

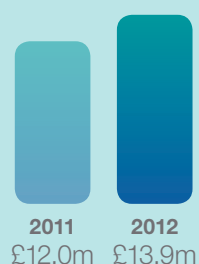
T R I B A L

working as one

Annual Report ··· Accounts 2012

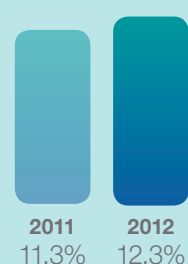
Key financial results for 2012

Adjusted operating profit²



Profit growth underpinned by increasing emphasis on technology-based revenues and international expansion

Adjusted operating margin



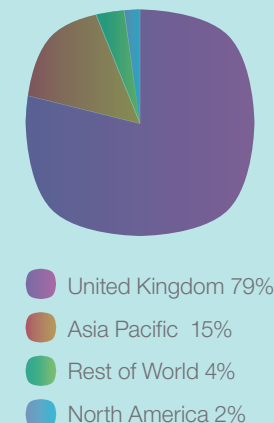
Margins enhanced through a focus on higher quality revenues, and continued robust cost control

Adjusted earnings per share²

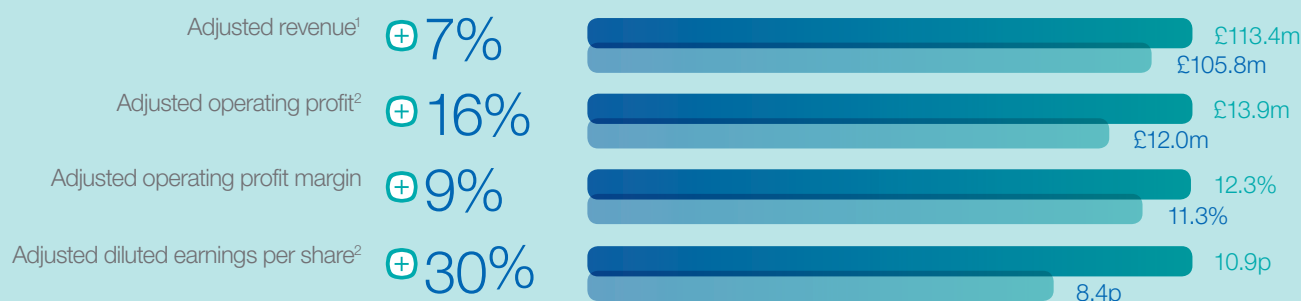


Growth in earnings per share supporting our target to more than double earnings per share over the three years ending 31 December 2014

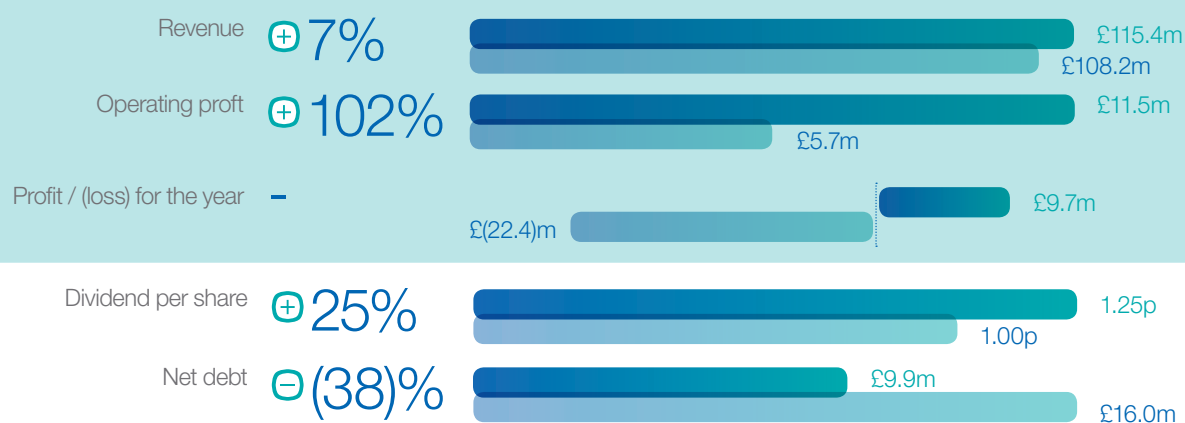
Group revenue by market



Adjusted results



Statutory results



Year ended 31 December 2012 Year ended 31 December 2011

Notes:

¹ Adjusted revenue excludes revenue from closed businesses of £2.0m (2011: £2.5m).

² The adjusted operating profit and adjusted diluted earnings per share are in respect of continuing operations, excluding trading losses of closed businesses of £0.8m (2011: £0.7m), intangible asset amortisation of £0.02m (2011: £0.2m), exceptional costs of £1.6m (2011: £5.3m), and in the case of adjusted earnings per share financial instruments charges of £0.5m (2011: £0.1m) and the related tax credit of £0.6m (2011: £1.8m).

Strong positions in our key markets

Higher education

- Number 1 provider of student management systems to universities in the UK
- Established and growing provider to universities in Asia Pacific

Vocational learning

- Number 1 provider of student management systems to FE colleges in the UK
- Number 1 provider of student management systems to UK training providers
- Implementing student management system for all FE colleges in New South Wales, Australia

Schools

- Number 1 provider of college, school and nursery inspections in the UK on behalf of Ofsted
- Implementing schools student management system for all state schools across New South Wales, Australia

Government and other

- Number 2 provider of Children's Services management systems to local government in the UK

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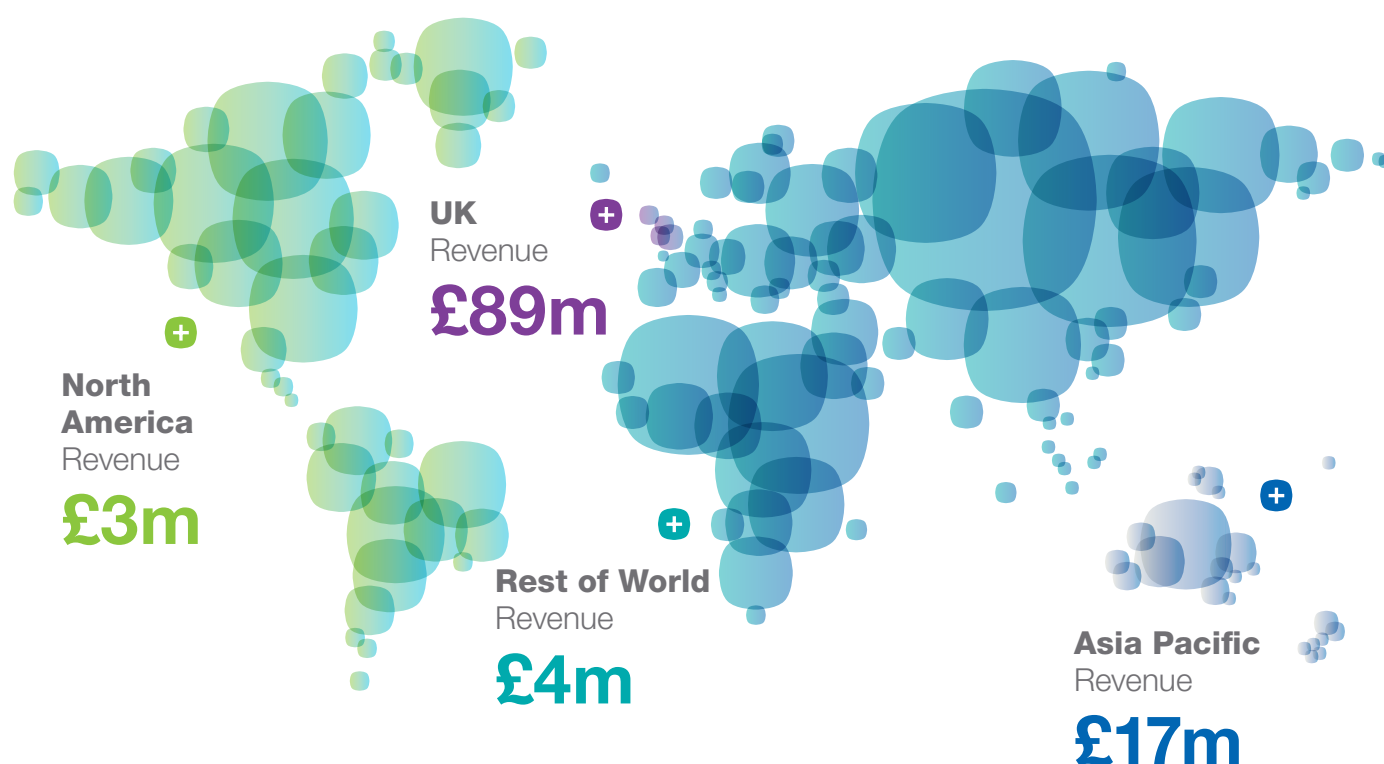
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A leading provider of systems and solutions to the international education, learning and training markets



We have made good progress during the first year of our three year strategic plan. Tribal is a focused and simplified business, concentrated on its core UK and international markets. We are well placed to maintain our strong market positions, and to take advantage of new opportunities that are becoming increasingly visible to us.

