromedic UK where he was Chief Financial Officer. Steve was previously Finance Director of Mercury Health, Tribal's healthcare business from its establishment in 2003 until its sale in April 2007. He qualified as a chartered accountant with Ernst & Young in 1993 and worked in its practice in the Czech Republic before joining its corporate finance practice in the UK.

---



**Keith Evans**  
Chief Operating Officer – Age 52

Keith joined the Board of Tribal Group in February 2011 and was previously Group Commercial Director. He joined Tribal Group in October 2009, having been Chief Executive of Euromedic UK, a leading provider of clinical diagnostic services. Keith was previously Managing Director of Mercury Health, the healthcare business sold by Tribal in April 2007.

---



**Simon Ball**  
Non-Executive Director – Age 50

Simon joined the Board of Tribal Group in June 2010 and is Chairman of the Audit Committee. He is Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc. Simon was Group Finance Director for 3i Group plc until November 2008 and has considerable experience of both the private and public sectors.

---



**Lady Katherine Innes Ker**  
Non-Executive Director – Age 50

Katherine joined the Board of Tribal Group in November 2008 and is Senior Independent Director and Chairman of the Remuneration Committee. She is a non-executive director of Taylor Wimpey plc and chairs their Corporate Responsibility Committee. She is also a non-executive director of St Modwen Properties plc and The Go-Ahead Group plc.

---



**Mathew Masters**  
Non-Executive Director – Age 37

Mat joined the Board of Tribal Group as a non-independent non-executive director in October 2009. He is an Associate Director at Caledonia Investments plc and is a non-executive director of several of the companies in which Caledonia invests.

---

## Directors' report >

The directors present their annual report on the affairs of the Group, together with the audited consolidated financial statements and independent auditor's report for the year ended 31 December 2010.

### 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 service delivery, technology and advisory solutions. The majority of our customers are in the public sector in the UK and, increasingly, overseas. Our core markets are education, health and government. The review of the year's operations, key risks and future developments is contained in the Business review and the corporate governance statement. The Group's policy with regard to financial instruments and the risk to the Group is discussed on page 24 in the financial risks and treasury management section of the Business review.

During 2010, our services were delivered through our Education, Health, Government and Support services business streams.

### Business review

A detailed review of the Group's performance and future prospects is provided in the section headed Business review on pages 2 to 24. The accounts have been prepared on a going concern basis, as set out on page 34 in the corporate governance report.

### Results

The results of the Group are shown on page 43 and show a group operating profit from continuing operations before amortisation and exceptional costs for the year ended 31 December 2010 of £7.4m (2009: £14.9m). Loss before tax was £57.8m (2009: loss £17.8m) and loss for the year was £62.1m (2009: loss £56.6m). The adjusted diluted earnings per share from continuing operations was 5.0p (2009: 10.7p) (see note 14) and the diluted loss per share for continuing and discontinued operations was 66.3p (2009: loss 63.4p).

### Proposed dividend

The directors recommend a final dividend of 0.65p per share which, together with the interim dividend of 1.85p paid on 22 October 2010, makes a total of 2.50p for the year ended 31 December 2010 (2009: 4.60p).

If approved by shareholders, the final dividend will be paid on 15 July 2011 to shareholders on the register on 17 June 2011.

### Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 28. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

On 16 June 2010, the High Court issued an order sanctioning the cancellation of the Company's share premium account. Tribal gave certain undertakings to the Court for the protection of the Company's creditors. On 17 June 2010, Tribal received from Companies House the certificate of registration of the Court order. In October 2010, Tribal discharged all the undertakings given to the Court and accordingly, the share premium account became distributable.

Details on employee share schemes are set out in note 27.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Board terms of reference, copies of which are available on request, and in the corporate governance statement on pages 30 to 34.

Under its Articles of Association and the Companies Acts, the Company has authority to issue 36,496,218 ordinary shares.

### Directors

The directors of the Company are listed on page 26.

### Directors' interests

The Board of Directors' interests in shares in the Company are detailed on page 39.

### Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

Directors and officers' liability insurance is provided for all directors of the Company.

### Directors' share options

Details of directors' share options are provided in the Directors' remuneration report on page 39.

## > Directors' report >

### Research and development

The Group continues to invest in research and development of software products. This has resulted in a number of new products being launched recently across a number of our markets and, in particular, in further education and schools, 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 Business review on page 14, in the section 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 employees, including retraining for alternative work for those 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's trade creditors at 31 December 2010 represented approximately 29 days (2009: 33 days).

### Change of control

Consistent with industry practice for contracting with public sector customers, our major contracts contain clauses that either require written consent from the customer prior to a change in control of the Group, or provide for contract termination in the event of a 'reasonable objection' to that change of control. In addition, all of the Group's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

### Charitable and political donations

During the year the Group made charitable donations of £60,003 (2009: £63,429). The work of Tribal's charity, the Tribal Foundation, is described in more detail on page 15. The Group made no political donations during the year (2009: £nil).

### Health and safety

The Group has a Health and Safety at Work Policy which is reviewed annually by the Board. The Board executive director responsible for health and safety throughout the financial year was Peter Martin. The Group is committed to the health and safety of its employees, clients, sub-contractors and others who may be affected by our work activities. The Group evaluates the risks to health and safety in the business and manages this through an effective Health and Safety Committee. The Group provides necessary information, instruction, training and supervision to ensure that employees are able to discharge their duties effectively. The Health and Safety Committee monitors, reviews and supports compliance by the various businesses within the Group with all applicable legal and regulatory requirements.

### Substantial shareholdings

At 30 March 2011, the following voting interests (other than directors) in the ordinary share capital of the Company had been notified to the directors:

	Ordinary shares of 5p each	%
BT Pension Scheme Trustees Ltd	22,458,262	23.97
Caledonia Investments plc	10,336,232	11.03
Standard Life Investments Ltd	3,231,575	3.45
Henry John Pitman	3,191,871	3.41

### Acquisition of the company's own shares

At the end of the year, the directors had authority, under the shareholders' resolution of 20 May 2010, to purchase through the market 9,369,598 of the Company's ordinary shares at prices per ordinary share ranging between 5p and an amount equal to 105% of the average of the middle market quotations of the Company's ordinary shares for the five days preceding the day of purchase. This authority expires at the conclusion of the AGM in 2011.

## > Directors' report

### Annual General Meeting

The Annual General Meeting (AGM) will be held at 10.00 am on 20 May 2011 at the Company's registered office, 87-91 Newman Street, London W1T 3EY. A separate document accompanying the Annual Report and Accounts for the year ended 31 December 2010 contains the notice convening the AGM 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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Auditor

A resolution for the reappointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board



**Steve Breach**  
Company Secretary  
30 March 2011

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 corporate governance contained in the Combined Code on Corporate Governance that was issued in June 2008 by the Financial Reporting Council (the Code) which is the version of the Combined Code applicable to the Group in the year under review. Additionally, the Company has chosen to comply with all relevant provisions of the new UK Corporate Governance Code.

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

### Compliance with the Code of Best Practice

The Group has complied throughout the year under review with the provisions set out in the Code except that between 20 May and 1 June 2010 the composition of the Board and its committees did not meet the requirements of the Code. On 20 May 2010, Strone Macpherson stood down as Chairman and John Ormerod was appointed Chairman. As a consequence, the only independent non-executive director on the Board was Katherine Innes Ker until 1 June 2010 when Simon Ball was appointed a non-executive director.

### Board of directors

The Board comprises seven directors: Simon Ball, Steve Breach, Keith Evans, Katherine Innes Ker, Peter Martin, Mathew Masters and John Ormerod. The terms and conditions of all directors are available for inspection on request from the company secretary and will be available for inspection at the forthcoming AGM. The directors' profiles are set out on page 26.

On 1 January 2010, Steve Breach was appointed Group Finance Director.

On 20 May 2010, John Ormerod was appointed non-executive Chairman of the Company, replacing Strone Macpherson who stood down as Chairman.

On 1 June 2010, Simon Ball was appointed a non-executive director and Chairman of the Audit Committee.

On 22 February 2011, Keith Evans was appointed Chief Operating Officer.

Peter Martin will be standing down from the Board at the end of April 2011.

The Board believes that, with the exception of Mathew Masters, the non-executive directors are independent as defined by the Code. The Chairman was considered independent on appointment. The senior independent non-executive director is Katherine Innes Ker.

Mathew Masters is an Associate Director of Caledonia Investments plc (Caledonia) which is a significant shareholder in the Group. This connection between the Group and one of its current shareholders affects the director's independence but does not affect the Group's compliance with the Code as in accordance with the Combined Code the Board has sufficient independent non-executive directors. Mathew Masters is not on any of the Board committees, which are all constituted in accordance with the Combined Code. The fact that Caledonia is an investor in the Group does not of itself create a conflict of interest that prevents Mathew from operating as a director.

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 experience and strategy development and implementation. The non-executive directors meet at least once a year without the executive directors present.

The chairman, John Ormerod, has other significant time commitments, as indicated in his profile on page 26. Overall, 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 of the Board is chairman of the Nomination Committee and Katherine Innes Ker is Chairman of the Remuneration Committee. Simon Ball is Chairman of the Audit Committee and has the relevant experience to chair this Committee as required by the Code.

All directors are appointed by the Board as a whole following recommendations from the Nomination Committee. The non-executive directors and the chairman were initially appointed for a three-year term. None of the executive directors has a service contract with a notice period greater than 12 months. Details of all payments to directors are included in the remuneration report on pages 35 to 39.

Each director is required to submit himself/herself for re-election at least every three years. New directors are subject to election at the first opportunity following appointment. Steve Breach, Mathew Masters and John Ormerod were re-elected at the 2010 AGM, each having confirmed that they were able to allocate sufficient time to meet the expectations of their roles. Simon Ball and Keith Evans, having been appointed to the Board since the AGM in 2010, will be seeking re-election at the 2011 AGM in May.

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 on a monthly basis to review business performance and to discuss operational and strategic issues. Key points from these meetings are discussed at Group Board meetings.



## > Corporate governance >

A new statutory duty on directors to avoid conflicts of interest with the Company came into force in October 2008. The company's Articles of Association, adopted in May 2008, allow the directors to authorise conflicts of interest, and the Board has adopted a policy and effective procedures for managing and, where appropriate, approving conflicts or potential conflicts of interest. This is a recurring agenda item at all Board meetings and gives each director the opportunity to raise any conflict of interest they may have, or to update the Board on any change to a previous conflict of interest already lodged. A register of conflicts is held by the company secretariat and referred to when decisions are made. All directors are aware that it is their responsibility to raise and update any conflicts of interest they may have.

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 secretariat which is responsible to the Board for ensuring that all rules, regulations and agreed procedures are observed.

On appointment, and throughout their tenure, directors receive briefings and training on matters relevant to their responsibilities.

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, any proposed acquisitions, a corporate governance update and major capital expenditure requests.

A performance evaluation of the Board, its committees and its individual directors was conducted in 2010 and focused on a number of areas, including those concerned with best practice based on the principles of good governance. The evaluation was conducted internally by the chairman through a detailed questionnaire. The Board concluded that the Board and its committees continue to operate effectively in accordance with the Companies Act 2006 and good corporate governance. The performance of the group finance director was appraised by the chief executive and the chief executive was appraised by the chairman. The executive and non-executive directors, led by the senior independent director, assessed the performance of the chairman. The non-executive directors' performance was reviewed by the chairman, taking into account the view of the other directors.

### 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 2011 AGM.

Terms of reference for the Audit, Nomination and Remuneration Committees can be found on the Company's website, [www.tribalgroup.com](http://www.tribalgroup.com), are available on request from the company secretary and will be available for inspection at the forthcoming AGM. It is the general practice of each committee to invite all directors to attend committee meetings where appropriate.

In addition to the three committees described above, an Independent Committee consisting of the non-executive directors was established during the year to deal with all matters relating to the expressions of interest that had been received by the Company during the period under review.

### Audit Committee

The Audit Committee is appointed by the Board from the non-executive directors of the company. The Committee met five times in the period under review. Since May, the Committee is chaired by Simon Ball. Katherine Innes Ker and John Ormerod are also members. The Group Finance Director attends all meetings at the invitation of the Committee.

### Summary of the role of the Audit Committee

The Audit Committee is responsible for:

- considering reports from the auditor on the annual and half yearly financial statements;
- monitoring the integrity of the financial statements of the group and any formal announcements relating to the group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the independence and objectivity of the external auditor and the effectiveness of the audit process;
- making recommendations to the Board for a resolution to be put to the shareholders for their approval in general meeting, on the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
- to receive reports from management and internal audit/risk management on the effectiveness of the Group's risk management procedures and internal controls. The Committee reports regularly to the Board on its work in connection with the review of effectiveness of internal controls and provides an annual summary; and
- to be responsible for the preparation and approval of a policy concerning the independence and objectivity of the external auditor, taking into consideration relevant professional and regulatory requirements. This policy covers the provision of non-audit services by the Group's auditor and recruitment of staff from the Group's auditor.

## > Corporate governance >

### Overview of the actions taken by the Audit Committee to discharge its duties

During the year, the Audit Committee has:

- reviewed the December 2009 report and financial statements, the June 2010 half-year results and the interim management statements issued in May and October. As part of this review, the Committee reviewed significant accounting policies, financial reporting issues and judgements and reports from the external auditor on their audit of the annual report and financial statements and review of the half-year results;
- reviewed the effectiveness of the external audit process, the external auditor's strategy and plan for the audit and the qualifications, expertise, resources and independence of the external auditor;
- reviewed the effectiveness of the Group's internal controls and approach to risk management, including a review of the group's whistle blowing policy;
- agreed a work plan for the Committee;
- reviewed and agreed the scope of the audit work to be undertaken by the external auditor;
- agreed the fees to be paid to the external auditors for their audit of the December 2009 financial statements and review of the June half year results; and
- reviewed its own effectiveness.

### External auditor

The external auditor meets privately with the Audit Committee before each meeting of the Committee without any executive management being present. The Group has a risk management and internal audit capability that supports the Committee. To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- the external auditor's plan for the current year, noting the role of the senior statutory audit partner, who signs the audit report and who, in accordance with professional rules, has not held office for more than five years, and any changes to the key audit staff;
- the arrangements for day-to-day management of the audit relationship;
- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest;
- the overall extent of non-audit services provided by the external auditor, in addition to its case-by-case approval of the provision of non-audit services by the external auditor (details of non-audit fees are set out in note 5 of the financial statements); and
- the past service of the auditor who was first appointed in 2002.

The Committee has considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditors.

To assess the effectiveness of the external auditor's independence and objectivity, the Audit Committee reviewed:

- the arrangements for ensuring the external auditors' independence and objectivity;
- the external auditor's fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditor in its handling of the key accounting and audit judgements; and
- the content of the external auditors' reporting on internal control.

Following the above, the Audit Committee has recommended to the Board that Deloitte LLP is reappointed.

### Nomination Committee

Since May, the Nomination Committee is chaired by John Ormerod. The members comprise Simon Ball, Katherine Innes Ker 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 are, where necessary, identified by use of external recruitment consultancies, and the Committee would expect to use a similar process in the future, when a new appointment to the Board is being made.

During the year under review, the Committee met seven times and recommended to the Board both the appointment of John Ormerod as Chairman and Simon Ball as non-executive director and Chairman of the Audit Committee. Strone Macpherson and John Ormerod were not involved in any decision regarding the selection and appointment of the Chairman.

### Remuneration Committee

The Remuneration Committee is chaired by Katherine Innes Ker. Simon Ball and John Ormerod are also members.