We are seeing the benefits of our focus through enhanced operational and financial performance. Our adjusted operating profits grew by 16% to £13.9m, and good cash flow supported an increased level of investment in our products and people, while also reducing our net debt to below £10m.

Operating Highlights

Higher education

- New customers for our SITS-vision student management system in Australia, New Zealand and the UK
- Successful go-live of student management systems at University of Oxford and Trinity College Dublin
- New research grant management system launched
- i-graduate student experience benchmarking business acquired in January 2013

Vocational learning

- Major SALM student management system programme for FE colleges in New South Wales, Australia, progressing well
- Eight new UK FE college customers for EBS4 student management system
- FE college benchmarking service extended to Australia
- Major refresh of Maytas work-based learning student management launched
- New GoLearn functional skills virtual learning and assessment solution launched
- Mobile Learning platform for US Department of Defense live with 5 partner nations

Schools

- Ofsted review and evaluation solutions contracts continue to progress well
- International review and evaluation contracts making good progress in Nashville, extended in Abu Dhabi and new contract win in New York
- Early piloting of schools-based student management system underway for SALM programme
- Piloting self-evaluation improvement software for schools in the US
- k2 established as a schools asset management system across all state schools in England, and now being deployed across New Zealand

Government and other

- New Children's Services Social Care Record system go-live in pilot local authorities
- Customer base for Synergy Children's Services system extended in Dorset, Wakefield and Bury

By increasing our investment in software development, we have sustained the market leading positions of our major systems and solutions in the UK and strengthened our international reputation. We are now well established as a leading provider to the education markets in Australia and New Zealand, we are operating successfully in the Middle East, and we are evaluating attractive opportunities in other international markets including North America. Our acquisition of i-graduate, completed in January 2013, brings new skills and a presence in European and Asian markets.

We are continuing to invest in our people and expertise in the UK and internationally. Enhancing our service delivery capabilities, to ensure we can confidently follow through new business wins with high quality execution, is a priority. We now operate a global sales structure, and our main software development and support teams, based in the UK and Australia, are complemented by software development partners based in Brazil and China.

Consistent with delivering on our ambitious plans for Tribal, we place considerable importance on strong corporate governance. Later in this report we set out in detail how we are implementing and developing our governance procedures.

Tribal has become an increasingly international business whilst retaining its clarity of purpose. Our task now is to sustain our momentum as we move forward with our plans during 2013.

John Ormerod, Chairman

Our business model: responding to our customers' needs

We are focused on helping our customers deliver excellence in education, learning and training.

Our business model matches our systems and solutions closely to our customers' requirements and the changing environment in which they operate.

Our customer relationships bring us good future revenue visibility, enabling us to invest in new software and ever stronger capabilities to meet our customers' needs.

Our markets and market drivers



Higher education

Vocational learning

Schools

Government & other

Drivers

- Internationalisation and borderless education
- Adapting to competition for students
- Performance improvement and regulatory compliance
- Efficiency and robustness in business systems

How we support our customers



Systems

- Student management systems
- Virtual learning management systems
- Children's Services management systems
- Asset management systems

Working as one

Solutions

- Review and evaluation services and tools
- Analytics and benchmarking
- Professional development and training support
- Learning and assessment

Our revenue characteristics which ...



... support our investment priorities ...



... which support our strategic objectives.



- Software licenses
- Development fees
- Implementation fees
- Maintenance and support fees

Revenues with strong visibility, based on long term customer relationships and systems and tools embedded in our customers' businesses

- Long-term contracts
- Repeatable and scalable programmes

Sustained investment in new software across our systems and solutions

Extending our international capabilities in sales, software development, and customer-facing delivery

Embed technology across our business

Internationalise our customer base

Reduce debt and create investment capacity through strong cash flow

Advancing confidently with our strategic plan



Tribal has evolved rapidly over the past year. Technology is becoming a natural part of all that we do. Our view is now firmly international, while we remain committed to our core customers and markets in the UK. Tribal's people have accomplished a great deal in the last twelve months, and we are looking forward to building on our achievements during 2013.

Keith Evans, Chief Executive

Gathering momentum

The year ended 31 December 2012 was the first of our strategic plan. We set an ambitious target of more than doubling earnings per share over the three years ending 31 December 2014.

The year was a period of investment during which we strengthened the foundations on which our plans are based, delivered strong financial performance, and advanced confidently towards our goals. We have made a good start, although we will need to sustain our strong progress notwithstanding the challenges of managing a business in an uncertain economic environment.

Delivering our three-year strategic plan

Our strategy places emphasis on organic growth initiatives. At the heart of our strategy, we have two key goals.

1. Retain our market leading positions in the UK:
 - Creating new modules and services for our existing customer base;
 - Developing new systems for the children's services and schools markets; and
 - Creating scalable software based tools to support education providers.
2. Internationalise our systems and solutions to English speaking markets:
 - Continue to grow in Australasia;
 - Undertake selected projects in the Middle East; and
 - Explore North American markets.

Our investment in 2012 has focused on enhancing our software based systems and tools, and growing our resources in our existing and new countries of operation.

Competitive advantage through technology

Tribal's investment in new software development is based on careful analysis of our customers' requirements, keeping our software fresh and relevant. We have increased the level of investment substantially, rising from £3.6m in 2011 to £6.2m in 2012.

Our development programmes continue to benefit from the close relationship between our solutions activities, which give us insight into our customers' needs and the challenges they face in delivering education today, and the technology skills of our software developers.

During the last year, our software development investment has targeted both our major education management systems and software tools within our evidence-based education improvement solutions. We expect to continue to invest strongly in new software development during 2013, as technology becomes a core component of all our major systems and solutions.

Strengthening the foundations for growth

Our growth into international markets has been underpinned by enhancement of our capabilities outside the UK. A simple organisational structure, with clear lines of accountability is key, with increasing operational resilience to support our wider geographic coverage.

We have aligned our sales and marketing activities regionally as we enter new high-growth-potential markets outside the UK. To ensure effective follow-through on new business wins, we have also put in place a robust global software development and operating model.

Tribal's software development teams have been internationalised – in addition to our core teams in the UK and Australia, development partners are now also based in Brazil and China, and our teams provide customer support around the clock.



Acquisition of i-graduate

We are focused on an organic growth strategy, but carefully chosen acquisitions, such as that of i-graduate in January 2013, can accelerate our strategy plans.

i-graduate works with over 1,200 education institutions in 24 countries, analysing feedback from more than 1.3 million students of over 190 nationalities. Thus i-graduate provides access for our existing products to a significant new customer base, both in the UK and internationally.

Strategically, we wish to provide our customers with evidence-based systems and solutions that support the improvement of educational outcomes. Technology-supported benchmarking and analytics, which are at the heart of i-graduate's business, are a cornerstone of this evidence base.

Remaining flexible

We completed a major restructuring of the business in 2011, but as 2012 progressed we identified residual areas of activity which offered limited future value to the Group's wider activities, specifically the reselling and implementation of Microsoft Dynamics software, and the direct delivery of apprenticeship training programmes. We therefore withdrew from these activities during the year.

Systems and Solutions focused on our customers' needs

Systems and Solutions										
	Systems						Solutions			
Market Segment	SITS	EBS	Maytas	Synergy	k2	Software Solutions	Quality Review & Evaluation	Adult Learning & Professional Development	Analytics & Benchmarking	Learning & Assessment
Higher education	<div><div></div><div></div><div></div></div>				<div><div></div></div>	<div><div></div></div>			<div><div></div><div></div><div></div></div>	
Vocational learning	<div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div><div></div><div></div></div>	<div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	<div><div></div></div>
Schools	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	
Government and other		<div><div></div></div>			<div><div></div></div>	<div><div></div><div></div><div></div></div>	<div><div></div></div>	<div><div></div><div></div></div>		
							<div><div></div> UK&I <div></div> APAC <div></div> ROW</div>			

Our markets

In the UK and internationally, education and training markets are facing conflicting challenges. The economic environment is creating financial pressures for both recipients and providers of education and training. Nevertheless, education and training remains a priority for individuals, organisations and governments around the world.

Within this conflicted environment, key themes have emerged:

- The student as a customer – an ever greater proportion of students are expected to fund their own studies. As a result students are becoming more demanding of education providers, who must proactively respond to ensure they attract and retain students.
- Education as a borderless market - students are showing increasing willingness to travel far from their home countries to find the best education they can afford. Institutions must compete at an international level to attract and retain students.

- Raising educational standards – measurement and evaluation of educational delivery, based on objective evidence, and the translation of that analytical evidence into improvement programmes, is required to support the drive for better education outcomes.
- Delivering efficiency and auditability – with finite resources, providers of education wish to improve cost effectiveness, and demonstrate good value for money in the education they deliver.

Our systems and solutions are focused on our customers' needs, and they respond to these important market drivers both in the UK and in our international markets.

Higher Education

Tribal's services to the Higher Education market are presently focused on student management systems and analytics services. We are the UK market leader in university student management systems, and we are successfully growing our international Higher Education presence.

During 2012 we secured four new universities as SITS™ student management system customers. In the UK, we concluded a contract with the University of Staffordshire (with a total initial value of £2.2m), and the University of Kent purchased key modules of the SITS™ system. In Asia Pacific, the Royal Melbourne Institute of Technology purchased our system under a A\$1.4m contract, and the University of Canterbury, Christchurch entered into a NZ\$5.5m contract.

Our other recent SITS™ customer projects are progressing well. The major change programme at Sydney University continues, and our systems are now in use at Trinity College, Dublin and University of Oxford.

Tribal has also extended the capabilities of the SITS™ system through integrating specialist third party modules within the core application. In 2012, we launched the Azorus "student capture" system, which provides CRM-type functionality to assist universities in their student recruitment programmes. The universities of Bedfordshire and Gloucestershire are amongst our first customers to adopt the Azorus system. We have also launched the Ideate grant management system, which assists universities to use research resources efficiently. We are currently implementing Ideate for the University of Warwick, to form part of our wider SITS™ deployment across its campus.

In our analytics business, we are working with an increasing number of universities across the UK to help them better understand their financial and operational metrics, to ensure they are well prepared to manage their costs within their available resources, and also to protect the quality of what they do. Looking forward, we will integrate i-graduate with our existing analytics and benchmarking activities to maximise the combined benefits across our business.

Going into 2013, we have a good pipeline of prospective new customers for the SITS™ system both in the UK and internationally, including new opportunities in South Africa and North America. We are also beginning to explore opportunities outside English-speaking markets through our Brazilian development partners and through the extensive customer relationships within the i-graduate business.

Our adjusted revenues						
	Systems	Solutions	Total	UK	Int'l	Total
Higher Education	17	1	18	13	5	18
Vocational Learning	22	14	36	27	9	36
Schools	10	34	44	36	8	44
Government and other	5	10	15	13	2	15

Figures are stated net of inter-divisional revenues

Building stronger international capabilities

Vocational learning

Tribal delivers a broad spectrum of systems and solutions across the Further Education and work-based learning markets. We offer our UK market leading ebs4™ and Maytas™ student management systems, together with analytics, review and evaluation, and adult learning solutions targeted at improving education and training delivery. Our activities are strong both in the UK and internationally.

In the UK we extended our market leadership in Further Education college student management systems, securing eight new colleges during 2012, and in New Zealand our ebs4™ student management system is now operational in four Institutes of Technology and Polytechnics (ITPs).

Internationally, we are pleased with our progress on the Student Administration and Learning Management (SALM) programme in New South Wales. Amongst other elements, this project will deploy our student management systems across all 136 Technical and Further Education college (TAFE) campuses in New South Wales.

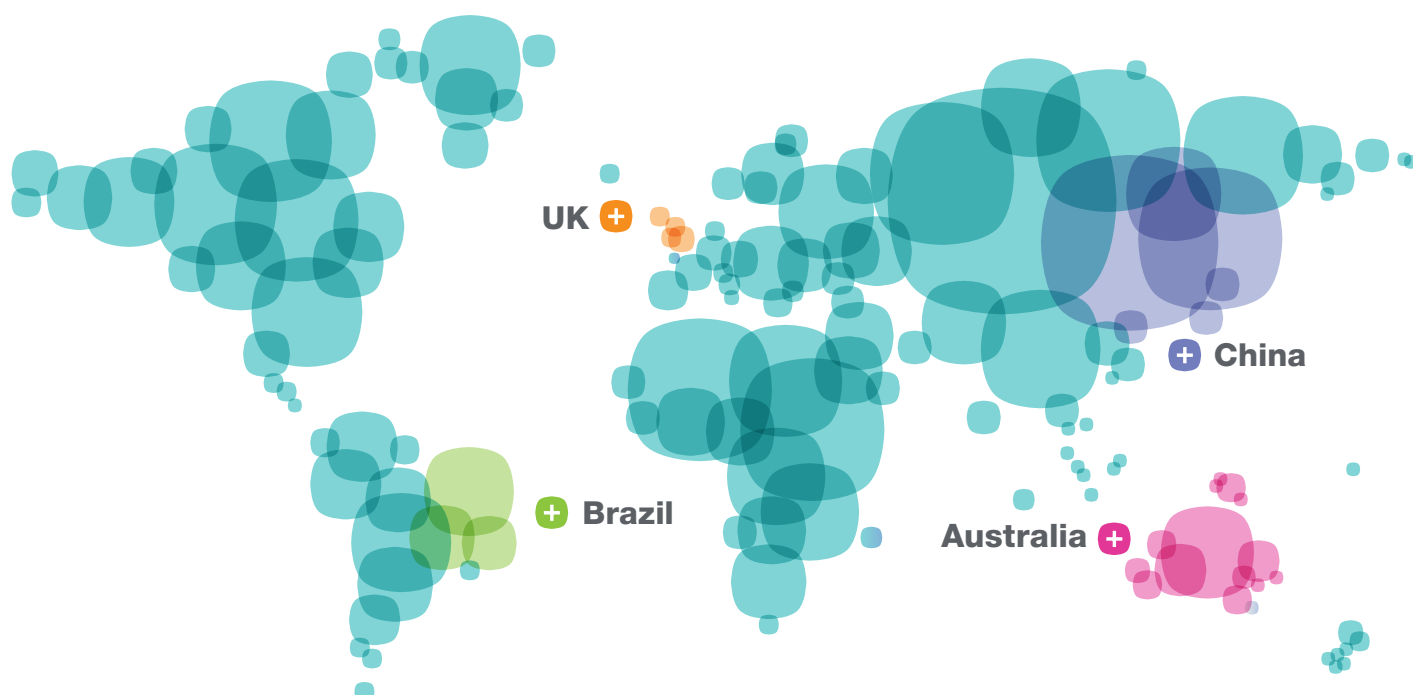
This major programme, with a potential contract value significantly in excess of A\$40m, forms part of the Learning Management and Business Reform programme under which the

New South Wales Department for Education and Communities is upgrading business systems across all state-run education institutions. Our enhancements to our existing ebs4™ and Synergy™ systems, which tailor these systems for the SALM programme, are well advanced for deployment to users during 2013.


Looking beyond the SALM programme, we are now seeing early stage opportunities for other large scale student management system programmes based on our credentials, and we will be seeking to take advantage of cross-selling opportunities offered by i-graduate's customer base in Further Education.

Our Further Education based analytics work continues to develop well. We have recently extended our contract under which we provide operational and financial benchmarking solutions to all ITPs in New Zealand, and we have secured our first operational benchmarking contract in Australia for the Central Institute of Technology, Western Australia. Our evaluation and analytics activities also cover more than half of all colleges in the UK, and we continue to progress well with our evaluation / inspection work on behalf of Ofsted, the UK Government's Office of Standards in Education, Children's Services and Skills.

International software development resources



i-graduate market access opportunities		UK	Asia Pacific	North America	Europe	Rest of World
Higher Education	Tribal	135	7	-	3	1
	i-graduate	122	72	71	258	4
Vocational Learning	Tribal	1,007	18	-	-	-
	i-graduate	130	140	1	2	1
Schools	Tribal	7,889	2,200	374	-	4
	i-graduate	62	133	407	31	33
Government and other	Tribal	149	-	1	3	1
	i-graduate	102	2	1	2	-

 Significant potential market access opportunities
 Figures stated represent gross customer numbers of each business in each region

In adult training, we have refreshed and re-launched our leading Maytas™ system, and our customer base is progressively moving to the new Maytas5 platform. Our virtual learning and assessment systems are now deployed in the US and five further partner nations on behalf the Mobile Learning Environment ('MoLE') programme run by the US Department of Defense. We are working further with the US Department of Defense to provide mobile learning software to support training and development across its distributed workforce. Alongside our existing FE college learning programmes, we have launched GoLearn™, a web-based resource for functional skills training, and we have extended our pilot project with KFC to manage its apprenticeship training programme on our MyApp™ software platform.

Schools

Our work with schools is making good progress across a number of fronts. In the UK, we are the leading provider of schools-based solutions to Ofsted. We are also a major provider of management systems to Children's Services departments in local authorities in the UK, and are building increasing momentum with our systems and solutions in international markets.

Our quality review and evaluation contracts with Ofsted continue to progress well, and our expertise and software tools used in these programmes are providing good development opportunities for other markets. During the year, we launched a self-evaluation software tool for schools (Framework+™) which allows school leaders to benefit from our evaluation expertise on a continual basis, as an embedded part of their school management processes.

A powerful suite of systems and solutions for the schools market

Our review and evaluation resources are also deployed internationally. In the Middle East, we have extended our contract with the Abu Dhabi Education Council and we will be providing review and evaluation support to state and private schools in Abu Dhabi over the coming three years. In the US, our USD6m project with the Metropolitan District of Nashville to assist in turning around under-performing schools is progressing well, and we have now secured a contract to expand our activities into New York State. The analytics solution provided by i-graduate to over 400 schools in the US will form part of our wider offering to this market.