The Committee met 12 times during the period under review and on behalf of the Board sets the remuneration packages for the directors, including basic salary, bonuses and other incentivisation compensation payments and awards. The Committee considers and, if appropriate, approves 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 secretariat and Group HR director and takes advice as appropriate from external advisers. The Remuneration report is set out on pages 35 to 39.

## > Corporate governance >

### Attendance at Board and Committee meetings for the year ended 31 December 2010:

Board/Committee name	Board	Audit	Nomination	Remuneration	Role
Number of meetings in period	30	5	7	12	
Number of meetings attended by members:					
Strone Macpherson <sup>1</sup>	9	1	3	5	Chairman of Board and Nomination Committee
John Ormerod <sup>2</sup>	29	5	7	12	Chairman of Board and Nomination Committee
Peter Martin	30	-	3	-	Chief Executive
Steve Breach	30	-	-	-	Group Finance Director
Simon Ball <sup>3</sup>	17	3	3	7	Non-executive director, Chairman of Audit Committee
Katherine Innes Ker	26	4	7	11	Non-executive director, senior independent director, Chairman of Remuneration Committee
Mathew Masters <sup>4</sup>	28	-	-	-	Non-executive director

<sup>1</sup> Strone Macpherson stood down as Chairman on 20 May 2010.

<sup>2</sup> John Ormerod was appointed Chairman of the Board and Nomination Committee on 20 May 2010.

<sup>3</sup> Simon Ball was appointed a non-executive director on 1 June 2010.

<sup>4</sup> Mathew Masters is not a member of any of the Committees.

The Board's agenda has been considerably challenged during the period under review by both the market environment and the expressions of interests received by the Company that were announced in August and December. This has necessitated an additional number of board meetings during the year.

### Maintenance of a sound system of internal control and 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.

The directors undertake a periodic review of the effectiveness of the Group's system of internal controls.

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. Where weaknesses or opportunities for improvement are identified, clear action plans are put in place and implementation is monitored by the Board.

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 is 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.

### Summary of internal controls

#### 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.

Until the latter part of 2010, the Group employed an internal risk manager. A review is underway to determine the most appropriate internal audit/risk management resourcing going forward. In the meantime other internal resource is being used to perform these functions, although it is not independent in the way that the internal risk manager was able to be. A permanent solution will be implemented in due course.

#### Financial reporting

There is a comprehensive system of financial reporting to the Board including comparison to an annual budget prepared in line with the Group's strategic plan and formally adopted by the Board, rolling forecasts and monthly reporting of financial and operating results. Budgets 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 and reviewed by the Board.

## > Corporate governance

### 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 periodically and has been updated during the year under review 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 period 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 advisers. The Group holds briefing meetings with analysts and institutional shareholders, usually following the half-year 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 provides financial statements to all shareholders twice a year when its half-year and full-year results are announced and provides interim management statements as required. The AGM 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 [www.tribalgroup.com](http://www.tribalgroup.com). 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 and the necessary authority having been passed at our 2007 AGM mean that we are able to offer electronic copies of the report and accounts, notice of AGM and other documents addressed to shareholders.

### Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 2 to 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 20 to 24. In addition, note 38 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources in that it maintains sizeable cash balances, has a credit facility of £40m (of which £34m was drawn down at 31 December 2010), which is not due for renewal until February 2015, and has a combined bonding and overdraft facility of £12m, of which up to £5m may be drawn as an overdraft, which is renewable annually in March. Net debt was £18.5m at 31 December 2010. A significant part of the reduction in net debt was generated through favourable credit terms from third parties which will reverse in the first quarter of 2011. The Group has operated in compliance with its banking covenants during 2010. However, in light of the challenging market conditions which the Group has experienced over the last year, the Board considered it prudent to secure additional flexibility and headroom in the revolving credit facility, and the Group has recently agreed a revised set of covenants with its lenders for 2011. Although the current economic conditions create some uncertainty in terms of the maintenance of current public sector spending levels, the Group also has a number of long-term contracts with a range of customers across different geographic areas, 52% of planned revenue for 2011 committed at the start of the year and a strong pipeline of new opportunities. The Group's forecasts and projections, which allow for reasonably possible changes in trading performance, show that the Group will have adequate headroom against the committed facility across the forecast period. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Remuneration report >

### Introduction

The Remuneration report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006 (the Act). 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 relating to directors' remuneration in the Combined Code. As required by the Act, 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 Act requires the auditors to report to the Company's members on certain parts of the directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited information.

### Information not subject to audit

#### Remuneration committee – composition and terms of reference

The Remuneration Committee is chaired by Katherine Innes Ker. Simon Ball and John Ormerod are also members. Mathew Masters and Peter Martin attend by invitation.

The Committee 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 are available on our website [www.tribalgroup.com](http://www.tribalgroup.com) or on request from the company secretary.

The Committee's main responsibilities are to:

- ensure that the executive directors of the Company and other senior executives of the Tribal Group are fairly rewarded for their individual contribution to the overall performance of the Company; and
- demonstrate to the shareholders of the Company that the remuneration of the principal executive directors of the Company and other senior executives of the Tribal Group is determined by a committee comprised entirely of non-executive directors who will have due regard to the interests of the shareholders.

#### Remuneration committee activity

During the year, the Committee met twelve times to discuss key remuneration issues.

The work of the Committee in 2010 took place during a challenging trading period for Tribal. In this environment, the Committee maintained its focus on ensuring that compensation policies were aligned to shareholder interests.

During the period under review, the Committee commissioned and received advice on remuneration matters from Hewitt New Bridge Street, independent remuneration consultants who have no other connection to the Company. The Committee also received input from the Group HR director, who is supported by the Group reward specialist.

The Committee appreciates dialogue with investors and will continue to take an active interest in their views and the voting on the Remuneration report.

#### 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 bonus and pension contributions. In line with the Group's strategy, a significant proportion of the package has been based on performance and dependent upon the achievement of growth in adjusted diluted earnings per share.

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 policy aligns the interests of key employees, as well as all staff generally, with those of shareholders. The purpose of basic salaries is to recognise the value of the role while providing competitiveness in the external market. Bonuses are used to reward excellent performance and to drive growth. Share plans are used to align executive interests with shareholder value with the use of EPS performance, while benefits recognise employee needs and seek to enhance loyalty.

#### Chairman and non-executive directors

All non-executive directors, including the chairman, serve under letters of appointment. Their remuneration is determined by the Board.

The non-executive directors receive a basic annual fee of £35,000. In addition to the basic fee, additional fees of £5,000 are payable to the chairmen of the Audit and Remuneration Committees, and to the senior independent director, to reflect the extra responsibilities attached to these roles. Under the terms of their appointment, the non-executive directors have agreed to commit not less than 25 days per annum to their role. If they are required to commit in excess of 25 days per annum, they are entitled to an additional fee at a suitable pro rata rate per day.

The chairman receives an annual fee of £110,000. Under the terms of his appointment, the chairman has agreed to commit not less than 50 days per annum to this role. If he is required to commit in excess of 50 days per annum, he is entitled to an additional fee at a suitable pro rata rate per day.

Neither the chairman nor the non-executive directors participate in any bonus scheme, share option scheme, pension scheme or receive any other benefits.

## > Remuneration report >

### Executive directors

#### Summary of executive director remuneration packages

For the performance period 1 January 2010 to 31 December 2010, the following table shows a breakdown of the executive director packages.

Element	Peter Martin Chief Executive	Steve Breach Group Finance Director
Basic salary	£300,000	£180,000*
Maximum annual bonus (% of salary)	100%	80%
Bonus paid	-	-
2010 LTIP award (% of salary)	-	-
Annual pension contributions via SIPP arrangements (% of salary)	12%	12%
Other benefits	Car allowance, private medical insurance and life assurance.	Car allowance, private medical insurance and life assurance.

\*From 1 January 2011, Steve Breach's salary was increased to £210,000.

Keith Evans was appointed to the Board on 22 February 2011. The following table shows a breakdown of his remuneration package for 2010, which has not been changed on his appointment as Chief Operating Officer:

Element	Keith Evans Chief Operating Officer
Basic salary	£210,000
Maximum annual bonus (% of salary)	80%
Bonus paid	-
2010 LTIP award (% of salary)	-
Annual pension contributions via SIPP arrangements (% of salary)	10%
Other benefits	Car allowance, private medical insurance and life assurance.

### Balance between fixed and variable compensation

The executive directors' packages focus on variable compensation achieved through improving shareholder return.

#### Basic salaries and benefits

Basic salaries and benefits are determined by reference to market levels for similar jobs in comparable companies and sectors based on independent surveys. Salaries are reviewed annually and when an individual changes position or responsibility. For 2010 and 2011 the chief executive's salary has remained at the 2008 level of £300,000.

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 similar companies and sectors.

#### Performance-related bonuses

Bonus entitlement is a calculation referred to in each director's service agreement and is based primarily on the growth in the Group's adjusted diluted earnings per share but also includes other financial measures and personal objectives. In all cases, bonus payments are 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 by the Committee to set a suitably challenging initial target, with incremental stretching targets above the threshold figure. Bonus payments are made if the threshold target is exceeded.

For the period under review, the total bonus was subject to a fixed maximum of 100% of the chief executive's basic salary and 80% of the Group finance director's basic salary. Bonus payments do not form part of salary for pension purposes.

In addition to any 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. Despite certain financial measures and personal targets being either fully or partially met, no bonus payments have been made in respect of the year ended 31 December 2010 as overall corporate financial targets were not met.

#### Retention bonus and other awards

During the period under review, retention bonuses were put in place for a number of key individuals across the Group to reflect the importance of retaining their services during the prolonged offer period. The Board awarded each of Steve Breach and Keith Evans retention bonuses of £90,000 on account of their annual bonuses for the financial year ending 31 December 2011. This will be paid on the condition that they remain with the business throughout the calendar year 2011, or on a change of control resulting in redundancy during 2011.

Under the terms of their appointment on joining the Group, Steve Breach and Keith Evans are entitled to receive an LTIP award representing 100% of basic salary. This should have been granted during 2010 as part of the Company's annual LTIP grant but could not be awarded because the Company was in a close period at the relevant time. In the event of a change of control of the Company occurring before these LTIP awards have been made, the Company has agreed to pay Steve Breach and Keith Evans a cash sum of £20,000 and £25,000 respectively in settlement of these obligations.



## > Remuneration report >

### 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 comparable companies and sectors.

Copies of each director's service agreement will be available for inspection at the AGM.

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)
P J Martin	25.06.2001	30.04.2011	12	12
S D Breach	01.01.2010	Ongoing	12	12
K Evans	26.10.2009	Ongoing	12	12

Peter Martin is standing down as Chief Executive and leaving the Board at the end of April 2011.

### Non-executive directors' letters of appointment

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)
P S S Macpherson	03.09.2007	2010 AGM	3	3
K C M Innes Ker	01.11.2008	2012 AGM	3	3
J Ormerod	21.10.2009	2012 AGM	3	3
M Masters	21.10.2009	2012 AGM	3	3
S Ball	01.06.2010	2011 AGM	3	3

Strome Macpherson stood down from the Board following the AGM on 20 May 2010.

### 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 option and LTIP 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, and no options were granted under the PLC scheme during the period under review.

Grants are made under the option schemes at the discretion of the Committee. 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 HMRC approved and unapproved parts.

#### 2. LTIP

At last year's AGM, shareholders approved the introduction of a new long-term incentive plan to replace the previous plan which came to the end of its ten-year life. The new plan is similar to the previous plan, although it has been updated to reflect current market practice. Under the new plan awards are structured as a nil cost option over ordinary 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 target. The performance target is linked to the growth in adjusted diluted earnings per share over the three-year period of the grant. Under the LTIP scheme rules, alternative or additional performance targets may be applied.

In the period under review, no LTIP awards were made to the executive directors.

#### 3. SAYE

At last year's AGM, shareholders approved the introduction of a new SAYE scheme to replace the previous plan which came to the end of its ten-year life in February 2011. The new plan is similar to the previous plan, although it has been updated to reflect changes in legislation.

The 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 fixed term SAYE contract and then apply the savings to buy shares in the Company.

In 2010, the Committee decided that no SAYE contracts would be offered.

#### 4. SIP

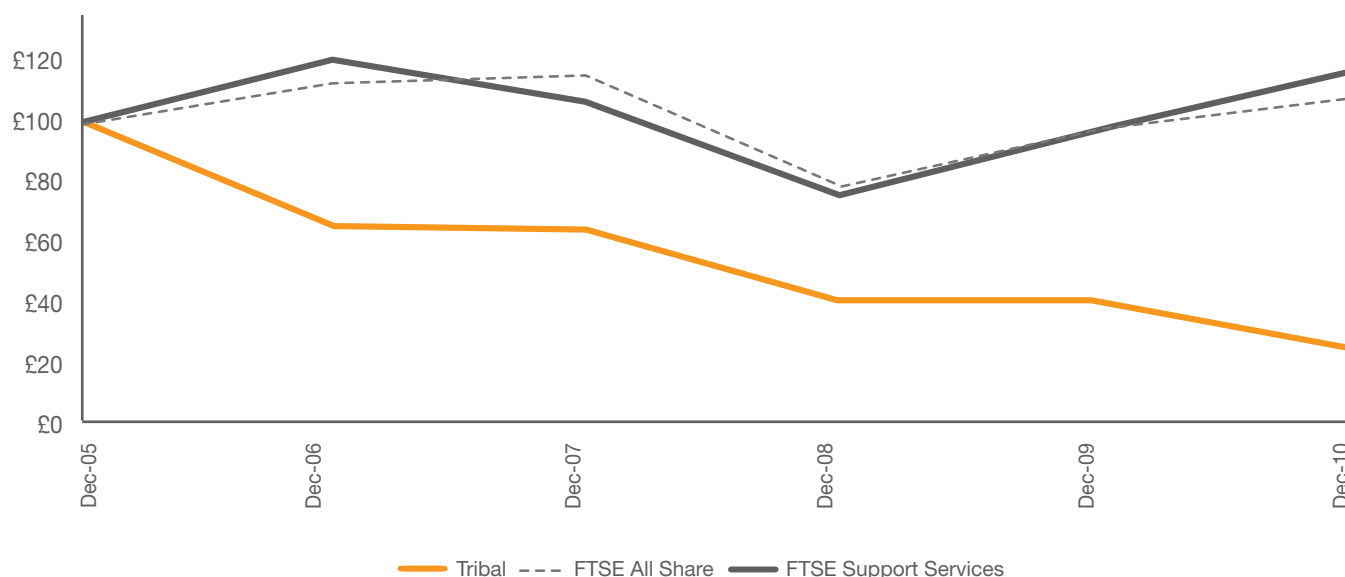
At the 2005 AGM, the Company proposed and shareholders approved the establishment of an all-employee Share Incentive Plan (SIP). The SIP is HMRC approved. It currently provides all employees with the opportunity to acquire shares in a tax-efficient manner.

## > Remuneration report >

### 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 December 2005 to 31 December 2010.

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 December 2005 would be worth £24 compared to £108 for an investment in the FTSE All Share Index or £117 for an investment in the FTSE Support Services Index as at 31 December 2010.

### Information subject to audit

#### Directors' remuneration

The remuneration of individual directors was as follows:

	Compensation for loss of office					2010	2009
	Salary £'000	£'000	Bonus £'000	Benefits £'000	Pension £'000	Total £'000	Total £'000
<b>Executive directors</b>							
PJ Martin <sup>1</sup>	300	350	-	11	36	697	346
SD Breach	180	-	-	16	22	218	-
SM Lawton <sup>2</sup>	-	-	-	-	-	-	468
<b>Non-executive chairman and directors<sup>3</sup></b>							
DGF Thompson	-	-	-	-	-	-	49
KCM Innes Ker	58	-	-	-	-	58	41
J Ormerod	84	-	-	-	-	84	8
M Masters	45	-	-	-	-	45	3
PSS Macpherson	43	-	-	-	-	43	110
S Ball	33	-	-	-	-	33	-
<b>Total</b>	<b>743</b>	<b>350</b>	<b>-</b>	<b>27</b>	<b>58</b>	<b>1,178</b>	<b>1,025</b>

During the period under review, Peter Martin served as a non-executive director of WIN plc until 11 August 2010. 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 £18,040.