We have an increasingly powerful suite of systems applicable to the schools and Children's Services markets, covering student management systems for use in schools, asset management systems to manage school estates, and management information systems for Children's Services departments in local government.

We are making good progress with our schools-based student management system as part of the SALM project, and we expect our system to go live in over 200 schools during 2013. Thereafter, it is anticipated that our system will be rolled out to the remaining c2,000 state schools in New South Wales. As a result of our progress on this project, encouraging early stage opportunities are becoming visible in other markets.

Our k2™ asset management system is proving successful in the schools market. k2™ is now operating across all state schools in England, and in 2012 we built on this success with a NZ\$3.9m contract to deploy this system across all state schools in New Zealand.

In the UK, our Synergy™ system is used by over half of Children's Services departments in local authorities across the UK, and during 2012 the Wakefield, Dorset and Bury local authorities joined our customer group. We have also made good progress with our new Children's Social Care Record system, which provides social care professionals with a "single view" of a child in line with the recommendations of the Munro Report. Through this system, important information from otherwise disaggregated records across local government can be integrated, helping to improve care for vulnerable children. This system has continued to be developed in collaboration with our initial customers during 2012, and is now successfully operating in Stockport and Barnsley councils.

Government and other

We also deploy our systems and solutions on behalf of government departments in the UK and internationally.

In the UK, while government procurements of new services remain subdued, we continue to make good progress with our £5m professional development contract for mathematics teaching in England. Under this contract with the UK Department of Education, which was extended in March 2012 for a further three years, we manage the National Centre for Excellence in the Teaching of Mathematics (NCETM), which provides professional development resources to teachers throughout England. Our NCETM portal helps schools and colleges to learn from their own best practice, through collaboration among staff via the portal, and by sharing good practice locally, regionally and nationally.

In a similar way, Tribal's software and expertise underpins the online Learning4Health programme, an NHS initiative to bring together clinical staff's professional development in a coordinated manner across over 3,000 healthcare facilities in the South West of England, and we are now commencing work on a new £1.7m project for the National Institute for Health Research ('NIHR') to produce a new records management system to automate the collection of data and manage more effectively the NIHR clinical research network portfolio.

Internationally, our adult learning solutions are deployed in EU funded projects in Turkey, where we are supporting the professional development of Special Educational Needs teachers, and in Croatia where we are working with the Croatian employment service to improve standards of employment agencies and adult education providers.

Our focus for 2013

During 2013 we intend to accelerate our development, building on the advances we made during 2012.

This progress will be underpinned by continued discipline in our core activities: delivering on our major systems projects such as SALM, converting our good pipeline into contract wins, and increasing efficiency in our software development functions.

In our UK markets, we are focused on sustaining our leading positions through new customer wins and continued enhancement to our systems and solutions. Linking third parties' specialist modules to our major systems through carefully chosen licensing deals will complement investment in our own software.

Internationally, we have taken significant steps forward, and we now wish to maximise the competitive advantages of our large education management systems. We will be exploring entry into additional new markets, and the use of third party system implementation partners in these new markets to give us rapid scale and flexible local capabilities.

These actions form the core of our organic growth strategy, alongside which we will consider bolt-on acquisitions which complement our positions in our main systems and solutions markets.

Outlook

Tribal is trading well, and we have a number of growth initiatives underway which offer good potential. Our systems and solutions remain strong in their UK markets, and we are seeing increasing momentum for our offerings in international markets, both those in which we currently operate as well as selected potential new markets. As a result, we continue to make good progress towards our strategic target of doubling adjusted earnings per share over the three year period ending 31 December 2014.

Our current trading is in line with our expectations for 2013. As a consequence of seasonality in our business, and our continued programme of investment, we anticipate our profits in 2013 will be weighted towards the second half of the year, and Tribal has good potential to make further progress over the medium term.

13 March 2013

+ working as one we extended and enhanced our ebs4 student management system to meet the needs of the New Zealand market

TANZ (Tertiary Accord of New Zealand)

is a group of seven polytechnics across the North and South islands of New Zealand. TANZ evaluated a replacement student record system, with a view to creating a partnership with their chosen supplier.

With ebs4 as the chosen solution, Tribal, working collaboratively with TANZ, extended and enhanced the system to meet the needs of the New Zealand market. The implementation of ebs4 has helped to reduce a number of risks associated with their previous system, as well as offer a next generation solution to deliver real benefits to students and staff.

Tribal implemented ebs4 into three TANZ polytechnics during 2012 and will implement a further two in the first quarter of 2013.

The polytechnics that are now running ebs4 have new processes in place that enable more flexibility in how their curriculum is set up and delivered, which allows their curricula to reflect more closely their current and prospective student programme requirements.



Snapshot of our strategic plan: progress and risks

Our vision

To be an international business that creates and delivers world-class systems and solutions which help education and training providers to deliver excellence

Our key strategic objectives

Embedding technology throughout Tribal, with creative interaction between our Systems and Solutions activities, moving us from a Technology and Services business to become a technology-based Systems and Solutions business

Why? The power of technology to drive efficiency for our customers is significant. Our major systems play a key part in helping our customers to run their schools, colleges and universities well. Our solutions, when delivered through well chosen technology, become repeatable, scalable and increasingly embedded in our customers' day-to-day activities.

Internationalise our customer base, growing international revenue as a proportion of total revenue

Why? Our systems and solutions have been developed around a deep understanding of education in the UK. Around the world, education providers frequently face similar challenges, and are keen to benefit from the expertise that the best of the UK's education system can offer. Our systems and solutions bring UK educational expertise, wrapped in a technology-based package underpinned by a global delivery model.

Enhancing our sales and business development capability to drive profitable organic revenue growth

Why? We are pursuing an organic growth strategy, which demands a high-performing sales and business development capability. Our teams operate on an integrated basis which does not delineate between systems and solutions, but instead focuses our teams on a regional basis in the UK / Ireland, Asia Pacific and the Rest of the World.

Deliver shareholder value through earnings per share growth

Why? Sustainable earnings growth should deliver shareholder value. Sustainable earnings growth requires strong revenue increases, while keeping direct costs under control, and minimising overhead growth. Sustainable earnings growth also requires investment in new international markets, needs controlled deployment of local resources, and new product development to ensure offerings are relevant in their chosen markets.

Reducing debt, creating the opportunity (subject to investment opportunities) for a debt free business

Why? Reducing debt increases the strength of the business, and creates the financial capacity to take advantage of investment opportunities as they arise, whether through new product development, new market entry, funding major projects or bolt-on acquisitions.

Progress: our strategic key performance indicators

Proportion of revenues which are underpinned by technology

77%

Revenues from international sources

21%

See KPI page 16



Revenue growth rates

7%

Sustainable earnings per share growth

30%

See KPI page 16



Net debt reduction

38%

Key risks to delivery of our strategy

Innovation and technology: maintaining the right pace of innovation

Our software systems and tools use up-to-date technologies, but we must continue to develop and enhance our software to ensure it remains relevant and fresh, whilst avoiding expenditure on new technologies which do not generate good revenue streams.

Geographic distribution: increasing internationalisation and increasing spread of our resources

We must manage doing business in new environments, and ensure the quality of what we do is not diluted, as we grow our capacity in new markets.

Resource allocation: matching our resources to opportunities and commitments

Tribal is growing in a number of new markets, and we must make careful choices in allocating our human and financial capital to ensure that we meet our customers' needs and take advantage of the best opportunities available to us.

People: retaining and recruiting people with the skills and characteristics we need

Revenue growth requires a strong sales and business development capability, supported by effective implementation capacity. If we are unable to secure the services of sufficient numbers of appropriately skilled people in the locations where we do business, this could compromise our growth plans.

Customer demands: meeting evolving customer needs and policies

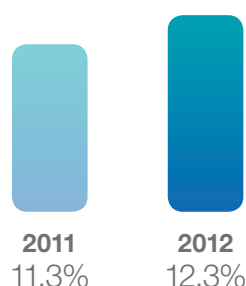
Our customers are operating in a challenging economic environment, and this may lead to rapid change in their requirements of us.

Competitor positioning: the reaction of our competitors as we make progress in new markets

Our competitors range from large software businesses to smaller support service providers. Our entry into new markets may provoke significant new competitive activity which may affect our growth rates.

Key performance indicators

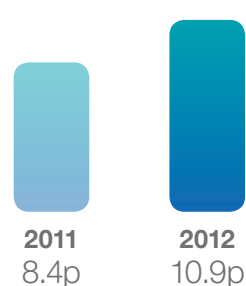
Adjusted operating margin



Objective: Maintain and enhance our operating margin.

Outlook: We have made good initial progress in 2012, raising our overall operating margin to 12.3%. We continue to focus on driving margin improvement through good revenue growth and effective cost control.

Adjusted earnings per share



Objective: Long-term sustainable growth in EPS.

Outlook: We remain focused on our target to double adjusted earnings per share over the three-year period ending 31 December 2014.

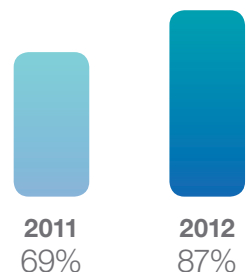
Internationalisation



Objective: Increasing the proportion of overall revenue generated from international markets.

Outlook: We have seen strong revenue growth in Asia Pacific during 2012, and expect that to continue in 2013. We are seeing good opportunities in other international markets, and remain focused on pursuit of carefully selected international customers.

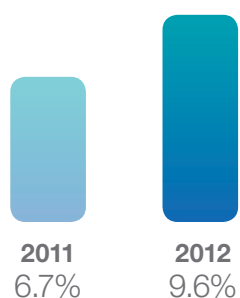
Cash conversion



Objective: Generate strong cash flow from our continuing operations (measured before exceptional costs but after capital expenditure).

Outlook: We have generated excellent operating cash flow during 2012, significantly reducing our debt. While some project cash flows may be lumpy during 2013, we expect to continue to generate good cash flow to reduce debt and create further investment capacity.

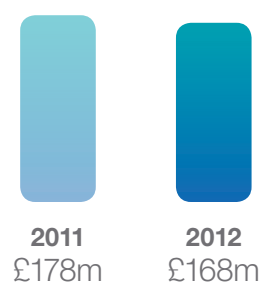
Product development investment



Objective: Sustained investment in development of existing and new products in the Systems business, stated as a percentage of adjusted Systems division revenue.

Outlook: We have significantly increased the levels of capitalised product development investment during the past two years. We expect to maintain the levels of investment seen in 2012 for the foreseeable future.

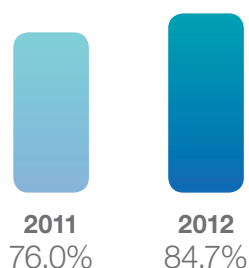
Order book



Objective: Increasing order book supporting enhanced revenue visibility.

Outlook: Whilst the Ofsted review and evaluation contracts are a material contributor to our order book, and we are presently engaged in delivery of those contracts, our overall order book remains strong. We recognise only two years of maintenance income from our installed base of systems customers within our order book, although we expect most of these customers to remain with us for many years.

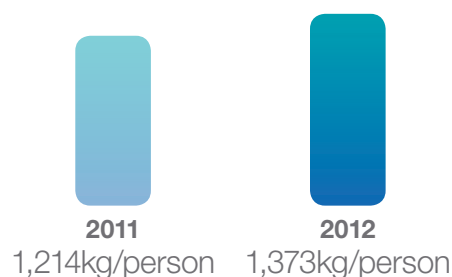
Staff retention



Objective: Optimise retention of skilled staff.

Outlook: As we proceed with our strategy plan, and demonstrate the strength of Tribal's position in its markets, staff feedback indicates that our people are increasingly confident in their future within Tribal.

Impact on the environment



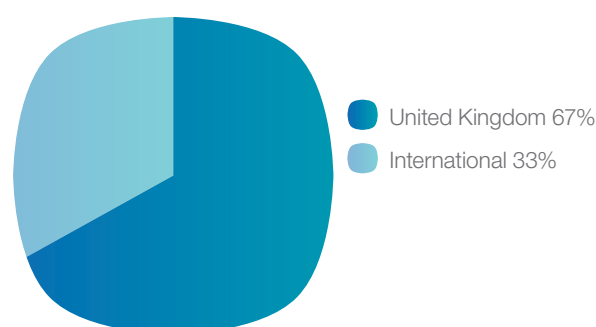
Objective: Minimise our carbon emissions (measured as average kilograms of CO₂ emitted per member of staff as a result of air, rail and car travel by staff).

Outlook: Our increasing internationalisation will continue to require our people to travel extensively, but we are working to use technology to minimise the need for travel where practicable.

Divisional performance: Systems

Our Systems business has made significant progress this year, securing new customers for our major student management systems, advancing well on the major SALM programme, and investing in significant enhancements to our products. We have also established an international software development team to support our growth into 2013.

Revenues from international sources (2012)



Systems

Year ended 31 December	2012 £'000	2011 £'000
Adjusted revenue		
Licence	10,563	7,817
Implementation	19,567	15,716
Maintenance	16,782	14,547
Other	8,632	7,091
	55,544	45,171
Of which:		
UK	67%	82%
International	33%	18%
	100%	100%
Adjusted segment operating profit	12,072	10,104
Adjusted operating profit margin	22%	22%
Systems product development investment	£5.3m	£3.0m

Our licence revenues grew strongly in the year. While our progress on the SALM programme in New South Wales represents an important part of this licence revenue growth, sales of our student management systems to new university and college customers in the UK and internationally have also driven good licence revenues.

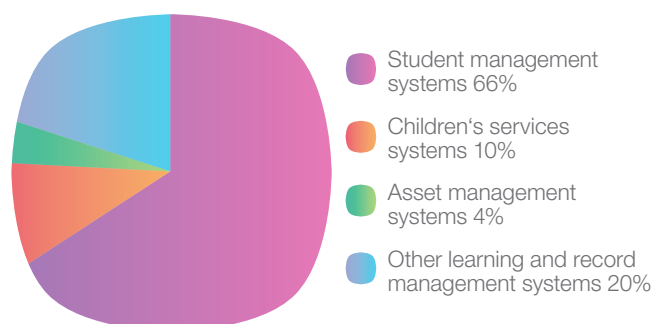
Implementation revenues grew strongly as we continued the deployment of our systems for major customers such as the University of Sydney, University of Oxford and Trinity College Dublin. Our work for the New South Wales Department of Education on the SALM programme gathered momentum during the second half of 2012, enhancing our implementation revenues, and this programme is anticipated to continue to draw strongly on our teams during 2013.

Maintenance revenues grew well, following the successful implementation of a number of new customer systems during the year. The SALM programme did not contribute materially to our maintenance income during 2012, as the programme is in its initial design and development phase, prior to roll-out to users during 2013.

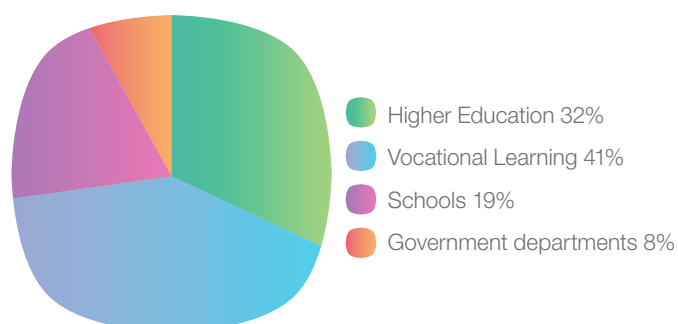
Our Systems business grew revenue by 23% to £55.5m (2011: £45.2m). Divisional adjusted operating profit was £12.1m (2011: £10.1m), and the adjusted operating margin was 22% (2011: 22%).

We experienced generally good trading conditions in the UK across the sectors in which our Systems business operates, and our activities in Asia Pacific continued to grow on the back of strong interest in our product set. Our international revenues in 2012 in our Systems business were £18.3m, of which £8.5m related to the SALM programme. As a whole, our Systems business generated 33% of its revenues from international customers, compared with 18% in 2011.

Revenues by product type (2012)



Revenues by market (2012)



Our adjusted operating margin progression is positive, reflecting our focus on increasing operational efficiency, while supporting the establishment of new business infrastructure to support our increasing activities in Asia Pacific; in the short term, this enhanced infrastructure has increased costs, holding back our overall divisional margin growth. Elsewhere in the Systems business, we have maintained good control over our costs throughout 2012, sustaining the benefits of our cost reduction programme completed in 2011.

Strong revenue growth and effective cost control has supported acceleration of investment in new software product development. We have invested across our range of systems, increasing capitalised investment from £3.0m in 2011 to £5.3m in 2012. We expect to continue to invest in our software products at this level in 2013.

+ working as one to bring together 11 services under one roof as a single gateway for all student support

The University of Exeter is one of the most successful universities in the UK with a growing reputation and Sunday Times University of the Year in 2012-3. With student numbers scheduled to grow to 20,000 by 2018, the university recently invested in a new £48m Student Services Centre to bring together 11 services under one roof as a single gateway for all student support.

As an existing user of the SITS:Vision Student and Course Management System, Tribal worked with the University to help it move towards a paperless enquiry, appointment and case management solution that could support document upload, integration with other systems as well as record case information and referrals.

Through using Tribal's Enterprise Service Desk (ESD) software and the Case Management module, the solution has assisted the university with improving overall service to students, particularly in the important areas of wellness, disability and international student support.

Paper files have been reduced, enquiry times are down and the management and sharing of information on cases around the university has been vastly improved.



Divisional performance: Solutions

In a relatively quiet UK market, our Solutions business has re-focused our offering and increased the technological underpinning of the services we provide. Our revenues are increasingly of a higher quality, and we are building our international capabilities for growth.