#### Notes:

<sup>1</sup> Peter Martin's compensation for loss of office will be paid in two equal instalments in May 2011 and November 2011. The amount paid is based on contractual obligations and mitigation has been applied.

<sup>2</sup> Simon Lawton resigned as a director of the Company on 31 December 2009. Included within the 2009 remuneration figure is an amount of £234,000 in respect of compensation for loss of office which was paid during 2010. Full disclosure regarding this amount was made in the Company's report and accounts for the year ended 31 December 2009.

<sup>3</sup> Non-executive fees in respect of 2010 reflect a higher than normal number of Board and committee meetings during the year. Katherine Innes Ker received additional fees of £12,500 while Simon Ball and Mathew Masters received additional fees of £10,000.



## > Remuneration report

The interests of directors in share options were as follows:

	At 31 December 2009	Granted	Lapsed	Exercised	At 31 December 2010	Exercise price £	Date from which exercisable	Expiry date
<b>P J Martin</b>								
PLC scheme	40,000	-	(40,000)	-	-	£2.83	30.06.2003	26.06.2011
LTIP	100,267	-	(100,267)	-	-	£nil	30.06.2009	30.09.2010
LTIP <sup>1</sup>	455,296	-	(135,240)	-	320,056	£nil	23.03.2010	01.11.2011
SAYE scheme	2,990	-	(2,990)	-	-	£1.58	01.10.2010	01.04.2011
LTIP	278,127	-	(278,127)	-	-	£nil	31.03.2011	30.09.2012
LTIP	150,000	-	(150,000)	-	-	£nil	31.03.2012	30.04.2012

<sup>1</sup> 92,408 shares of the award have vested and are exercisable. All other share options awarded to Peter Martin will lapse on the date of cessation of his employment.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

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

The market value of the Company's shares at 31 December 2010 was 46.75p. The highest market value during the period was 97p and the lowest market value 24.25p.

### Directors' interest in shares of Tribal Group plc

The directors who held office at the end of the financial period had the following interests in the shares of the Company:

	Interest at end of period	Interest at start of period
S Breach	32,144	32,144
P J Martin	505,062	505,062
J Ormerod	50,000 <sup>1</sup>	50,000 <sup>1</sup>

<sup>1</sup> Of these, 50,000 ordinary shares are held by his wife.

### 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 period, the Company made employer contributions of 12% 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 30 March 2011 and signed on its behalf by:



**Lady Katherine Innes Ker**  
Chairman, Remuneration Committee

## Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and 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). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Responsibility statement of the directors on the annual report

The directors confirm that, to the best of their knowledge:

- the Company and Group financial statements in this annual report, which have been prepared in accordance with UK GAAP and IFRS, respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and
- the business review contained in this annual report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



**Peter Martin**  
Chief Executive  
30 March 2011



**Steve Breach**  
Group Finance Director

# Financial statements

## 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 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 auditor

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the corporate governance report in relation to going concern;
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Other matter

We have reported separately on the parent company financial statements of Tribal Group plc for the year ended 31 December 2010 and on the information in the directors' remuneration report that is described as having been audited.



John Clennett (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Bristol, United Kingdom  
30 March 2011

## Consolidated income statement for the year ended 31 December 2010

	Note	Before exceptional and amortisation costs £'000	Exceptional and amortisation costs £'000	Year ended 31 December 2010 Total £'000	Before exceptional and amortisation costs £'000	Exceptional and amortisation costs £'000	Year ended 31 December 2009 Total £'000
<b>Continuing operations</b>							
Revenue	3	175,372	–	175,372	193,654	–	193,654
Cost of sales		(126,081)	–	(126,081)	(126,352)	–	(126,352)
<b>Gross profit</b>		<b>49,291</b>	<b>–</b>	<b>49,291</b>	<b>67,302</b>	<b>–</b>	<b>67,302</b>
Other administrative expenses	6	(41,917)	(10,446)	(52,363)	(52,376)	–	(52,376)
Amortisation of IFRS 3 intangibles	16	–	(1,027)	(1,027)	–	(1,011)	(1,011)
Goodwill impairment	15	–	(51,610)	(51,610)	–	(30,683)	(30,683)
<b>Total administrative expenses</b>		<b>(41,917)</b>	<b>(63,083)</b>	<b>(105,000)</b>	<b>(52,376)</b>	<b>(31,694)</b>	<b>(84,070)</b>
<b>Operating profit/(loss)</b>		<b>7,374</b>	<b>(63,083)</b>	<b>(55,709)</b>	<b>14,926</b>	<b>(31,694)</b>	<b>(16,768)</b>
Investment income	8	143	–	143	231	–	231
Other gains and losses	9	–	(625)	(625)	–	95	95
Finance costs	10	(1,634)	–	(1,634)	(1,371)	–	(1,371)
<b>Profit/(loss) before tax</b>		<b>5,883</b>	<b>(63,708)</b>	<b>(57,825)</b>	<b>13,786</b>	<b>(31,599)</b>	<b>(17,813)</b>
Tax	11	(1,231)	3,215	1,984	(3,248)	256	(2,992)
<b>Profit/(loss) for the year from continuing operations</b>		<b>4,652</b>	<b>(60,493)</b>	<b>(55,841)</b>	<b>10,538</b>	<b>(31,343)</b>	<b>(20,805)</b>
<b>Discontinued operations</b>							
Profit/(loss) from discontinued operations	13	1,049	(7,312)	(6,263)	1,588	(37,356)	(35,768)
<b>Profit/(loss) for the year</b>	5	<b>5,701</b>	<b>(67,805)</b>	<b>(62,104)</b>	<b>12,126</b>	<b>(68,699)</b>	<b>(56,573)</b>
Attributable to:							
Equity holders of the parent	31			(62,104)			(57,401)
Minority interest	32			–			828
				<b>(62,104)</b>			<b>(56,573)</b>
<b>Earnings per share</b>							
From continuing operations							
Basic	14	5.0p	(64.6)p	(59.6)p	10.7p	(34.6)p	(23.9)p
Diluted	14	5.0p	(64.6)p	(59.6)p	10.7p	(34.6)p	(23.9)p
From continuing and discontinued operations							
Basic	14	6.1p	(72.4)p	(66.3)p	12.5p	(75.9)p	(63.4)p
Diluted	14	6.1p	(72.4)p	(66.3)p	12.4p	(75.8)p	(63.4)p

## Consolidated statement of comprehensive income for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Loss for the year		<b>(62,104)</b>	(56,573)
Actuarial gain/(loss) on defined benefit plans	34	<b>969</b>	(810)
Transfer to cash flow hedge reserve		<b>(618)</b>	(29)
Deferred tax	26	<b>(98)</b>	235
Exchange differences on translation of foreign operations		<b>63</b>	–
Other comprehensive income for the year		<b>316</b>	(604)
Total comprehensive income for the year		<b>(61,788)</b>	(57,177)
Attributable to:			
Equity holders of the parent		<b>(61,788)</b>	(58,005)
Minority interest		–	828
		<b>(61,788)</b>	(57,177)



## Consolidated balance sheet at 31 December 2010

	Note	2010 £'000	2009 £'000	2008 £'000
<b>Non-current assets</b>				
Goodwill	15	95,116	158,050	209,765
Other intangible assets	16	7,801	8,797	7,740
Property, plant and equipment	17	6,188	7,936	9,103
Investments	18	1	38	7
Deferred tax assets	26	3,256	3,191	2,149
		<b>112,362</b>	178,012	228,764
<b>Current assets</b>				
Inventories	19	610	954	801
Trade and other receivables	20	34,885	62,457	66,190
Amounts recoverable on contracts		–	–	6
Cash and cash equivalents	21	14,659	9,370	13,892
Assets held for sale	13	4,319	–	–
		<b>54,473</b>	72,781	80,889
<b>Total assets</b>		<b>166,835</b>	250,793	309,653
<b>Current liabilities</b>				
Trade and other payables	23	(50,771)	(66,723)	(68,456)
Tax liabilities		(2,227)	(5,002)	(7,234)
Bank loans and loan notes	24	–	(381)	(662)
Provisions	25	(525)	(435)	(655)
Liabilities held for sale	13	(5,382)	–	–
Derivative financial instruments	22	–	–	(188)
		<b>(58,905)</b>	(72,541)	(77,195)
<b>Net current (liabilities)/assets</b>		<b>(4,432)</b>	240	3,694
<b>Non-current liabilities</b>				
Bank loans	24	(33,157)	(36,780)	(32,894)
Retirement benefit obligations	34	(1,159)	(2,143)	(1,425)
Deferred tax liabilities	26	(1,024)	(1,881)	(1,927)
Derivative financial instruments	22	(2,173)	(931)	(809)
Other payables	36	(662)	–	–
		<b>(38,175)</b>	(41,735)	(37,055)
<b>Total liabilities</b>		<b>(97,080)</b>	(114,276)	(114,250)
<b>Net assets</b>		<b>69,755</b>	136,517	195,403
<b>Equity</b>				
Share capital	28	4,685	4,685	4,394
Share premium account	29	–	78,723	78,749
Other reserves	30	26,246	31,597	64,486
Retained earnings	31	38,824	21,512	45,945
Equity attributable to equity holders of the parent		<b>69,755</b>	136,517	195,574
Minority interest	32	–	–	1,829
<b>Total equity</b>		<b>69,755</b>	136,517	195,403

Notes 1 to 41 form part of these financial statements.

The financial statements were approved by the Board of directors and authorised for issue on 30 March 2011 and were signed on its behalf by:



Peter Martin  
Director



Steve Breach  
Director

## Consolidated statement of changes in equity

### for the year ended 31 December 2010

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2010	4,685	78,723	31,597	21,512	136,517
Total comprehensive income for the year	–	–	(445)	(61,343)	(61,788)
Capital reduction	–	(78,723)	–	78,723	–
Dividends	–	–	–	(4,284)	(4,284)
Debit to equity for share-based payments	–	–	(580)	(110)	(690)
Transfer (note 30)	–	–	(4,326)	4,326	–
Balance at 31 December 2010	4,685	–	26,246	38,824	69,755

### for the year ended 31 December 2009

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
Balance at 1 January 2009	4,394	78,749	64,486	45,945	193,574	1,829	195,403
Total comprehensive income for the year	–	–	(21)	(57,984)	(58,005)	828	(57,177)
Issue of share capital	291	(26)	4,326	–	4,591	–	4,591
Dividends	–	–	–	(4,055)	(4,055)	(319)	(4,374)
Credit to equity for share-based payments	–	–	324	88	412	–	412
Transfer (note 30)	–	–	(37,518)	37,518	–	–	–
Sale to minorities	–	–	–	–	–	6	6
Purchase of minorities	–	–	–	–	–	(2,344)	(2,344)
Balance at 31 December 2009	4,685	78,723	31,597	21,512	136,517	–	136,517

On 16 June 2010, the High Court issued an order sanctioning the cancellation of the Company's share premium account. Tribal gave certain undertakings to the Court for the protection of the Company's creditors. On 17 June 2010, Tribal received from Companies House the certificate of registration of the Court order. In October 2010, Tribal discharged all the undertakings given to the Court and accordingly, the share premium account became distributable.

## Consolidated cash flow statement for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>Net cash from operating activities</b>	35	<b>15,871</b>	15,124
<b>Investing activities</b>			
Interest received		143	233
Proceeds on disposal to minorities		–	18
Proceeds on disposal of discontinued operations		5,285	–
Proceeds on disposal of property, plant and equipment		185	493
Disposal/(purchase) of investments		1	(31)
Purchases of property, plant and equipment		(2,588)	(2,366)
Expenditure on product development		(1,907)	(1,304)
Expenditure on business systems		(1,296)	(1,211)
Acquisitions and deferred consideration		(839)	(13,366)
<b>Net cash outflow from investing activities</b>		<b>(1,016)</b>	(17,534)
<b>Financing activities</b>			
Interest paid		(1,496)	(1,252)
Equity dividend paid		(4,284)	(4,055)
Dividends to minorities		–	(319)
Repayment of borrowings		(3,843)	(3,736)
New bank loans		–	7,250
<b>Net cash used in financing activities</b>		<b>(9,623)</b>	(2,112)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,232</b>	(4,522)
<b>Cash and cash equivalents at beginning of year</b>		<b>9,370</b>	13,892
Effect of foreign exchange rate changes		57	–
<b>Cash and cash equivalents at end of year</b>		<b>14,659</b>	9,370

## Notes to the financial statements >

### 1. Accounting policies

#### Basis for accounting

The financial statements on pages 43 to 91 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial information has been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

#### Adoption of new and revised standards

In the current year, the following new and revised Standards have been adopted and have affected the amounts reported in these financial statements.

#### Standards affecting the financial statements

IFRS 3 (2008)  
*Business Combinations*; These standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate.

IAS 27 (2008) *Consolidated and Separate Financial Statements*; IFRS 3 (2008) has also introduced additional disclosure requirements for acquisitions.

IAS 28 (2008)  
*Investments in Associates*

#### Standards not affecting the reported results or the financial position

IFRS 2 (amended) *Group Cash-settled Share-based Payment Transactions* The amendment clarifies the accounting for share-based payment transactions between group entities.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Classification of Rights Issues
IAS 39 (amendment)	Eligible Hedge Items
IFRIC 14 (amended)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Liabilities with Equity Instruments

#### Improvement to IFRSs (May 2010)

The adoption of IFRS 9 which the Group plans to adopt for the year beginning on 1 January 2013 could impact both the measurement and disclosures of Financial Instruments. The directors do not expect that the adoption of the other Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra group transactions, balances, income and expenses are eliminated on consolidation.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement.

## > Notes to the financial statements >

### 1. Accounting policies (continued)

#### Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the corporate governance report on page 34.

#### Revenue and turnover recognition

Revenue is measured at the fair value of the consideration receivable from the provision of goods and services to third party customers in the normal course of business. Revenue is stated exclusive of VAT, sales tax and trade discounts. The particular recognition policies applied in respect of short-term and/or repeat service contracts is as set out below:

- Advisory – on the basis of hours worked multiplied by daily contracted rates or, for fixed price contracts, on an assessment of the fair value of the services provided at the balance sheet date as a proportion of the total value of the contract;
- Performance related contracts – as for advisory for any base fee. Contingent or performance related revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to Tribal;
- Courses, training and software support and maintenance services – over the period of the provision of the related services;
- Sales of goods including software – on delivery of the related goods;
- Permanent recruitment – on completion of the related stage of the recruitment service;
- Temporary recruitment – when the recruit joins the organisation;
- Recruitment advertising – when the advertisement is placed; and
- Interest – accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

In addition to this, the Group has a number of long-term contracts for the provision of more complex, project based services. Where the outcome of such long-term project-based contracts can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the project at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work and claims are included to the extent that they have been agreed with the customer, or are virtually certain of being received.

Where the outcome of a long-term project-based contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs that it is probable will be recovered. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Pre-contract costs are expensed as incurred until the Group is virtually certain of being awarded the contract, usually once the 'preferred bidder' stage is reached. To the extent that they are expected to be recovered over the contract term, bid costs are capitalised from this point, and amortised over the life of the contract.

#### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

## > Notes to the financial statements >

### 1. Accounting policies (continued)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

#### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal. Goodwill arising on acquisition before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

#### Merger reserve

The merger reserve comprises the non-statutory premium arising on shares issued as consideration for acquisitions of subsidiaries where merger relief under the relevant section of the Companies Act applies. To the extent that the creation of goodwill originally gave rise to a merger reserve, upon impairment an appropriate amount is transferred from the merger reserve to the profit and loss reserve.

#### 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 is estimated to be less than its carrying amount, the carrying amount of the asset 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.



## > Notes to the financial statements >

### 1. Accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 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. These assets are amortised by equal instalments over an average of five years.

#### 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 costs of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives of two to three years. 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:

Freehold buildings – over 50 years  
 Leasehold buildings – life of the lease  
 Fixtures, fittings and other equipment – 3 to 7 years

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

#### 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. Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

#### 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.

## > Notes to the financial statements >

### 1. Accounting policies (continued)

#### 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. A provision for any impairment is made where necessary.

#### 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.

#### Exceptional items

Exceptional items are material items which derive from events or transactions that fall outside 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 employing companies. 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 and transactions a 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 comprehensive income.

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 the 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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

#### Operating profit

Operating profit is stated before investment income and finance costs.

#### Foreign currencies

Transactions in currencies other than pounds Sterling are recorded at the rates of exchange on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date, with differences recognised in profit or loss in the period in which they arise.

## > Notes to the financial statements >

### 1. Accounting policies (continued)

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised directly within equity in the Group's hedging and translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### Share-based payments

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. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Fair value is measured by use of a stochastic model which produces similar results to the Black-Scholes model but is also able to value the options subject to market based performance conditions. 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.

#### Tax

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 substantively 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 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

##### *Financial assets*

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

For fair value hedges the change in the fair value of the hedging instrument and hedged item as well as any ineffectiveness arising in cash flow hedges is disclosed with other gains and losses.

The Group does not currently hold any held-to-maturity investments.

## > Notes to the financial statements >

### 1. Accounting policies (continued)

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of a financial asset, or, where appropriate, a shorter period.

Interest is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

#### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### *Cash, cash equivalents and collateralised cash*

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand which have a right of offset against cash balances. 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 is carried at fair value.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issued costs.

#### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

## > Notes to the financial statements >

### 1. Accounting policies (continued)

#### *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### *Financial assets/liabilities at FVTPL*

Financial assets/liabilities are classified as at FVTPL where the financial asset/liability is either held for trading or it is designated as at FVTPL.

A financial asset/liability is classified as held for trading if:

- it has been acquired/incurred principally for the purpose of selling/disposal in the near future; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset/liability other than a financial asset/liability held for trading may be designated as a FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset/liability forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and the information about the Group is provided internally on that basis; or
- it forms a part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets/liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned/paid on the financial asset/liability. Fair value is determined in the manner described in note 38.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### *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 manage this exposure.

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. Further details of derivative financial instruments are disclosed in note 38 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### *Hedge accounting*

The Group designates certain hedging instruments as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in the cash flows of the hedging item.

Note 38 sets out the details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in note 30.

## > Notes to the financial statements >

### 1. Accounting policies (continued)

#### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line of the income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

### 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 £95.1m (2009: £158.1m, 2008: £209.8m). An annual impairment review is required under IAS 36 'Impairment of assets' involving judgement of the future cash flows and discount rates 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 15.

#### Revenue recognition

The Group's revenue recognition policies are disclosed in note 1. In some cases, judgement is required to determine the most appropriate measure of the fair value of the services that have been delivered to the customer at the balance sheet date. The Group is now entering into contracts where part of the fee is contingent on the performance of certain targets. In such cases, judgements are often required to determine the appropriate level of revenue to recognise.

#### Tax

There are a number of tax related risks associated with computations still open to enquiry and certain issues arising from the operation and sale of the Group's healthcare business. Judgement is required to determine the level of provision held against these risks.

### 3. Revenue

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

	2010 £'000	2009 £'000
<b>Continuing operations</b>		
Sales of services	175,372	193,654
Investment income	143	231
	<b>175,515</b>	<b>193,885</b>
<b>Discontinued operations</b>		
Sales of services	26,555	48,419
<b>Total revenue</b>	<b>202,070</b>	<b>242,304</b>

Sales of goods are not material and are therefore not shown separately.

Approximately 90% (2009: 90%) of the Group revenues arose from sales to the UK public sector and as such the UK Government is deemed to be the Group's largest customer.



## > Notes to the financial statements >

### 4. Business segments

The principal activities of the Group are as follows:

- Health** – one of the largest of its type providing health related services in the public and private sectors, including strategy, commissioning and analytics.
- Government** – working for central and local government in the UK and development agencies and governments internationally to transform public services.
- Education** – one of the largest providers of education services to the public sector including software, managed services, school inspection services, consultancy, benchmarking, e-learning, publishing and training.
- Support services** – support services businesses largely operating in the public sector providing a range of PR, advertising and communications, resourcing and architectural design services. As explained in note 13, the Support services businesses are presented within discontinued operations in the income statement.

#### Year ended 31 December 2010

	Health £'000	Government £'000	Education £'000	Eliminations £'000	Consolidated £'000
<b>Revenue</b>					
External sales	25,905	45,370	104,097	–	175,372
Inter-segment sales	183	35	2,524	(2,742)	–
<b>Total revenue</b>	26,088	45,405	106,621	(2,742)	175,372
<b>Segment operating profit/(loss)</b>	392	(1,294)	14,079	–	13,177
Unallocated corporate expenses					(5,803)
<b>Adjusted operating profit</b>					7,374
Amortisation of IFRS 3 intangibles					(1,027)
Exceptional costs					(10,446)
Goodwill impairment					(51,610)
<b>Operating loss</b>					(55,709)
Investment income					143
Other gains and losses					(625)
Finance costs					(1,634)
<b>Loss before tax</b>					(57,825)
Tax					1,984
Loss for the year from discontinued operations					(6,263)
<b>Loss after tax and discontinued operations</b>					(62,104)

Inter-segment sales are charged at prevailing market prices.

## &gt; Notes to the financial statements &gt;

## 4. Business segments (continued)

## Balance sheet information

## At 31 December 2010

	Health £'000	Government £'000	Education £'000	Support services £'000	Central £'000	Consolidated £'000
<b>Assets</b>						
Segment assets	18,310	23,477	95,833	6,469	22,746	166,835
<b>Liabilities</b>						
Segment liabilities	4,111	7,227	36,836	5,688	43,218	97,080
<b>Other segment information</b>						
Capital additions	201	214	4,270	383	1,669	6,737
Depreciation, amortisation and impairment	15,785	37,275	2,343	5,368	2,612	63,383

## Year ended 31 December 2009

	Health £'000	Government £'000	Education £'000	Eliminations £'000	Consolidated £'000	
<b>Revenue</b>						
External sales		25,021	68,623	100,010	–	193,654
Inter-segment sales		653	817	1,254	(2,724)	–
<b>Total revenue</b>		25,674	69,440	101,264	(2,724)	193,654
<b>Segment operating profit</b>		2,432	5,269	15,226	–	22,927
Unallocated corporate expenses						(8,001)
<b>Adjusted operating profit</b>						14,926
Amortisation of IFRS 3 intangibles						(1,011)
Goodwill impairment						(30,683)
<b>Operating loss</b>						(16,768)
Investment income						231
Other gains and losses						95
Finance costs						(1,371)
<b>Loss before tax</b>						(17,813)
Tax						(2,992)
Loss for the year from discontinued operations						(35,768)
<b>Loss after tax and discontinued operations</b>						(56,573)

## &gt; Notes to the financial statements &gt;

## 4. Business segments (continued)

## Balance sheet information

## At 31 December 2009

	Health £'000	Government £'000	Education £'000	Support services £'000	Central £'000	Consolidated £'000
<b>Assets</b>						
Segment assets	36,320	68,370	99,792	24,845	21,466	250,793
<b>Liabilities</b>						
Segment liabilities	5,039	13,636	33,759	15,589	46,253	114,276
<b>Other segment information</b>						
Capital additions	6,125	8,458	2,294	507	1,356	18,740
Depreciation, amortisation and impairment	2,617	33,583	2,637	31,783	738	71,358

## At 31 December 2008

	Health £'000	Government £'000	Education £'000	Support services £'000	Central £'000	Consolidated £'000
<b>Assets</b>						
Segment assets	27,713	99,215	94,973	63,583	24,169	309,653
<b>Liabilities</b>						
Segment liabilities	4,353	17,094	30,136	22,479	40,188	114,250
<b>Other segment information</b>						
Capital additions	2,447	18,222	2,467	2,365	1,959	27,460
Depreciation, amortisation and impairment	8	1,069	2,553	886	577	5,093

## Geographical information

## Revenue from external customers

	2010 £'000	2009 £'000
UK	157,072	178,152
Australasia	6,853	3,467
Rest of the world	11,447	12,035
	175,372	193,654

## > Notes to the financial statements >

### 5. Profit/(loss) for the year

	2010 £'000	2009 £'000
<b>Profit/(loss) for the year is stated after charging/(crediting):</b>		
Depreciation and other amounts written off property, plant and equipment	2,830	3,044
Decrease in fair value of investment property	–	35
Restructuring costs	9,308	1,076
Staff costs (see note 7)	104,120	112,091
Amortisation of acquired IFRS 3 intangible assets	1,052	1,192
Amortisation and write-down of business systems	2,144	257
Goodwill impairment	56,360	65,574
Cost of inventories recognised as an expense	324	1,128
Write-down of inventories recognised as an expense	220	169
Impairment loss recognised on trade receivables	264	797
Research and development expenditure	766	482
Amortisation of development costs	997	1,291
Grant income received	(819)	(1,583)
Net foreign exchanges losses	225	13

#### The analysis of auditors' remuneration is as follows:

	2010 £'000	2009 £'000
Fees payable to the Company's auditors for the audit of the company's annual report	92	95
Fees payable to the Company's auditors and their associates for the other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	124	165
– the review of interim results	30	26
	246	286
– tax services	144	115
– corporate finance services	131	135
– other services	100	18
Total non-audit fees	375	268
Total auditors' remuneration	621	554

Fees payable to Deloitte 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 tax compliance fees of £53,000 (2009: £73,000), tax advisory fees of £83,000 (2009: £39,000) and VAT advice of £8,000 (2009: £3,000).

Corporate finance services include fees as reporting accountants of £131,000 (2009: £135,000), of which £nil (2009: £135,000) has been capitalised as part of the cost of acquisitions (see page 32 for Group policy on use of auditors for non-audit work).

Other services in 2010 include fees for consultancy services.

## > Notes to the financial statements >

### 6. Exceptional administrative expenses

	2010 £'000	2009 £'000
Restructuring costs	7,127	–
Write-down of business system	1,888	–
China business development	770	–
Other	661	–
	10,446	–

Exceptional costs have arisen throughout the year which are not part of the Group's normal trading activities. Significant restructuring costs of £7.1m have been incurred to reduce headcount and property capacity in order to improve the future operating efficiency of the Group and to adjust the Group's capacity to better match reduced demand for advisory services in the public sector. This figure includes £0.4m in relation to compensation for loss of office for the CEO.

The carrying value of the Group's business system has been written down by £1.9m.

The Group incurred £0.8m in developing business opportunities in China. These costs have been included as exceptional as they represent significant investment for the Group and are not part of normal trading activities to date. This development has now been placed on hold.

Other exceptional costs relate to professional fees which have been incurred in responding to expressions of interest which have been made during 2010 by third parties in relation to purchasing the share capital of Tribal Group plc.

### 7. Staff numbers and costs

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

	2010 No.	2009 No.
Selling, operations and marketing	1,762	1,938
Finance and administration	311	345
	2,073	2,283

The aggregate payroll costs of these persons were as follows:

	2010 £'000	2009 £'000
Wages and salaries	83,905	92,692
Social security costs	9,407	10,471
Pension costs	5,729	5,843
Redundancy costs	5,769	2,673
Share option (credit)/charge	(690)	412
	104,120	112,091
Discontinued operations	(14,517)	(29,982)
Continuing operations	89,603	82,109

## &gt; Notes to the financial statements &gt;

**8. Investment income**

	2010 £'000	2009 £'000
Interest on bank deposits	87	42
Other interest receivable	56	189
	<b>143</b>	<b>231</b>

**9. Other gains and losses**

	2010 £'000	2009 £'000
Change in the fair value of derivatives	–	357
Hedge ineffectiveness in the cash flow hedges	(625)	(262)
	<b>(625)</b>	<b>95</b>

No other gains or losses have been recognised in respect of loans and receivables, other than impairment losses recognised/reversed in respect of trade receivables (see notes 5 and 20).

**10. Finance costs**

	2010 £'000	2009 £'000
<b>Finance charges</b>		
Interest on bank overdrafts and loans	1,563	1,270
Interest on loan notes	–	4
Net interest payable on retirement benefit obligations	71	62
Total borrowing costs	<b>1,634</b>	<b>1,336</b>
<b>Financial instruments</b>		
Discounting charge for deferred consideration	–	35
	<b>1,634</b>	<b>1,371</b>



## &gt; Notes to the financial statements &gt;

## 11. Tax

	Continuing operations		Discontinued operations		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current tax						
UK corporation tax	379	5,289	(210)	(527)	169	4,762
Adjustments in respect of prior years	(1,328)	(897)	–	–	(1,328)	(897)
	(949)	4,392	(210)	(527)	(1,159)	3,865
Deferred tax						
Current year	(1,035)	(1,400)	–	185	(1,035)	(1,215)
Tax (credit)/charge on (losses)/profits	(1,984)	2,992	(210)	(342)	(2,194)	2,650

The continuing tax (credit)/charge can be reconciled to the loss from continuing operations per the income statement as follows:

	2010 £'000	2009 £'000
Loss before tax	(57,825)	(17,813)
Tax credit at standard rate of 28% (2009: 28%)	(16,191)	(4,988)
<i>Effects of:</i>		
Intangible amortisation and impairment	14,451	8,592
Expenses not deductible for tax purposes	1,277	195
Adjustments in respect of prior periods	(1,328)	(897)
Share-based payments and discounting charges	(193)	90
Tax (credit)/expense for the year	(1,984)	2,992

In addition to the amount charged to the income statement, a deferred tax charge of £98,000 (2009: credit of £235,000) has been taken directly to equity (see consolidated statement of comprehensive income on page 44).

The reduction in the corporation tax rate from 28% to 27%, from 1 April 2011, will affect the future tax charge accordingly.

## 12. Dividends

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2009 of 2.75 pence (year ended 31 December 2008: 2.65 pence) per share	2,562	2,384
Interim dividend for the year ended 31 December 2010 of 1.85 pence (year ended 31 December 2009: 1.85 pence) per share	1,722	1,671
	4,284	4,055
Proposed final dividend for the year ended 31 December 2010 of 0.65 pence (year ended 31 December 2009: 2.75 pence) per share	615	2,600

The interim dividend for 2010 was approved by the Board on 16 August 2010 and was paid on 22 October 2010 to ordinary shareholders who were on the register on 24 September 2010.

The Board is recommending a final dividend of 0.65p per share. This dividend will be paid on 15 July 2011 to shareholders on the register at 17 June 2011.

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

## > Notes to the financial statements >

### 13. Discontinued operations

It was announced in March 2010 that the Group would be focusing on its core activities in Education, Health and Government and that strategic options were being considered for each of our Support services businesses. As detailed below, the Architecture and Communications businesses were disposed of on 1 June 2010 and 20 October 2010 respectively. At 31 December 2010, the Group continued to review strategic alternatives for its Resourcing business and on 9 February 2011, the Group announced the disposal of this business. The Resourcing business is included within assets held for sale, and within discontinued operations along with the Architecture and Communications businesses up to the dates of disposal. Discontinued operations in the year ended 31 December 2009 also include the Regeneration business.