Solutions

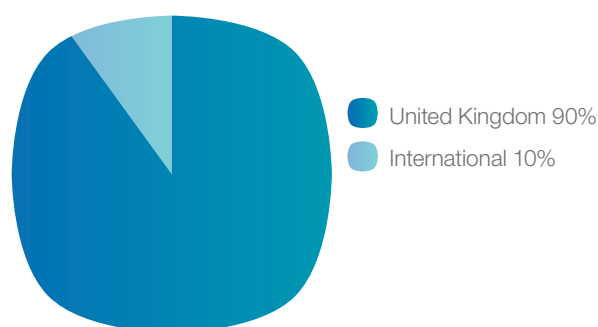
Year ended 31 December	2012 £'000	2011 £'000
Adjusted revenue		
Benchmarking and analytics	2,727	4,514
Review and evaluation services	29,816	33,120
Professional development and training support	19,754	20,431
Learning and assessment	7,045	5,108
	59,342	63,173
Of which:		
UK	90%	93%
International	10%	7%
	100%	100%
Adjusted segment operating profit	5,282	5,363
Adjusted operating profit margin	9%	8%
Solutions product development investment	£0.9m	£0.6m

Our Solutions business' revenue reduced by 6% to £59.3m (2011: £63.2m). Divisional adjusted operating profit was £5.3m (2011: £5.4m), and the adjusted operating margin increased to 9% (2011: 8%).

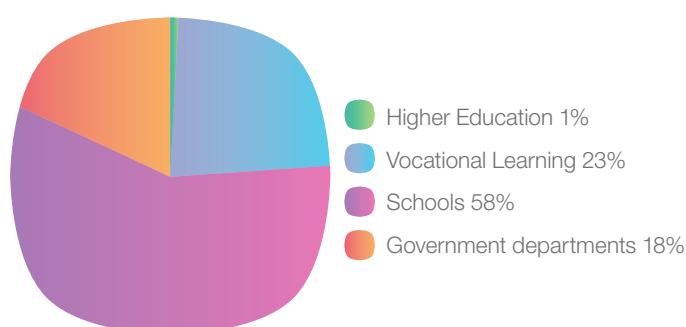
As we identified at the start of the year, the UK market in which the Solutions business predominantly operates has remained relatively quiet, and comparatively it continues to present fewer growth opportunities than we see in our Systems business.

Strategically, growth in the Solutions business requires that we re-focus the business on services which are founded upon software-based tools capturing the rich intellectual property in our business, and which do so in a scalable and repeatable form that can be deployed into international markets. Consistent with this approach, our international revenues in our Solutions business grew from 7% to 10% of divisional revenues.

Revenues from international sources (2012)



Revenues by market (2012)



The key profit growth opportunities in our Solutions business are in analytics and benchmarking solutions across higher, further and school education and in evidence-based school improvement solutions internationally.

Our benchmarking and analytics business has been underpinned in recent years by a long-term contract operated for the Department of Education in the UK.

The scale of this contract reduced in 2012, partially offset by contract extensions for benchmarking work across all colleges in New Zealand. Our recent acquisition of i-graduate will, we believe, accelerate our progress in analytics and benchmarking. Tribal's review and evaluation activities are weighted towards our two inspections contracts with Ofsted. The profile of these long-term contracts means that revenues are likely to reduce over the contracts' lives, as we experienced from 2011 to 2012, although they are nevertheless expected to remain substantial throughout that time. We have extended our international work in school improvement services, where we are increasingly using our proprietary software tools to complement our people's on-site work, enhancing margin potential.

During 2012, we focused our professional development and training support services towards higher-quality revenues, and exited low-margin programmes. Our propositions in training support are now supported by our applied technology capabilities and we are well positioned to make progress in this area during 2013.

Our learning and assessment solutions have emphasised our work supporting Further Education colleges in providing distance learning enabled by our applied technologies. Strong appetite for these capabilities produced good revenue growth, and the increased use of our software tools is enhancing margins.

Our margin progress is positive, rising from 8% to 9%, although further work is required. As we increasingly embed technology into our solutions, the opportunity for further margin improvement will increase.

+ working as one to deliver performance benchmarking with the Tertiary Education Commission (TEC) in New Zealand

Tribal has been working with the **Tertiary Education Commission (TEC) in New Zealand** since 2007 to deliver performance benchmarking. The TEC is responsible for leading the New Zealand government's relationship with the tertiary education sector and for policy development and implementation. The TEC manages the government's NZD\$3bn annual investment in the tertiary education system, which is considered a national strategic asset critical to New Zealand's economic and social wellbeing.

To underpin the move to a new investment framework, the TEC required quality assurance and monitoring information to inform investment. Tribal, through close consultation with the TEC and Tertiary Education Institutions (TEIs), developed and implemented a web-enabled benchmarking and performance improvement solution that provided the TEC with the robust information it required.

This information also allowed providers quickly to identify strengths and weaknesses in their own performance, as well as addressing government priorities around improving educational and financial performance, and inclusion of Maori students at a higher level.

The establishment of an annual benchmarking process has supported both the TEC and TEIs in monitoring their progress against these key priorities.

In 2012, we extended our work with the TEC to provide a more detailed analysis of the university workforce, to assist workforce planning activities across all universities. Our solution analysed over NZD\$1.6bn of payroll costs for almost 19,000 FTE staff across all universities. This has supported the development of strategies to respond to risks posed by an ageing academic workforce, at the same time as an expected increase in future demand on the tertiary system.



Robust growth in profits underpinned by good cash generation



We have maintained a firm grip on our cost base, while expanding the scale of our operations into new markets. At the same time, our focus on working capital management is supporting strong cash flow, reducing our borrowings and allowing increased investment in new software and solutions.

Steve Breach, Group Finance Director

Continuing operations

	2012 £'000	2011 £'000	Change
Adjusted revenue	113,417	105,759	7%
Adjusted operating profit from divisions before central costs	17,354	15,467	12%
Central costs	(3,472)	(3,473)	-%
Adjusted operating profit	13,882	11,994	16%
Adjusted net finance costs	(1,043)	(1,860)	(44)%
Adjusted profit before tax	12,839	10,134	27%
Adjusted effective tax rate	20.5%	22.2%	
Adjusted diluted earnings per share	10.9p	8.4p	

In the year ended 31 December 2012, the Group's adjusted revenue from continuing operations was £113.4m (2011: £105.8m). Adjusted operating profit was £13.9m (2011: £12.0m) and adjusted operating margin was 12.3% (2011: 11.3%). Adjusted profit before tax was £12.8m (2011: £10.1m) and adjusted diluted earnings per share were 10.9p (2011: 8.4p). The statutory profit for our continuing business after tax was £8.0m (2011: £3.3m).

Adjusted revenue

Adjusted revenue from continuing operations increased by 7% to £113.4m, driven by organic growth in the Systems business of 23%. This growth primarily resulted from strong performance in international markets, but was offset by a reduction in the Solutions business of 6% as we withdrew from unattractive activities, and as a result of the profile of revenues on the Ofsted inspection contracts (divisional growth rates are stated gross of intra-divisional trading).

Adjusted operating profit

Adjusted operating profit for the year ended 31 December 2012 grew from £12.0m to £13.9m, and adjusted operating margins grew from 11.3% to 12.3%.

Our profit margin growth was driven by the increasing scale of technology-based activities in our Systems business, continued attention to operational cost management across the Group, and focus on overhead reduction. Our central costs remained within our target range of less than 4% of revenue, and were 3.1% of revenue (2011: 3.3%). Adjusted EBITDA (being operating profit before depreciation and amortisation) in the year ended 31 December 2012 was £16.9m (2011: £15.4m).

Exceptional operating costs and closed businesses

	2012 £'000	2011 £'000
- Trading loss from closed businesses	(844)	(682)
- Redundancy costs and other closure costs	(1,286)	-
Operating loss from closed businesses	(2,130)	(682)
Other exceptional costs:		
- Redundancy costs	-	(3,327)
- Property-related costs	-	(1,773)
- Other restructuring costs	-	(913)
- Acquisition-related expenses	(209)	-
- Adjustments to deferred consideration	(50)	664
- Amortisation of IFRS3 intangibles	(24)	(218)
	(2,413)	(6,249)

Exceptional operating costs and closed business activities

The adjusted profit figures set out above exclude the results of closed businesses and exceptional costs of £2.4m. These costs are primarily associated with the closure of our Microsoft Dynamics reselling / implementation activities, and closure of our direct delivery of apprenticeship-related training business. Each of these businesses was considered not to be core to our strategic direction.