The Group disposed of its Architecture business, Nightingale Architects Limited, to IBI Holdco Limited, the UK subsidiary of IBI Group on 1 June 2010. The maximum gross sale proceeds are £13.1 million payable as follows:

- (i) initial consideration at completion of £8.2m;
- (ii) deferred contingent consideration of £1.8m paid on 31 December 2010; and
- (iii) further deferred consideration of between £1.1m and £3.1m payable in two tranches in respect of the periods from completion to 30 April 2011, and the following year to 30 April 2012, based on the profit performance of Nightingale Architects Limited over those periods. The amounts are payable on 1 June 2011 and 1 June 2012 respectively.

The total consideration estimated in determining the profit on disposal is £12.1 million which represents management's best view of the likely outcome.

Details of net assets disposed and disposal proceeds are as follows:

	£'000
Goodwill	7,500
Property, plant and equipment	370
Inventories	25
Trade and other receivables	3,863
Cash and cash equivalents	2,932
Trade and other payables	(3,756)
Deferred tax	(220)
<b>Net assets disposed</b>	<b>10,714</b>
Profit on disposal	352
<b>Consideration</b>	<b>11,066</b>
Satisfied by:	
Cash	9,961
Deferred and contingent consideration	2,128
Directly attributable costs	(1,023)
	<b>11,066</b>
Net cash flow arising from disposal	
Cash consideration	9,961
Cash disposed	(2,932)
Directly attributable costs	(1,023)
<b>Cash inflow from disposal</b>	<b>6,006</b>

A profit of £352,000 arose on the disposal of Nightingale Architects Limited, being the net proceeds of disposal less the carrying amount of the subsidiary's net assets. It is not anticipated that any tax will be payable on this profit as the directors believe that the substantial shareholder exemption will apply. Accordingly no provision has been made.

The Group disposed of the trade and assets of its Communications business, Kindred Agency Limited (Kindred), to Weald Lane Limited, a company formed by Kindred's senior management team on 20 October 2010 for sale proceeds of £1.

## > Notes to the financial statements >

### 13. Discontinued operations (continued)

Details of net assets disposed of and disposal proceeds are as follows:

	£'000
Intangibles	102
Property, plant and equipment	84
Investments	31
Inventories	600
Trade and other receivables	715
Trade and other payables	(1,027)
<b>Net assets disposed</b>	<b>505</b>
Loss on disposal	(1,326)
<b>Consideration</b>	<b>(821)</b>
Satisfied by:	
Cash	–
Directly attributable costs	(721)
Contingent amount payable	(100)
	<b>(821)</b>
Net cash flow arising from disposal	
Cash consideration	–
Directly attributable costs	(721)
<b>Cash outflow from disposal</b>	<b>(721)</b>

The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	2010 £'000	2009 £'000
Turnover	52,453	93,203
Direct agency costs	(25,898)	(44,784)
Revenue	26,555	48,419
Operating profit before amortisation of IFRS 3 intangibles and exceptional costs	1,457	2,205
Exceptional restructuring costs	(2,181)	(3,243)
Goodwill impairment	(4,750)	(34,891)
Amortisation of IFRS 3 intangibles	(25)	(181)
Operating loss	(5,499)	(36,110)
Attributable tax credit	210	342
Loss on disposal of discontinued operations	(974)	–
Net loss attributable to discontinued operations	(6,263)	(35,768)
Operating cash flows for discontinued operations	(5,571)	(6,182)
Effect of foreign exchange rate changes	(13)	(13)
Investing cash flows for discontinued operations	4,882	(489)
Financing cash flows for discontinued operations	–	(3)
Total cash flows for discontinued operations	(702)	(6,687)

## > Notes to the financial statements >

### 13. Discontinued operations (continued)

The major classes of assets and liabilities comprising the operations classified as held for sale are as set out below and relate entirely to the Resourcing business. As explained in note 39, this business has been sold subsequently to the year end.

	£'000
Property, plant and equipment	488
Deferred tax asset	202
Inventories	82
Trade and other receivables	3,547
<b>Assets classified as held for sale</b>	<b>4,319</b>
Trade and other payables	(5,262)
Tax liabilities	(120)
<b>Liabilities classified as held for sale</b>	<b>(5,382)</b>

### 14. 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:

	2010 thousands	2009 thousands
<b>Weighted average number of shares outstanding:</b>		
Basic weighted average number of shares in issue	93,696	90,523
Employee share options	160	487
Weighted average number of shares outstanding for dilution calculations	93,856	91,010

The adjusted basic and adjusted diluted earnings per share figures shown on the consolidated income statement on page 43 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:

	2010 £'000	2009 £'000
<b>Earnings</b>		
<b>From continuing operations</b>		
Loss for the year	(55,841)	(20,805)
Minority interests	–	(828)
Net loss from continuing operations attributable to equity holders of the parent	(55,841)	(21,633)
<b>Earnings per share</b>		
Basic	(59.6)p	(23.9)p
Diluted	(59.6)p	(23.9)p
<b>From continuing and discontinued operations</b>		
Loss for the year	(62,104)	(56,573)
Minority interest	–	(828)
Net loss from continuing and discontinued operations attributable to equity holders of the parent	(62,104)	(57,401)
<b>Earnings per share</b>		
Basic	(66.3)p	(63.4)p
Diluted	(66.3)p	(63.4)p

## &gt; Notes to the financial statements &gt;

## 14. Earnings per share (continued)

	2010 £'000	2009 £'000
<b>From discontinued operations</b>		
Loss for the year	(6,263)	(35,768)
Minority interest	–	–
Net loss from discontinued operations attributable to equity holders of the parent	(6,263)	(35,768)
<b>Earnings per share</b>		
Basic	(6.7)p	(39.5)p
Diluted	(6.7)p	(39.5)p
<b>Adjusted earnings</b>		
<b>From continuing operations</b>		
Net loss from continuing operations attributable to equity holders of the parent	(55,841)	(21,633)
Amortisation of IFRS 3 intangibles (net of tax)	739	728
Goodwill impairment and associated tax adjustments	51,027	30,683
Exceptional costs (net of tax)	8,277	–
Financial instruments charge/(credit) (net of tax)	450	(68)
Adjusted earnings	4,652	9,710
<b>Adjusted earnings per share</b>		
Basic	5.0p	10.7p
Diluted	5.0p	10.7p
<b>From continuing and discontinued operations</b>		
Net loss from continuing and discontinued operations attributable to equity holders of the parent	(62,104)	(57,401)
Amortisation of IFRS 3 intangibles (net of tax)	757	858
Goodwill impairment and associated tax adjustments	55,777	65,574
Exceptional costs (net of tax)	9,847	2,335
Loss on disposal of discontinued operations	974	–
Financial instruments charge/(credit) (net of tax)	450	(68)
Adjusted earnings	5,701	11,298
<b>Adjusted earnings per share</b>		
Basic	6.1p	12.5p
Diluted	6.1p	12.4p
<b>From discontinued operations</b>		
Net loss from discontinued operations attributable to equity holders of the parent	(6,263)	(35,768)
Amortisation of IFRS 3 intangibles (net of tax)	18	130
Goodwill impairment and associated tax adjustments	4,750	34,891
Exceptional costs (net of tax)	1,570	2,335
Loss on disposal of discontinued operations	974	–
Adjusted earnings	1,049	1,588
<b>Adjusted earnings per share</b>		
Basic	1.1p	1.8p
Diluted	1.1p	1.7p

## &gt; Notes to the financial statements &gt;

## 15. Goodwill

	2010 £'000	2009 £'000
<b>Cost</b>		
At beginning of year	269,888	260,896
Additions	926	13,859
Disposals	(11,209)	(4,867)
At end of year	259,605	269,888
<b>Accumulated impairment losses</b>		
At beginning of year	111,838	51,131
Impairment charge – continuing	51,610	30,683
– discontinued	4,750	34,891
Disposals	(3,709)	(4,867)
At end of year	164,489	111,838
<b>Net book value</b>		
<b>At end of year</b>	<b>95,116</b>	158,050
At beginning of year	158,050	209,765

Additions to goodwill during the year relate to the acquisition of Class Measures (see note 36).

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

	2010 £'000	2009 £'000	2008 £'000
Support services -			
Communications	–	2,250	19,168
Architecture	–	7,500	17,636
Resourcing	–	2,500	6,614
	–	12,250	43,418
Health	9,351	24,759	20,937
Government	13,149	49,351	73,728
Education	72,616	71,690	71,682
	<b>95,116</b>	158,050	209,765

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The test performed at 31 December 2010 has taken account of difficult trading conditions during the second half of 2010 in our Health and Government businesses (as described in more detail in the Operating review). The continued uncertainty surrounding UK Government spending plans, and the anticipated impact of the pressure to reduce government debt in the medium term, have also been factored into our review. We have also considered carefully the assumptions used in the review.

In the case of the Resourcing CGU, the ongoing exploration of a variety of strategic options at the year end and the subsequent disposal has caused the directors to conclude that they should continue to use fair value less costs to sell rather than the value in use approach.

## > Notes to the financial statements >

### 15. Goodwill (continued)

The outcome of the impairment test has been a write-down of goodwill of £56.4m, broken down as follows:

	Basis of assessment	£'000
Resourcing	Fair value less costs to sell	2,500
Communications	Fair value less costs to sell	2,250
Health	Value in use	15,408
Government	Value in use	36,202
		56,360

The recoverable amounts of the Health, Government and Education CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, longer term 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 CGUs. The growth rates are based on internal two-year 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 has extrapolated cash flows in perpetuity based on an estimated growth rate of 2%. This rate does not exceed the average long-term growth rate for the relevant markets and reflects the current caution in the market. The rates used to discount the forecast cash flows are 12% for Education and Health and 13% for Government and are chosen to reflect the directors' assessment of the relative degree of risk associated with each CGU. To the extent that the outcome of any of these variables adversely differs from the assumption for impaired CGUs, an additional impairment would be required. For example if the profits were to be 20% below the budgets for each of 2011 and 2012, additional impairments of £2.0m and £3.5m would be required for Health and Government respectively. If the discount rate increased by 1%, then additional impairments of £0.9m and £1.2m would be required for Health and Government respectively.

The goodwill relating to the Education CGU has not been impaired. The headroom in the calculations is such that management do not believe there is a reasonably possible change in the key assumptions that would result in an impairment of this CGU.

The recoverable amounts relating to the Resourcing and Communications CGUs have been based on their estimated fair value less costs to sell and reflect the terms of sale of these units which were announced on 9 February 2011 and 20 October 2010 respectively.



## &gt; Notes to the financial statements &gt;

## 16. Other intangible assets

	Customer relationships, contract pipeline and brands £'000	Development costs £'000	Business systems £'000	Total £'000
<b>Cost</b>				
At 1 January 2009	5,855	5,528	2,205	13,588
Additions	–	1,304	1,211	2,515
Acquired on acquisition of subsidiaries	1,292	–	–	1,292
Disposals	–	(50)	(381)	(431)
At 1 January 2010	7,147	6,782	3,035	16,964
Additions	–	1,907	1,296	3,203
Acquired on acquisition of subsidiaries	117	–	–	117
Disposals	(346)	(21)	–	(367)
<b>At 31 December 2010</b>	<b>6,918</b>	<b>8,668</b>	<b>4,331</b>	<b>19,917</b>
<b>Amortisation</b>				
At 1 January 2009	1,754	3,495	599	5,848
Charge for the year – continuing	1,011	1,291	257	2,559
– discontinued	181	–	–	181
Disposals	–	(40)	(381)	(421)
At 1 January 2010	2,946	4,746	475	8,167
Charge for the year – continuing	1,027	997	256	2,280
– discontinued	25	–	–	25
Write-down	–	–	1,888	1,888
Disposals	(244)	–	–	(244)
<b>At 31 December 2010</b>	<b>3,754</b>	<b>5,743</b>	<b>2,619</b>	<b>12,116</b>
<b>Carrying amount</b>				
<b>At 31 December 2010</b>	<b>3,164</b>	<b>2,925</b>	<b>1,712</b>	<b>7,801</b>
At 31 December 2009	4,201	2,036	2,560	8,797
At 31 December 2008	4,101	2,033	1,606	7,740

Customer relationships, contract pipeline and brands have all arisen from acquisitions, and are amortised over their estimated useful lives, which on average is five years. As at 31 December 2010 the total net book value is made up of £2.8m relating to customer relationships (2009: £3.5m, 2008: £3.1m), £0.2m relating to contract pipeline (2009: £0.5m, 2008: £0.7m) and £0.2m relating to brands (2009: £0.2m, 2008: £0.3m).

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 an average of five years from the date it first comes into use.

## &gt; Notes to the financial statements &gt;

## 17. Property, plant and equipment

	Investment property £'000	Freehold buildings £'000	Leasehold buildings £'000	Fixtures, fittings and other equipment £'000	Total £'000
<b>Cost or valuation</b>					
At 1 January 2009	200	1,263	5,490	13,782	20,735
Additions	–	–	447	1,919	2,366
Acquired on acquisition of subsidiaries	–	–	16	43	59
Disposals	–	(482)	(105)	(810)	(1,397)
At 1 January 2010	200	781	5,848	14,934	21,763
Additions	–	–	517	2,091	2,608
Acquired on acquisition of subsidiaries	–	–	–	9	9
Disposals	(200)	–	(743)	(2,406)	(3,349)
Included within assets held for sale	–	–	(258)	(1,151)	(1,409)
<b>At 31 December 2010</b>	<b>–</b>	<b>781</b>	<b>5,364</b>	<b>13,477</b>	<b>19,622</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January 2009	–	16	1,910	9,706	11,632
Charge for the year	–	29	602	2,413	3,044
Impairment loss	35	–	–	–	35
Disposals	–	(33)	(69)	(782)	(884)
At 1 January 2010	35	12	2,443	11,337	13,827
Charge for the year	–	17	692	2,121	2,830
Disposals	(35)	–	(350)	(1,917)	(2,302)
Included within assets held for sale	–	–	(79)	(842)	(921)
<b>At 31 December 2010</b>	<b>–</b>	<b>29</b>	<b>2,706</b>	<b>10,699</b>	<b>13,434</b>
<b>Net book value</b>					
<b>At 31 December 2010</b>	<b>–</b>	<b>752</b>	<b>2,658</b>	<b>2,778</b>	<b>6,188</b>
At 31 December 2009	165	769	3,405	3,597	7,936
At 31 December 2008	200	1,247	3,580	4,076	9,103

The property rental income earned by the Group from its investment property, which is leased out under an operating lease, amounted to £2,000 (2009: £10,000). Direct operating expenses arising on the investment property in the year amounted to £nil (2009: £5,000). During the year, the investment property was sold for proceeds equivalent to its net book value.

## > Notes to the financial statements >

### 18. Investments

Available for sale investments carried at fair value:

	2010 £'000	2009 £'000	2008 £'000
<b>Cost</b>			
At beginning of year	38	7	157
Additions	–	31	–
Disposals	(37)	–	(150)
At end of year	1	38	7

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.

### 19. Inventories

	2010 £'000	2009 £'000	2008 £'000
Work in progress	275	568	121
Finished goods and goods for resale	335	386	680
	<b>610</b>	<b>954</b>	<b>801</b>

### 20. Trade and other receivables

	2010 £'000	2009 £'000	2008 £'000
Amount receivable from sale of services	17,714	44,207	50,924
Allowance for doubtful debts	(860)	(1,399)	(1,196)
	<b>16,854</b>	<b>42,808</b>	<b>49,728</b>
Other receivables	3,608	2,351	954
Prepayments and accrued income	14,423	17,298	15,508
	<b>34,885</b>	<b>62,457</b>	<b>66,190</b>

The Group's principal financial assets are cash and cash equivalents and trade and other receivables which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily related to its trade receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

#### Trade receivables

The average credit terms on sale of services is 30 days. In certain cases interest is charged on trade receivables after the first 30 days from the date of invoice. In these cases a surcharge of 7% is made on the outstanding balances.

The Group sells the majority of its services to the public sector and as such there is a low incidence of default. All overdue debts are assessed on an individual basis and a provision for irrecoverable amounts is determined by reference to specific circumstances and past default experience. As a precaution and as a result of the sharp slowdown in the UK economy we have proportionately increased our allowance for doubtful debts.

Included in the Group's trade receivable balance are debtors with a carrying amount of £6.1m (2009: £12.5m, 2008: £18.2m) which are past due at the reporting date and which have not been impaired as there has not been a significant change in the credit quality and the Group believes that the amounts are still recoverable. The Group does not hold any collateral over these balances.

## > Notes to the financial statements >

### 20. Trade and other receivables (continued)

The average age of these receivables is 43 days (2009: 51 days).

Ageing of past due but not impaired receivables:

	2010 £'000	2009 £'000	2008 £'000
30-60 days	4,116	9,403	12,393
60-90 days	848	2,160	3,819
90-120 days	655	707	690
120+ days	442	193	1,345
Total	6,061	12,463	18,247

Movement in the allowance for doubtful debts:

	2010 £'000	2009 £'000	2008 £'000
Balance at the beginning of the year	1,399	1,196	766
Discontinued operations	(147)	–	–
Amounts written off during the year	(388)	(531)	(194)
Amounts recovered during the year	(118)	(63)	(39)
Recognised in the income statement	264	797	663
Transferred to assets held for sale	(150)	–	–
Balance at end of year	860	1,399	1,196

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group's credit risk is relatively low because a high proportion of trade or other receivables have sovereign or close to sovereign credit rating. Accordingly the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables:

	2010 £'000	2009 £'000	2008 £'000
30-60 days	237	280	69
60-90 days	124	109	71
90-120 days	14	93	199
120+ days	485	917	857
Total	860	1,399	1,196

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

### 21. Cash and cash equivalents

Cash and cash equivalents of £14.7m (2009: £9.4m, 2008: £13.9m) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Of the above balance, £1.2m (2009: £2.7m, 2008: £2.0m) represents funds restricted in use by the relevant commercial terms of certain trading contracts.

## &gt; Notes to the financial statements &gt;

**22. Derivative financial instruments**

	2010 £'000	2009 £'000	2008 £'000
<b>Current liabilities</b>			
Financial liabilities carried at fair value through profit or loss (FVTPL)	–	–	188

	2010 £'000	2009 £'000	2008 £'000
<b>Non-current liabilities</b>			
Interest rate swaps that are designated and effective as hedging instruments carried at fair value	2,173	931	809

Further details of derivative financial instruments are provided in note 38.

**23. Trade and other payables**

	2010 £'000	2009 £'000	2008 £'000
Trade payables	4,864	13,255	19,832
Other taxation and social security	9,813	6,922	6,183
Other payables	2,166	5,630	3,947
Accruals and deferred income	33,856	40,285	37,368
Deferred cash consideration	72	631	1,126
	<b>50,771</b>	<b>66,723</b>	<b>68,456</b>

The average credit period taken for trade purchases is 29 days (2009: 33 days).

For most suppliers no interest is charged on the trade payables for the first 30 days from the date of invoice. Thereafter interest may be charged on the outstanding balances due to certain suppliers at various interest rates. The Group has financial risk management policies in place to ensure that all payables are paid within a reasonable timeframe.

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

## &gt; Notes to the financial statements &gt;

## 24. Bank loans and loan notes

	2010 £'000	2009 £'000	2008 £'000
Bank loans	33,157	36,780	32,894
Loan notes	–	381	662
	<b>33,157</b>	<b>37,161</b>	<b>33,556</b>

## Maturity of bank loans and loan notes:

	2010 £'000	2009 £'000	2008 £'000
Bank loans and loan notes can be analysed as falling due:			
On demand or within one year	–	381	662
In the second to fifth years inclusive	33,157	36,780	32,894
	<b>33,157</b>	<b>37,161</b>	<b>33,556</b>

The bank arrangements are all denominated in UK sterling at floating rates but as hedged have the following profile:

	Fixed rate 2010 £'000	Floating rate 2010 £'000	Total 2010 £'000	Fixed rate 2009 £'000	Floating rate 2009 £'000	Total 2009 £'000
Bank loans	25,000	8,157	33,157	25,000	11,780	36,780
Loan notes	–	–	–	–	381	381
<b>Total</b>	<b>25,000</b>	<b>8,157</b>	<b>33,157</b>	<b>25,000</b>	<b>12,161</b>	<b>37,161</b>

The weighted average interest rates paid were as follows:

	2010	2009	2008
Bank loans	3.3%	3.3%	6.2%
Loan notes	0.0%	0.1%	3.7%

The weighted average fixed rate is 3.8% (2009: 3.8%) and the weighted average period for which interest rates on fixed rate liabilities are fixed, taking into account the interest rate swap, is three years (2009: four years). There are £6.0m (2009: £3.0m) undrawn committed borrowing facilities, which all expire in two to five years. The Group also has cash balances of £14.7m (2009: £9.4m) (see note 21), giving net debt at the year end of £18.5m (2009: £27.8m). In addition, at the year end there was a £8.0m undrawn overdraft facility giving underlying headroom of £29.5m.

The directors estimate the fair value of the Group's borrowings (including the interest rate swap) as follows:

	2010 £'000	2009 £'000	2008 £'000
Bank loans	35,330	37,711	33,891
Loan notes	–	381	662
	<b>35,330</b>	<b>38,092</b>	<b>34,553</b>

A £40m bank loan is available under a revolving facility until February 2015. 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 December 2010, the amount drawn down (net of bank arrangement fees) was £33.2m. The loan is secured by way of a fixed and floating charge over the assets of the Group.

## &gt; Notes to the financial statements &gt;

**25. Provisions**

	2010 £'000	2009 £'000	2008 £'000
<b>Litigation provision</b>			
At beginning of year	435	655	577
Additional provision in year	315	90	103
Reclassification (to)/from accruals	–	(290)	–
Utilisation of provision	(225)	(20)	(25)
At end of year	525	435	655

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. 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. Further details are contained in note 37.

**26. Deferred tax**

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

	2010 £'000	2009 £'000	2008 £'000
<b>Deferred tax assets</b>			
Retirement benefit schemes	323	601	399
Holiday pay accrual	–	–	57
Depreciation in excess of capital allowances	2,147	1,868	1,050
Other timing differences	451	380	343
Share-based payments	16	197	163
Derivative financial instruments	319	145	137
	<b>3,256</b>	<b>3,191</b>	<b>2,149</b>
<b>Deferred tax liabilities</b>			
Intangible assets	865	1,694	1,730
Fair value adjustment on investment property	–	24	34
Leasehold property not qualifying for tax allowances	159	163	163
	<b>1,024</b>	<b>1,881</b>	<b>1,927</b>

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.



## > Notes to the financial statements >

### 26. Deferred tax (continued)

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

	Temporary differences on non-current assets £'000	Holiday pay accrual £'000	Retirement benefit schemes £'000	Derivative financial instruments £'000	Other temporary differences £'000	Total £'000
At 1 January 2010	184	–	601	145	380	1,310
Credit/(charge) to income statement	870	–	(6)	–	171	1,035
Items taken directly to equity	–	–	(272)	174	–	(98)
Acquisition of subsidiaries	(33)	–	–	–	–	(33)
Disposal of operations	224	–	–	–	(4)	220
Assets held for sale	(106)	–	–	–	(96)	(202)
<b>At 31 December 2010</b>	<b>1,139</b>	<b>–</b>	<b>323</b>	<b>319</b>	<b>451</b>	<b>2,232</b>

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

	Temporary differences on non-current assets £'000	Holiday pay accrual £'000	Retirement benefit schemes £'000	Derivative financial instruments £'000	Other temporary differences £'000	Total £'000
At 1 January 2009	(714)	57	399	137	343	222
Credit/(charge) to income statement	1,260	(57)	(25)	–	37	1,215
Items taken directly to equity	–	–	227	8	–	235
Acquisition of subsidiary	(362)	–	–	–	–	(362)
At 31 December 2009	184	–	601	145	380	1,310

At the balance sheet date, the Group has unused tax losses of £18.6m available for offset against future profits. These losses arose from the acquisition of Newchurch Limited in 2009. No deferred tax asset has been recognised as it is not considered probable that there will be future taxable profits of the same nature and trade available.

### 27. Share-based payments

The Group recognised the following (credits)/expenses related to equity-settled share-based payment transactions:

	2010 £'000	2009 £'000
<b>Continuing operations</b>		
LTIP	(660)	405
SAYE	16	43
	(644)	448
<b>Discontinued operations</b>		
LTIP	(47)	(52)
SAYE	1	16
	(46)	(36)
Total	(690)	412

### 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 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 have either not been met or are unlikely to be met and therefore no expense has been recognised in either the current or prior year.

## > Notes to the financial statements >

### 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. There are two types of LTIP awards. Generally 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. However, the extent to which two awards granted on 1 May 2007 and 20 June 2008 vest is measured by reference to the market performance of the Group's share price following the announcement of the Group's results for the years ended 31 December 2009 and 31 December 2010 respectively.

#### 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 prior to 2008 are three year saving schemes. The 2008 SAYE scheme was granted at a discount to market value of 20% and was available as a three, five or seven year scheme. There have not been any SAYE grants in the current or prior year.

#### 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.

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 January 2010	673	£2.42	3,597	£nil	591	£1.25	196	£1.47
Exercised during the year	-	-	(289)	£nil	-	-	-	-
Granted during the year	-	-	62	£nil	-	-	-	-
Lapsed during the year	(247)	£2.38	(2,441)	£nil	(328)	£1.38	(18)	£2.22
Outstanding at 31 December 2010	426	£2.45	929	£nil	263	£1.08	178	£1.39
Exercisable at 31 December 2010	426	£2.45	729	£nil	-	-	178	£1.39
Weighted average remaining contractual life (years)	0.7		4.3		3.4		1.5	
Weighted average share price at date of exercise	-		£0.75		-		-	

Share options outstanding at the year end have a range of exercise prices; ESOS: £1.33 - £3.10, LTIP: £nil, SAYE: £1.08 and Acquired schemes: £0.22 - £2.45.

For the year ended 31 December 2010, the Group has used a stochastic valuation model in order to incorporate a discount factor into the fair value to reflect the market based performance condition of the LTIP grant. The following table sets out the information about how the fair value of the grant is calculated:

	LTIP 31 December 2010	LTIP 31 December 2009
Date of grant	April 2010	May 2009
Share price	£0.77	£1.00
Exercise price	£nil	£nil
Expected dividend yield	4.70%	4.37%
Risk free interest rate	1.84%	3.74%
Expected volatility	41.0%	35.0%
Term (years)	3.0	3.2
Option fair value	£0.66	£0.88

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.

## > Notes to the financial statements >

### 27. Share-based payments (continued)

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 years for the LTIP award).

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		Acquired schemes	
	2010 thousands	2009 thousands	2010 thousands	2009 thousands
Options granted before 7 November 2002	426	673	62	73

### 28. Share capital

	2010 £'000	2009 £'000	2008 £'000
<b>Authorised</b>			
125,000,000 (2009: 125,000,000, 2008: 125,000,000) ordinary shares of 5p each	6,250	6,250	6,250

	2010 number	2010 £'000	2009 number	2009 £'000	2008 number	2008 £'000
<b>Allotted, called up and fully paid</b>						
At beginning of the year	93,695,985	4,685	87,880,565	4,394	84,773,759	4,239
Issued as consideration for acquisitions	-	-	5,815,420	291	3,105,491	155
Share option exercises	-	-	-	-	1,315	-
At end of the year	93,695,985	4,685	93,695,985	4,685	87,880,565	4,394

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

### 29. Share premium

	2010 £'000	2009 £'000	2008 £'000
At beginning of the year	78,723	78,749	74,750
Premium on share issues (net of expenses)	-	(26)	3,999
Capital reduction	(78,723)	-	-
At end of the year	-	78,723	78,749

On 16 June 2010, the High Court issued an order sanctioning the cancellation of the Company's share premium account. Tribal gave certain undertakings to the Court for the protection of the Company's creditors. On 17 June 2010, Tribal received from Companies House the certificate of registration of the Court order. In October 2010, Tribal discharged all the undertakings given to the Court and accordingly, the share premium account became distributable.

## &gt; Notes to the financial statements &gt;

## 30. Other reserves

	Capital reserve £'000	Merger reserve £'000	Own share reserve £'000	Share-based payment reserve £'000	Hedging reserve £'000	Total £'000
At 31 December 2007	9,545	55,551	(1,590)	631	445	64,582
Net expense recognised directly in equity	-	-	-	-	(799)	(799)
Credit in relation to share-based payment charge	-	-	-	851	-	851
Transfers (see note 31)	-	-	-	(148)	-	(148)
At 31 December 2008	9,545	55,551	(1,590)	1,334	(354)	64,486
Net expense recognised directly in equity	-	-	-	-	(21)	(21)
Premium on share issues	-	4,326	-	-	-	4,326
Credit in relation to share-based payment charge	-	-	-	412	-	412
Transfers (see note 31)	-	(37,518)	42	(130)	-	(37,606)
At 31 December 2009	9,545	22,359	(1,548)	1,616	(375)	31,597
Net expense recognised directly to equity	-	-	-	-	(445)	(445)
Debit in relation to share-based payment credit	-	-	564	(1,144)	-	(580)
Transfers (see note 31)	-	(4,326)	-	-	-	(4,326)
<b>At 31 December 2010</b>	<b>9,545</b>	<b>18,033</b>	<b>(984)</b>	<b>472</b>	<b>(820)</b>	<b>26,246</b>

The capital reserve of £9.5m (2009: £9.5m) resulted from a share exchange when Tribal Group plc was listed in February 2001.

The merger reserve of £18.0m (2009: £22.4m) relates to the premium arising on shares issued subject to the provisions of section 612 of Companies Act 2006 (previously section 131 of the Companies Act 1985), net of cumulative goodwill impairment of £52.0m (2009: £47.7m) in respect of related acquisitions now deemed to be impaired.

The own share reserve of £1.0m (2009: £1.5m) represents the cost of 503,274 shares (2009: 791,943) in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group's share option schemes. In the year ended 31 December 2010, 288,669 shares (2009: 21,541) were disposed of on exercise of options.

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 28%.

## 31. Retained earnings

	2010 £'000	2009 £'000	2008 £'000
At beginning of the year	21,512	45,945	36,606
(Loss)/profit for the year	(62,104)	(57,401)	13,443
Dividends	(4,284)	(4,055)	(3,957)
Net expense recognised directly in equity	651	(583)	(295)
Capital reduction	78,723	-	-
Transfers (see note 30)	4,326	37,606	148
<b>At end of the year</b>	<b>38,824</b>	<b>21,512</b>	<b>45,945</b>

## &gt; Notes to the financial statements &gt;

**32. Minority interest**

	2010 £'000	2009 £'000	2008 £'000
At beginning of the year	–	1,829	1,065
Profit for the year	–	828	910
Dividends	–	(319)	(439)
New minorities	–	–	884
Sale to minorities	–	6	–
Purchase of minorities	–	(2,344)	(591)
<b>At end of the year</b>	<b>–</b>	<b>–</b>	<b>1,829</b>

**33. Capital and other commitments**

There are capital commitments at 31 December 2010 of £nil (2009: £nil).