Discontinued activities

	2012 £'000	2011 £'000
Profit/(loss) attributable to Resourcing	666	(2,528)
Profit/(loss) attributable to Health and Government	1	(2,764)
Profit/(loss) attributable to Kindred	185	(780)
Loss attributable to Nightingale Associates	(50)	-
Operating profit/(loss) attributable to discontinued operations	802	(6,072)
Profit/(loss) on disposal of Resourcing	541	(2,661)
Profit/(loss) on disposal of Health and Government	45	(18,390)
Loss on disposal of Kindred	-	(3)
(Loss)/profit on disposal of Nightingale Associates	(179)	1,087
Profit/(loss) on disposal of discontinued operations	407	(19,967)
Attributable tax credit	556	275
Net profit/(loss) attributable to discontinued operations	1,765	(25,764)

Discontinued activities

Our major disposal programme was completed in 2011. Since completion of the disposals, certain deferred consideration payments have become receivable, and we have pursued the recovery of trade debtor amounts which, under the terms of certain disposals, remained with Tribal. We have also undertaken a programme to mitigate any residual property lease obligations which remained with Tribal. In these respects, we have been successful in recovering significant portions of the receivable amounts, and in subletting the majority of the residual property. This has resulted in profits arising in connection with discontinued activities.

Group finance costs

	2012 £'000	2011 £'000
Investment income	(162)	(50)
Finance costs	1,205	1,910
Net finance costs	1,043	1,860
Financial instruments	453	145
	1,496	2,005

Finance costs

Net finance costs have fallen consistent with a reduction in Tribal's overall debt levels. During the year, the Group has maintained an interest rate cap arrangement, intended to reduce the risk of interest rate increases. However, the Group has benefited from currently low interest rates and the cap arrangement has not been activated.

In addition to interest costs on our bank borrowings, finance costs also include charges arising from bank guarantees issued as part of the SALM contract.

The financial instruments charge in the year, which is treated as an exceptional cost, arises from the unwinding of the hedging reserve relating to the interest rate swap which was closed out in July 2011. The reserve will unwind over the original life of the swap to September 2013.

Tax

The effective tax rate on our adjusted continuing business of 21% (2011: 22%) is lower than the standard rate due to prior year adjustments. The corporation tax charge on continuing operations was £2.0m (2011: £0.4m). While the Group is growing its activities in international jurisdictions, it is currently anticipated that the tax charge on profits in the near term is likely to be broadly in line with the standard UK corporation tax rate.

Earnings per share

The adjusted diluted earnings per share from continuing operations before exceptional costs, the results of closed businesses and intangible asset amortisation, which reflects the underlying trading performance of the Group, grew from 8.4p to 10.9p.

Basic earnings per share was 10.4p (2011: loss per share of 23.9p).

Shareholder returns and dividends

The statutory profit for the year was £9.7m, compared to a statutory loss in the prior year of £22.4m following the completion of our restructuring programme.

The Group's financial performance, and balance sheet strength, has significantly improved over the last 18 months. Our focus is now on growing the business, sustaining strong investment in our software products, entering selected new markets and, where appropriate, considering bolt-on acquisitions.

The Directors have previously pursued a progressive dividend policy, reflecting the cash generative nature of the continuing business, but seeking to reduce debt levels over the medium term and to retain capital to allow the Group to implement its strategic plan. This progressive dividend policy remains appropriate. The Directors consider that it is in the Group's best interest, for the medium term, generally to retain cash generated from operations for reinvestment in pursuit of the above opportunities.

On this basis, and taking into account the good financial performance of the Group in 2012, the Board has proposed a final dividend of 0.85p per share which, together with the interim dividend of 0.40p per share, gives a total dividend of 1.25p per share (2011: 1.00p). The dividend is covered 8.7 times by adjusted earnings per share, and the final dividend will be paid on 2 July 2013 to shareholders on the register on 14 June 2013.

Net debt and cash flow

Net debt

Group net debt decreased from £16.0m at 31 December 2011 to £9.9m at 31 December 2012.

	2012 £'000	2011 £'000
Cash at bank and in hand	8,424	6,524
Syndicated bank facility (net of bank arrangement fees)	(18,274)	(22,503)
Net debt	(9,850)	(15,979)
Gearing	18%	35%

Pension obligations

As a consequence of certain contract awards, primarily the Ofsted Early Years inspection contract which was entered into during the year ended 31 December 2010, a number of employees participate in defined benefit pension schemes. The combined deficits calculated under IAS 19 at the end of the year totalled £0.4m (with gross assets of £5.4m and gross liabilities of £5.8m), compared to £0.5m last year.

Cash flow and cash management

	2012 £'000	2011 £'000
Continuing operations		
Net cash from operating activities before tax and before exceptional cashflows	20,423	12,867
Capital expenditure (net)	(2,178)	(836)
Capital expenditure on software product development and business systems	(6,188)	(3,764)
Operating cash flow from underlying operations after capital expenditure before exceptional cashflows	12,057	8,267
Exceptional cashflows	(1,664)	(4,786)
Operating cash flow from underlying operations after capital expenditure	10,393	3,481
Operating cash flow from closed businesses	(791)	(667)
Discontinued operations		
Net cash from operating activities before tax	(1,213)	(8,540)
Capital expenditure (net)	-	160
Capital expenditure on software product development and business systems	-	(40)
Operating cash flow from discontinued operations after capital expenditure	(1,213)	(8,420)
Net interest	(633)	(1,557)
Tax	(1,692)	718
Free cash flow	6,064	(6,445)
Acquisitions and deferred consideration	(50)	(70)
Disposal of discontinued operations	1,542	12,378
Dividends paid	(933)	(980)
Financing	(4,695)	(10,958)
Settlement of interest rate swap instrument	-	(2,086)
Effect of foreign exchange rate changes	(31)	26
Increase/(decrease) in cash and cash equivalents in year	1,897	(8,135)

Cash flow and cash management

During 2012, the Group's underlying activities generated strong operating cash flows after capital expenditure, but before exceptional cash costs, of £12.1m (2011: £8.3m), with cash conversion of 87% (2011: 69%).

Capital expenditure

Our increased cash generation is stated after allowing for significantly increased investment in new software development expenditure and other capital expenditure as the infrastructure of the Group was refreshed and extended in international markets. Capital expenditure across the Group totalled £8.4m (2011: £4.6m).

We have increased capitalised expenditure on software product development to £6.2m (2011: £3.6m). At the same time, research and development costs charged directly against profits also increased by £0.5m over the prior year to £1.3m. Our actions in this respect include improved methodologies for measuring and recording the time spent by our software development teams on new development work and pursuing increased benefits from higher productivity working practices. This has also allowed us to capture and record as capital investment in 2013 some costs which we might not have been able to capture in prior years. Our areas of increased expenditure particularly relate to enhancements to our existing products to address international customer requirements, and new product development for both domestic and international markets.

Cash flows arising from discontinued activities

During the course of 2012, cash flows arose from our discontinued activities in relation to:

- operating cash flows; and
- deferred consideration payments becoming receivable.

Operating cash flows relate primarily to recovery of receivable amounts due to Tribal from the operations of the discontinued businesses, and property lease payments which Tribal remained committed to in relation to businesses which it had disposed of. As previously noted, we have been successful in recovering much of these receivables, and in subletting the majority of these properties during 2012, and these property-related cash costs are expected now to diminish significantly.

During 2012, we received all of the remaining deferred consideration which was potentially receivable in relation to our disposal of the Health and Government businesses to Capita. We also received close to the maximum potential receipts for the contingent consideration in relation to the disposal of Nightingale Associates, and we continue to receive instalments in relation to the sale of the Resourcing business.

Order book

The total forward order book of the Group as at 31 December 2012 was lower by 4% at £168m (2011: £178m). Our order book relates to business we will deliver over the next five years, but includes only two years of software maintenance income. Based on the period of time over which our student management systems are typically installed in customer sites, it is probable that maintenance income streams will continue well beyond a two-year timeframe; maintenance income for the year ended 31 December 2012 was £16.8m.

+ working as one to address school estate management risks for the New Zealand Ministry of Education

The Ministry of Education (MoE) supports the New Zealand Government with leading and shaping its education system. The MoE's Schools Infrastructure Group is responsible for New Zealand's state school property portfolio.

Every year, it provides around NZ\$500 million towards the maintenance and upgrade of approximately 2,300 schools.

The MoE chose to use Tribal's K2 Asset Management software to help address financial and reputational risks for the Ministry and Government. The MoE has several data management challenges and needed to comply with new standards for capital asset management.

Tribal will provide both smart client and web portal access to the system, as well as integration with several other Ministry applications.

The K2 solution will ensure that:

- The schools portfolio is managed and monitored more effectively and efficiently;
- Property assets are fit for purpose and their economic life is optimised;
- Value for money is increased; and
- Legacy systems are replaced and data sources are rationalised.

+ **working as one** to facilitate the accurate and consistent collection of English schools estate data

The Education Funding Agency (EFA) is the delivery agency for funding and compliance for the Department of Education (DfE) in the UK. The EFA provides revenue and capital funding for the education of learners and to support the delivery of building and maintenance programmes for schools, academies, free schools and sixth-form colleges.

As part of the Government's response to the Review of Education Capital in July 2011, the Department agreed that work should start without delay to collect up-to-date information on the building condition of the education estate. The Property Data Survey Programme (PDSP) has been established to enable the collection of this data.