	2010 £'000	2009 £'000
<b>The Group as lessee</b>		
Minimum lease payments under operating leases recognised as an expense in the year	3,809	4,667

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:

	2010 £'000	2009 £'000
Within one year	187	539
In the second to fifth years inclusive	8,736	12,142
After five years	404	3,201
	<b>9,327</b>	<b>15,882</b>

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.

**34. 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 December 2010 was £5,729,000 (2009: £5,843,000), of which £4,883,000 (2009: £5,582,000) related to defined contribution schemes and £846,000 (2009: £273,000) to defined benefit schemes.

Contributions amounting to £587,000 (2009: £720,000) were payable to the funds at the year end and are included in current liabilities.

## > Notes to the financial statements >

### 34. Retirement benefit schemes (continued)

#### Multi-employer scheme

Tribal Group plc participates in the Social Housing Pension Scheme (the Scheme). The Scheme is a defined benefit scheme which is funded and is contracted-out of the State Pension scheme.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer scheme where assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, the accounting charge for the period under IAS 19 represents the employer contribution payable.

The last formal valuation of the Scheme was performed at 30 September 2008 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation showed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 69.7%.

The Scheme actuary has prepared an actuarial report that provides an approximate update on the funding position of the Scheme as at 30 September 2009 showing an increase in the assets of the Scheme to £1,723 million and indicating an increase in the shortfall of assets compared to liabilities to approximately £738 million, equivalent to a past service funding level of 70.0%. See note 37 for further information.

#### Defined benefit schemes

During the year the Group operated four defined benefit pension schemes for the benefit of certain employees of its subsidiaries in the UK.

##### *Scheme 1 – the TfL Pension Fund*

Tribal Technology Limited, a Group subsidiary, 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 2009.

The Tribal Technology section of the TfL Pension Fund had two active members at the year end. Employer contributions amounting to £189,000 were paid in the year ended 31 December 2010. These accounting figures have been calculated using the valuation as at 31 March 2009, updated to 31 December 2010 by a qualified actuary independent of the scheme's sponsoring employer.

##### *Scheme 2 – the LPFA Pension Fund*

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 accounting figures have been calculated using the preliminary results of last full actuarial valuation of this scheme, carried out by a qualified independent actuary as at 31 March 2010, updated on an approximate basis to 31 December 2010.

The SDP Regeneration Services 2 Limited section of the LPFA Pension Fund had four active members, 29 deferred pensioners and six pensioners at the year end. Employer contributions amounting to £130,000 were paid in the year ended 31 December 2010.

##### *Scheme 3 – the Prudential Platinum Pension Fund*

Tribal Education Limited, a Group subsidiary, participates in the Prudential Platinum Pension Fund, which is a defined benefit arrangement. This scheme was created on 1 August 2009. The Tribal Education section of the Prudential Platinum Pension Fund had five active members at the year end. Employer contributions amounting to £25,000 were paid in the year ended 31 December 2010. The accounting figures have been updated on an approximate basis to 31 December 2010 by a qualified independent actuary.

##### *Scheme 4 – the Federated Pension Plan*

Tribal Education Limited, a Group subsidiary, participates in the Federated Pension Plan, which is a defined benefit arrangement. This scheme was created on 1 August 2010 and was established to accommodate employees that transferred into the company as a result of the Group being awarded the Ofsted Early Years contract. The Tribal Education section of the Federated Pension Plan had 229 active members at the year end. Employer contributions amounting to £516,000 were paid in the year ended 31 December 2010. The accounting figures have been updated on an approximate basis to 31 December 2010 by a qualified independent actuary.

## > Notes to the financial statements >

### 34. Retirement benefit schemes (continued)

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:

	2010 % per annum	2009 % per annum
Inflation	3.50	3.50
Salary increases	4.50	4.50
Rate of discount	5.40	5.70
Pension in payment increases*	3.00 - 3.50	3.50

\* The LPFA pension fund valuation has anticipated the fact that future pension increases are likely to be based on CPI rather than RPI. Accordingly it has been assumed that CPI will be 0.5% below RPI. The resulting credit of £390,000 has been taken directly to reserves.

The mortality assumptions adopted at 31 December 2010 imply the following life expectations:

	Males	Females
Retiring at age 65 in 2010	19.9	22.1
Retiring at age 65 in 2030	21.9	24.0

The analysis of the schemes assets and the expected rate of return at the balance sheet date was as follows:

	2010 %	2010 £'000	2009 %	2009 £'000
Equities	7.25	3,008	6.90	2,835
Target return portfolio	5.90	385	6.20	350
Alternative assets	6.40	490	6.70	500
Corporate bonds	5.36	301	4.71	205
Gilts	4.00	12	4.45	3
Cash	0.90	435	5.70	24
Total fair value of scheme assets		4,631		3,917

The overall expected rate of return on assets is calculated as the weighted average of the expected return of each asset class. 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 corporate bond yields at the balance sheet date. The long-term expected return on equities is based on the rate of return on gilts with an allowance for out-performance.

The sensitivities regarding the principal assumptions used to measure the schemes liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase by 0.5%	Decrease by 11%
Rate of inflation	Increase by 0.5%	Increase by 10%
Rate of salary growth	Increase by 0.5%	Increase by 3%
Rate of mortality	Increase by one year	Increase by 4%



## > Notes to the financial statements >

### 34. Retirement benefit schemes (continued)

The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit schemes is as follows:

	2010 £'000	2009 £'000
Present value of defined benefit obligations	(5,790)	(6,060)
Fair value of scheme assets	4,631	3,917
Deficit in schemes	(1,159)	(2,143)
Liability recognised in the balance sheet	(1,159)	(2,143)

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

	2010 £'000	2009 £'000
Fair value of scheme assets at beginning of year	3,917	3,383
Expected return on assets	285	219
Actuarial gains/(losses)	(160)	398
Contributions by employer	861	365
Contributions by scheme participants	83	40
Benefits paid	(355)	(488)
Fair value of scheme assets at end of year	4,631	3,917

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

	2010 £'000	2009 £'000
Defined benefit obligation at beginning of year	6,060	4,808
Current service cost	775	105
Interest cost	356	281
Contributions by scheme participants	83	40
Actuarial losses/(gains)	(1,129)	1,208
Past service cost	–	106
Benefits paid	(355)	(488)
Defined benefit obligation at end of year	5,790	6,060

The Group's contribution rate for 2010 was 22.05% of pensionable earnings for the TfL Pension Fund, 16.2% for the LPFA Pension Fund, 31.6% for the Prudential Platinum fund and 33.9% to 35.9% for the Federated Pension Plan.

## &gt; Notes to the financial statements &gt;

**34. Retirement benefit schemes (continued)**

Analysis of amounts recognised in the consolidated income statement for the defined benefit schemes are as follows:

	2010 £'000	2009 £'000
Current service cost	775	105
Past service cost	–	106
Recognised in arriving at operating profit	775	211
Other finance costs		
Interest on pension scheme liabilities	356	281
Expected return on pension scheme assets	(285)	(219)
Net finance charge	71	62
Total charge to income statement	846	273

Analysis of actuarial gain/(loss) in the consolidated statement of comprehensive income:

	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	(160)	398
Experience gains and losses arising on the scheme liabilities	553	8
Changes in assumptions underlying the present value of scheme liabilities	576	(1,216)
Total actuarial gain/(loss) recognised in the consolidated statement of comprehensive income	969	(810)

Cumulative actuarial loss recognised in the consolidated statement of comprehensive income since 1 April 2004 is £309,000 (2009: £1,278,000).

The history of experience adjustments is as follows:

	31 December 2010 £'000	31 December 2009 £'000	31 December 2008 £'000	31 December 2007 £'000	31 March 2007 £'000
Present value of defined benefit obligations	(5,790)	(6,060)	(4,808)	(5,009)	(5,340)
Fair value of scheme assets	4,631	3,917	3,383	3,781	3,904
Deficit in the scheme	1,159	(2,143)	(1,425)	(1,228)	(1,436)
Experience adjustments arising on scheme assets:					
Amount	(160)	398	(1,089)	(654)	28
Percentage of the scheme assets	(3%)	10%	(32%)	(17%)	1%
Experience adjustments arising on scheme liabilities:					
Amount	569	8	4	563	4
Percentage of the present value of the scheme liabilities	10%	0%	(0%)	4%	0%

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

## &gt; Notes to the financial statements &gt;

## 35. Notes to the cash flow statement

	2010 £'000	2009 £'000
Operating loss from continuing operations	(55,709)	(16,768)
Operating loss from discontinued operations	(6,473)	(36,110)
Depreciation of property, plant and equipment	2,830	3,044
Impairment of goodwill	56,360	65,574
Decrease in fair value of investment property	–	35
Amortisation of other intangible assets	4,192	2,740
Net pension charge	(157)	(96)
Loss on disposal of property, plant and equipment	413	37
Loss/(gain) on sale of investments	5	(12)
Share-based payments	(690)	412
Loss on disposal of discontinued operations	974	–
Operating cash flows before movements in working capital	1,745	18,856
Decrease in amounts recoverable on contracts	–	6
Increase in inventories	(363)	(153)
Decrease in receivables	21,816	4,406
Decrease in payables	(5,978)	(1,670)
Increase/(decrease) in provisions	90	(220)
<b>Net cash from operating activities before tax</b>	<b>17,310</b>	<b>21,225</b>
Tax paid	(1,439)	(6,101)
<b>Net cash from operating activities</b>	<b>15,871</b>	<b>15,124</b>

Net cash from operating activities before tax can be analysed as follows:

	2010 £'000	2009 £'000
Continuing operations (excluding restricted cash)	24,392	26,688
(Decrease)/increase in restricted cash	(1,511)	719
	22,881	27,407
Discontinued operations	(5,571)	(6,182)
	17,310	21,225

## > Notes to the financial statements >

### 36. Acquisitions

The Group has adopted IFRS 3(2008) Business Combinations and IAS 27(2008) Consolidated and Separate Financial Statements with effect from 1 January 2010.

On 27 July 2010, the Group acquired 100% of the issued share capital of Class Measures Limited, obtaining control of Class Measures Inc., a US provider of school inspection and improvement services and a teacher licensure programme, for total consideration of up to £1.0m.

The total consideration is made up as follows:

- initial consideration of £0.3m in cash
- further consideration of up to £0.7m in cash upon confirmation of Class Measures' profits for the two years to 31 December 2011.

Recognised amounts of identifiable assets acquired and liabilities assumed:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Intangible assets	–	117	117
Property, plant and equipment	9	–	9
Receivables	234	–	234
Cash	89	–	89
Payables	(311)	–	(311)
Deferred tax	–	(33)	(33)
Book/fair value of net assets	21	84	105
Total identifiable assets acquired			105
Goodwill			926
Total consideration			1,031
Satisfied by:			
Cash			297
Contingent consideration arrangement			734
Total consideration transferred			1,031
Net cash outflow arising on acquisition			
Cash consideration			297
Less: cash and cash equivalent balances acquired			(89)
			208

The contingent consideration payable of £734,000 has been split between other payables in current (£72,000) and non-current (£662,000) liabilities.

The above provisional fair value adjustments relate to the recognition of intangibles on acquisition.

Intangible assets were recognised primarily in respect of customer relationships. Goodwill arising on acquisition is attributable to the expected profitability arising from new business, anticipated future operating synergies arising from assimilation into the Group and the value attributed to the skilled workforce which does not meet the criteria for recognition as a separate intangible asset.

Acquisition related costs (included in administrative expenses) amount to £4,000.

The acquisition contributed £432,000 revenue and a £38,000 loss to the Group's operating profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on the first day of the financial year, group revenues and profits would not be materially different.

In addition to the net cash outflow on the acquisition of Class Measures, the Group paid £631,000 in respect of the final deferred consideration payable for Tribal HELM Corporation Limited. This amount was included within other payables as at 31 December 2009.

## > Notes to the financial statements >

### 37. Contingent liabilities

The Group has received notification of a number of potential litigation claims. In the ordinary course of business, claims are robustly contested as to both liability and quantum. Settlement of current claims is not expected to have a material adverse impact on the financial position of the Group.

A provision of £525,000 (2009: £435,000) has been made for defending these claims, where appropriate (see note 25).

A cross guarantee exists between group companies in respect of bank facilities totalling £20,763,000 (2009: £29,128,000).

As explained in note 34, the Group's Government business participates in the Social Housing Pension Scheme (the Scheme) which is a funded multi-employer scheme and accordingly the accounting charge for the period under IAS 19 represents the employer contribution payable. Tribal members of the Scheme total 40 out of a total Scheme membership in excess of 59,000.

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. Tribal Group plc has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scheme based on the financial position of the Scheme as at the latest actuarial update as at 30 September 2009. As of this date the estimated employer debt for Tribal Group plc was £10.6m.

No provision has been made for this amount as the Government business has not withdrawn from the Scheme, and does not intend to do so for the foreseeable future.

### 38. Financial instruments

#### Capital risk management

The Group manages its capital to ensure the entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 24, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 28 to 31.

#### Gearing ratio

The Board assesses risk management throughout the Group. As part of this assessment the Board considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the end of the period is as follows:

	2010 £'000	2009 £'000	2008 £'000
Debt	(33,157)	(37,161)	(33,556)
Cash and cash equivalents	14,659	9,370	13,892
Net debt	(18,498)	(27,791)	(19,664)
Equity	69,755	136,517	193,574
Net debt to equity ratio	26.5%	20.4%	10.2%

Debt is defined as long-term and short-term borrowings, as detailed in note 24. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

## > Notes to the financial statements >

### 38. Financial instruments (continued)

#### Categories of financial instruments

	2010 £'000	2009 £'000	2008 £'000
<b>Financial assets</b>			
Loans and receivables (including cash and cash equivalents):			
Cash	14,659	9,370	13,892
Trade receivables	16,854	42,808	49,728
	<b>31,513</b>	<b>52,178</b>	<b>63,620</b>
<b>Financial liabilities</b>			
Derivative instruments in designated hedge accounting relationships			
	2,173	931	997
At amortised cost:			
Trade payables	4,864	13,255	19,832
Bank loans and loan notes	33,157	37,161	33,556
	<b>40,194</b>	<b>51,347</b>	<b>54,385</b>

#### Financial risk management objectives

Treasury management is led by the Group finance team who are 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. This includes both foreign exchange risk and 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. This is an ongoing risk and the Board will continue with this policy.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

#### Market risk

The Group operates mainly within the UK, therefore its market risk exposure is generally limited to changes in interest rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

#### Foreign currency risk management

The Group undertakes an increasing number of transactions denominated in foreign currencies. Here, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters and the Group will enter into forward foreign exchange contracts where appropriate.

#### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 1.0% increase or decrease is used when reporting interest rate risk internally to the Board and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 1.0% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease/increase by £48,000 (2009: increase/decrease by £32,000). This increase/decrease is mainly attributable to the Group's cash balances which attract a variable rate of interest and reflects the fact that interest rates on borrowings are fixed by the interest rate swap.

#### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the period.

## &gt; Notes to the financial statements &gt;

**38. Financial instruments (continued)**

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the reporting date:

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2010 %	2009 %	2010 £'000	2009 £'000	2010 £'000	2009 £'000
2 to 5 years	4.90	4.06	25,000	25,000	(2,173)	(931)

The Group holds a £25m interest rate swap which settles on a monthly basis. The floating rate on the interest rate swap is one month's LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis. Of the above, £25m (2009: £25m) was designated a cash flow hedge. In March 2009 the instrument was restructured. Under the new arrangement the Group pays 2.90% and receives one month LIBOR until 31 December 2010. From that date until 31 December 2013, the Group will pay 4.90% and receive one month LIBOR.

**Credit risk management**

The Group's principal financial assets are cash and cash equivalents and trade and other receivables. The Group's credit risk is relatively low because a high proportion of trade and other receivables have a sovereign or close to sovereign rating.

**Liquidity risk management**

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities and by continuously monitoring forecast and actual cash flows. The Group has access to committed financing facilities; the total unused amount is £6.0m at the balance sheet date. In addition at the year end, there was a £8.0m (2009: £6.0m) undrawn overdraft facility. The Group expects to meet its obligations from operating cash flows. The Group also had significant cash balances at 31 December 2010 of £14.7m (2009: £9.4m) as detailed in note 21. Net debt at the year end was £18.5m (2009: £27.8m) giving underlying headroom at the balance sheet date of £29.5m (2009: £18.2m). A substantial part of the reduction in net debt was generated through favourable credit terms from third parties which will reverse in the first quarter of 2011.

**Liquidity and interest risk tables**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Carrying value £'000	Total £'000	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000
<b>31 December 2010</b>						
Trade payables	4,864	4,864	2,350	1,170	1,344	–
Bank loans	33,157	40,099	139	278	1,250	38,433
Derivative financial instruments	2,173	2,173	–	–	–	2,173
	40,194	47,136	2,489	1,448	2,594	40,606
<b>31 December 2009</b>						
Trade payables	13,255	13,255	8,556	3,119	1,580	–
Bank loans	36,780	40,573	89	179	805	39,500
Derivative financial instruments	931	931	–	–	–	931
Loan notes	381	381	–	–	381	–
	51,347	55,140	8,645	3,298	2,766	40,431



## > Notes to the financial statements

### 38. Financial instruments (continued)

#### Fair value measurements recognised in the balance sheet

Financial instruments that are measured subsequent to initial recognition at fair value are required to be grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Groups financial instruments fall to be categorised as Level 2.

### 39. Post balance sheet events

The Resourcing business, Tribal Resourcing Limited, was actively marketed for sale during 2010. On 9 February 2011, we announced the sale of the trade and certain assets to TMP (UK) Limited for an estimated contingent consideration of £1.9m. The transaction completed on 1 March 2011.

### 40. Related party disclosures

No material contract or arrangement has been entered into during the year, nor subsisted at 31 December 2010, 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'.

	2010 £'000	2009 £'000
Short-term employee benefits	1,272	1,156
Share-based payment	(159)	278
	<b>1,113</b>	<b>1,434</b>

Included within directors' emoluments are pension costs of £58,000 (2009: £60,000) in respect of payments made to two (2009: two) 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.

### 41. Principal subsidiary undertakings

The principal subsidiary undertakings at 31 December 2010 are shown below. All subsidiary undertakings are registered in the United Kingdom and prepare accounts to 31 December each year.

	Principal activity	Holding
Tribal Consulting Limited	Management consultancy services to central and local government	100%
Tribal HELM Corporation Limited	Management and financial consultancy services	100%
Tribal Education Limited	Education consultancy, training and Ofsted inspections	100%
Tribal Holdings Limited	Holding company	100%
Tribal Resourcing Limited	Recruitment advertising in the public sector	100%

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.

## UK GAAP Tribal Group plc – company financial statements

### Independent auditor's 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 December 2010 which comprise the balance sheet and the related notes 1 to 8. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 auditor

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

#### Scope of the audit of the financial statements

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

#### Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

#### Other matter

We have reported separately on the group financial statements of Tribal Group plc for the year ended 31 December 2010.



John Clennett (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Bristol, United Kingdom  
30 March 2011

## Company balance sheet at 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investments	2	96,562	203,637
<b>Current assets</b>			
Debtors: amounts falling due within one year	3	3,102	458
Cash at bank and in hand		100	100
		3,202	558
<b>Creditors: amounts falling due within one year</b>	4	<b>(19,358)</b>	<b>(47,571)</b>
<b>Net current liabilities</b>		<b>(16,156)</b>	<b>(47,013)</b>
<b>Total assets less current liabilities</b>		<b>80,406</b>	<b>156,624</b>
<b>Creditors: amounts falling due after more than one year</b>	5	<b>(35,330)</b>	<b>(37,711)</b>
<b>Net assets</b>		<b>45,076</b>	<b>118,913</b>
<b>Capital and reserves</b>			
Called up share capital	6	4,685	4,685
Share premium account	7	–	78,723
Merger reserve	7	18,032	28,211
Hedging reserve	7	(820)	(375)
Own share reserve	7	(984)	(1,548)
Share-based payment reserve	7	472	1,616
Profit and loss account	7	23,691	7,601
<b>Equity shareholders' funds</b>		<b>45,076</b>	<b>118,913</b>

Notes 1 to 8 form part of these financial statements.

The financial statements of Tribal Group plc (registered number 4128850) were approved by the Board of directors and authorised for issue on 30 March 2011. They were signed on its behalf by:



Peter Martin  
Director



Steve Breach  
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 financial instruments, 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 section 612 of the Companies Act 2006, no premium has been recorded on the shares issued as consideration.

Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The loss for the Company amounted to £68.5m (2009: £56.5m) after impairment of £89.0m (2009: £76.1m).

The auditor's remuneration for audit services to the Company was £92,000 (2009: £95,000).

#### 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 substantively 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 profit and loss account. 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 profit and loss account in the same period in which the hedged item affects net profit or loss.

#### Share-based payments

The Company has no employees and hence there is no charge to the company profit and loss account. For the purposes of reporting employment costs, the employing company of the directors of Tribal Group plc is Tribal Holdings Limited. 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.

#### Directors' remuneration

Detailed disclosures of directors' individual remuneration and share options are given in the audited part of the remuneration report on pages 38 and 39 and should be regarded as an integral part of this note. The Company has no employees.

## &gt; Notes to the company balance sheet &gt;

## 2. Fixed asset investments

	Shares in subsidiary undertakings £'000	Long term loans £'000	Total £'000
<b>Cost</b>			
At 1 January 2009	159,707	93,919	253,626
Additions	18,247	–	18,247
Disposals	(40)	–	(40)
Transfers from group companies	6,598	–	6,598
Impairment	(76,103)	–	(76,103)
Fair value adjustment	(29)	–	(29)
Capital contribution relating to share-based payments	282	–	282
Movement in long-term loans	–	1,056	1,056
At 1 January 2010	108,662	94,975	203,637
Disposals	(66)	–	(66)
Impairment	(78,716)	(10,264)	(88,980)
Capital contribution relating to share-based payments	(580)	–	(580)
Movement in long-term loans	–	(17,449)	(17,449)
<b>At 31 December 2010</b>	<b>29,300</b>	<b>67,262</b>	<b>96,562</b>

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.

The Group has continued to restructure its businesses to reduce the number of legal entities that are 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.

In addition, the carrying value of investments has been written down following a detailed impairment review. The key factors leading to this are detailed in the Financial review.

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

## &gt; Notes to the company balance sheet &gt;

**3. Debtors**

	2010 £'000	2009 £'000
Amounts owed by group undertakings	2,267	256
Other debtors	459	–
Deferred taxation	376	202
	<b>3,102</b>	<b>458</b>

	2010 £'000	2009 £'000
<b>Deferred taxation</b>		
At start of year	202	194
Items taken directly to equity	174	8
At end of year	<b>376</b>	<b>202</b>

The deferred tax asset is analysed as follows:

	2010 £'000	2009 £'000
Derivative financial instruments	376	202

**4. Creditors: amounts falling due within one year**

	2010 £'000	2009 £'000
Loan notes	–	381
Amounts owed to group undertakings	18,183	46,214
Deferred cash consideration	–	631
Accruals	1,175	345
	<b>19,358</b>	<b>47,571</b>

## &gt; Notes to the company balance sheet &gt;

## 5. Creditors: amounts falling due after more than one year

	2010 £'000	2009 £'000
Bank loan	33,157	36,780
Fair value of interest rate swaps	2,173	931
	<b>35,330</b>	<b>37,711</b>

## Maturity of bank and loan notes:

	2010 £'000	2009 £'000
Bank and loan notes can be analysed as falling due:		
In one year or less, or on demand	–	381
Between two and five years	33,157	36,780
	<b>33,157</b>	<b>37,161</b>

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. For further details see note 24 to the Group financial statements.

## 6. Called up share capital

	2010 £'000	2009 £'000
<b>Authorised</b>		
125,000,000 ordinary shares of 5p each (2009: 125,000,000)	<b>6,250</b>	<b>6,250</b>

	2010 number	2010 £'000	2009 number	2009 £'000
<b>Allotted, called up and fully paid</b>				
At beginning of the year	93,695,985	4,685	87,880,565	4,394
Issued as consideration for acquisitions	–	–	5,815,420	291
<b>At end of the year</b>	<b>93,695,985</b>	<b>4,685</b>	<b>93,695,985</b>	<b>4,685</b>

## &gt; Notes to the company balance sheet &gt;

**6. Called up share capital (continued)**

Details of options in respect of shares outstanding at 31 December 2010 are as follows:

Employee share option schemes:	Number outstanding	Price payable	Date from which exercisable
Limited scheme	37,488	£1.33	30.06.2003
	38,460	£1.65	30.06.2003
	<b>75,948</b>		
PLC scheme	35,808	£2.50	30.06.2003
	17,100	£2.83	30.06.2003
	92,833	£3.10	30.06.2004
	204,311	£2.46	30.06.2005
	<b>350,052</b>		
LTIP	320,056	£nil	23.03.2010
	17,974	£nil	23.03.2010
	390,982	£nil	31.03.2011
	138,120	£nil	31.03.2012
	62,266	£nil	31.03.2013
	<b>929,398</b>		
Acquired schemes	6,668	£1.16	14.01.2003
	19,886	£1.90	27.03.2004
	35,488	£2.45	28.02.2005
	42,884	£2.31	24.01.2006
	72,636	£0.22	29.03.2004
	<b>177,562</b>		
Savings related option scheme:			
SAYE	160,267	£1.08	01.12.2011
	71,457	£1.08	01.12.2013
	31,229	£1.08	01.12.2015
	<b>262,953</b>		
Total Tribal Group plc share option schemes	<b>1,795,913</b>		



## > Notes to the company balance sheet

### 7. 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 the year	78,723	28,211	(375)	(1,548)	1,616	7,601
Loss for the year	-	-	-	-	-	(68,528)
Dividends	-	-	-	-	-	(4,284)
Fair value movement on cash flow hedges	-	-	(445)	-	-	-
Capital reduction	(78,723)	-	-	-	-	78,723
Movement in relation to share-based payments	-	-	-	564	(1,144)	-
Impairment of investments	-	(10,179)	-	-	-	10,179
<b>At end of the year</b>	<b>-</b>	<b>18,032</b>	<b>(820)</b>	<b>(984)</b>	<b>472</b>	<b>23,691</b>

The merger reserve of £18.0m (2009: £28.2m) relates to the premium arising on shares issued subject to the provisions of section 612 of the Companies Act 2006.

The own share reserve of £1.0m (2009: £1.5m) represents the cost of 503,274 (2009: 791,943) shares in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group's share option schemes.

On 16 June 2010, the High Court issued an order sanctioning the cancellation of the Company's share premium account. Tribal gave certain undertakings to the Court for the protection of the Company's creditors. On 17 June 2010, Tribal received from Companies House the certificate of registration of the Court order. In October 2010, Tribal discharged all the undertakings given to the Court and accordingly, the share premium account became distributable.

### 8. Contingent liabilities

A cross-guarantee exists between group companies in respect of bank facilities totalling £20,763,000 (2009: £29,128,000).

## Five year summary

### Summarised consolidated Group income statement

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000	Nine months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
Revenue	175,372	193,654	226,737	153,299	194,056
Profit before interest, amortisation and impairment on goodwill and intangibles and exceptional items	7,374	14,926	18,963	11,173	14,462
Exceptional costs	(10,446)	–	–	–	–
Amortisation and impairment on goodwill and intangibles	(52,637)	(31,694)	(556)	(9,240)	(14,749)
Interest	(2,116)	(1,045)	(1,315)	(749)	(4,054)
Taxation	1,984	(2,992)	(4,569)	(3,002)	(2,846)
Minority interests	–	(828)	(910)	(402)	(771)
Dividends	(4,284)	(4,055)	(3,957)	(2,031)	(2,692)
<b>Retained (loss)/profit</b>	<b>(60,125)</b>	<b>(25,688)</b>	<b>7,656</b>	<b>(4,251)</b>	<b>(10,650)</b>
Adjusted diluted earnings per share	5.0p	10.7p	13.9p	8.4p	8.0p
Dividend per ordinary share	2.50p	4.60p	4.35p	2.95p	3.47p

### Summarised consolidated Group balance sheet

Intangible assets	102,917	166,847	217,505	191,245	195,885
Other non-current assets	9,445	11,165	11,259	9,087	58,827
Current assets	54,473	72,781	80,889	79,618	100,758
Current liabilities	(58,905)	(72,541)	(77,195)	(74,274)	(90,808)
Non-current liabilities	(38,175)	(41,735)	(37,055)	(24,434)	(106,428)
<b>Net assets</b>	<b>69,755</b>	<b>136,517</b>	<b>195,403</b>	<b>181,242</b>	<b>158,234</b>

The amounts disclosed above for the year ended 31 December 2010 and 31 December 2009 are for continuing operations only.

## Company information

### Tribal Group plc

Registered in England and Wales  
Company number: 4128850

### Registered office

87-91 Newman Street  
London W1T 3EY  
T: 0207 323 7100  
E: info@tribalgroup.com  
www.tribalgroup.com

### Company secretary

Steve Breach

### Stockbroker and joint financial adviser

Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

### Joint financial adviser

N M Rothschild & Sons Limited  
New Court  
St Swithin's Lane  
London EC4P 4DU

### Principal bankers

Bank of Scotland plc  
PO Box 112  
Canon's House, Canon's Way  
Bristol BS99 7LB

### Auditors

Deloitte LLP  
3 Rivergate  
Temple Quay  
Bristol BS1 6GD

### Solicitors

Osborne Clarke  
2 Temple Back East  
Temple Quay  
Bristol BS1 6EG

### Registrars

Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### E-communications

As an alternative to receiving documents through the post, shareholders can receive important information online, including annual and half-year reports and notices of meetings. Registering for e-communications also enables shareholders to obtain secure online access to personal shareholding details, change address details, request new share certificates and check dividend payments.

To register for e-communications, please visit <https://www.capitashareportal.com>.

### Duplicate accounts

If you receive two or more copies of the Annual Report and Accounts and/or multiple cheques for each dividend payment, it means that you have more than one shareholder account.

To receive just one Annual Report and Accounts and one cheque for each dividend payment, please contact the Company's registrars, Capita Registrars, on 0871 664 0300 for UK callers (UK calls cost 10p per minute plus network extras. Lines are open from 8.30am to 5.30pm) or +44 (0)20 8639 3399 for overseas callers, and ask for your accounts to be amalgamated.

### Financial calendar

Annual General Meeting	20 May 2011
Ex-dividend date	15 June 2011
Record date	17 June 2011
Final dividend payment date	15 July 2011





Tribal Group plc  
87-91 Newman Street  
London  
W1T 3EY

**T:** 020 7323 7100  
**E:** [info@tribalgroup.com](mailto:info@tribalgroup.com)  
[www.tribalgroup.com](http://www.tribalgroup.com)

## Erratum

In the Directors' Report, under the paragraph entitled Substantial shareholdings on page 34, the shareholdings that should have been disclosed are as follows:

Name	Number of Tribal shares	Percentage of issued share capital
Hermes Pension Management	20,784,733	22.18
Caledonia Investments	10,336,232	11.03
Schroder Investment Management	3,777,402	4.03