In September 2011, Partnerships for Schools (now the Education Funding Agency) was asked by the Department to lead on the delivery of the PDSP to survey circa 23,000 educational establishments throughout England - in order to ensure future capital maintenance funding is targeted to meet the most urgent condition needs of the education estate.

The EFA are using Tribal's k2 Asset Management System to collect and manage the Property Data Survey information. k2 will facilitate the accurate and consistent collection of data and its robust reporting.

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 below.

Funding adequacy

The Group finances its operations by a combination of cash reserves from equity capital, retained profits and bank borrowings. Our senior debt banking facility is committed until February 2015, subject to compliance with covenants. Under the terms of the facility, £30m is available under a revolving credit facility. In addition, the Group currently has a combined committed bonding and working capital facility of £10m, of which up to £5m may be used as an overdraft and which is renewable in March 2013, and a further £9m committed guarantee facility renewable in May 2013. See note 24 for further details of amounts drawn down at the year end.

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 Directors' 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, of which the credit control function forms part. We incurred no material bad debts during 2012 due to our strong relationships with our customers.

Interest rate risk

Forward rate agreements and interest rate swaps are used where appropriate to achieve the desired mix of fixed and floating rate debt. An interest rate cap has been implemented which ensures that the Group's first £20m of borrowings will incur interest costs at a maximum of 2% plus the relevant margin until 1 February 2015.

Foreign exchange risk

A proportion of Tribal's business is transacted overseas, and the financial performance of the Group is therefore exposed to movements in foreign currency exchange rates. Management of foreign exchange 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 foreign 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.

13 March 2013



'GoLearn' delivers online learning of English and Maths to work-based learners

+ working as one to deliver a tailored solution to suit each individual's learning requirement

Easton and Otley College is a rural college, set in the heart of Suffolk. The college offers a wide range of courses, including engineering, construction, animal, horse and land studies, and food skills, as well as an array of diplomas and certificates.

The college also delivers adult English and Maths teaching to learners who are based in the workplace. Due to the restrictions of work-based learning, flexible delivery of courses is paramount to help support learners, and to reduce the impact on business time.

The college is using Tribal's new 'GoLearn' solution to deliver online learning of English and Maths to work-based learners. By allowing them to access materials online, course attendance has increased. As a tailored solution to suit each individual's learning requirements, the e-learning platform allows each learner to focus on the areas they need to develop their skills and knowledge in bite-sized chunks, rather than a broad-brush approach to learning.

GoLearn easily facilitates tutors' management of the learner's learning plan and supports the progress made, using a built-in e-tracking system.



Principal risks and uncertainties we face over the coming year

Risk management

Risk is an accepted part of doing business, and a successful risk management process balances risks and rewards, and relies on a sound judgement of their likelihood and consequences.

The Tribal Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. During 2012, Tribal has continued to enhance its risk management processes, doing so in the context of the structure, risk appetite, international growth and strategy of the business going forward.

Risk framework

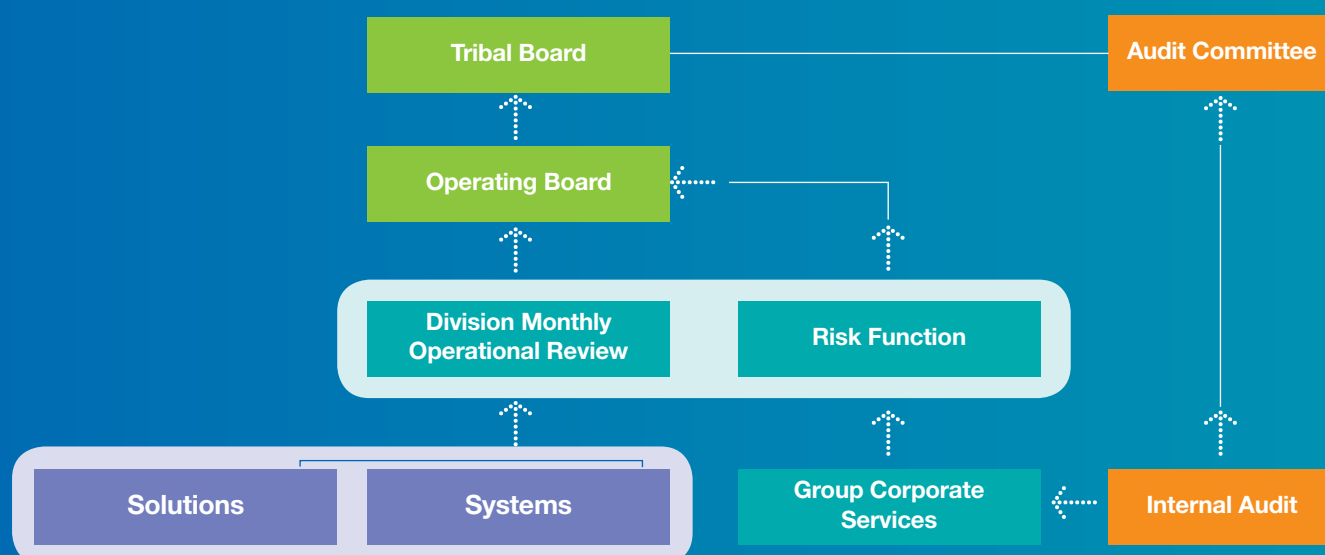
The Board establishes the overall risk framework and the risk management process is embedded within Tribal by the Board's role in:

- setting strategic direction including targets;
- determining the risk appetite of the business;
- 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 risk management framework operates as part of the annual business planning and ongoing performance management process.

Tribal has a number of clear objectives for risk management, which this framework helps it to achieve. These are to:

- identify, measure, control and report on business risk that could undermine the achievement of Tribal's objectives, both strategically and operationally, through appropriate analysis and assessment criteria;
- better allocate effort and resources for the management of key and emerging risks;
- drive business improvements and improved intelligence for key decision-making;
- support and develop our reputation as a well governed and trusted organisation; and
- reduce cost and improve efficiency in our combined governance, risk and assurance investment.



Risk management resources and internal audit

Risk management is embedded into our organisational structure.

The executive directors provide the leadership to ensure that our strategy is effectively communicated throughout the organisation. This is achieved through regular meetings of the senior leadership team, annual strategic planning reviews with individual divisions and by clear guidance within the annual budget and three year planning instructions communicated to all divisions.

The senior leadership team of each division is specifically responsible for the management of risk within its respective businesses. In addition, 'risk owners' have been identified from amongst the Group's senior management to take the lead in managing certain risks.

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

At Group level, risk management is independently facilitated and challenged by the Group Risk Manager and the Internal Audit function, the latter having been outsourced to RSM Tenon in order that Tribal may benefit from a wider skill set than would be available through an in-house capability. Each reports to the Group Finance Director, and independently to the Audit Committee.

Risk register

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

Internal control environment

The Group operates a clear internal control framework, with suitable approval and authority limits applied throughout the business. Further details of the internal control arrangements are set out in the Audit Committee report.

Principal risks





The principal risks that the Group manages are described below. Financial risks are covered in the Financial Review and principally relate to funding, credit risk, interest rate risk and foreign exchange risk.

During 2012, Tribal has continued to enhance its risk management processes, doing so in the context of the structure, risk appetite, international growth and strategy of the business going forward.

Principal risks and uncertainties

continued

Risk categories	Examples of events and trends which may lead to manifestation of the risk	Potential impact
Geographic distribution	<ul style="list-style-type: none"> • Management capacity or capability shortcomings, or control failure, in new markets as scale of operations grows rapidly • Resource stretch as international growth draws on key expertise in existing markets 	<ul style="list-style-type: none"> • Reputational damage • Constraint on growth potential • Adverse effect on current and future financial performance and our reputation
Resource allocation	<ul style="list-style-type: none"> • Poor operational delivery on key contracts • Investment in new software development does not produce a marketable software product • Poor selection of options when transaction timelines do not allow clear direct comparative choices • Insufficient knowledge of local market conditions during international expansion 	<ul style="list-style-type: none"> • Failure to meet contractual obligations and consequential financial penalties and potential loss of contracts • Reputational damage • Insufficient return on investments • Adverse impact on current and future financial performance
Innovation and technology	<ul style="list-style-type: none"> • Failure to complete new development projects in a disciplined fashion • Incorrect assessment of market developments • Obsolescence of technology platforms within key systems • Rapid change in mobile learning technology 	<ul style="list-style-type: none"> • Loss of long-standing customers and erosion of customer base • Constraint on growth potential • Adverse impact on current and future financial performance
Intellectual property	<ul style="list-style-type: none"> • Loss of control of key intellectual property when outsourcing development work to developing economies with poor IP protection laws • Capturing human IP in software-based tools which may be copied / infringed 	<ul style="list-style-type: none"> • Constraint on growth potential • New or unforeseen competitive threat

Strategic objective impacted	Mitigating factors	Change in risk since 2011
<ul style="list-style-type: none"> • Revenue growth rates • Growth in revenues from international sources • Sustainable earnings growth 	<ul style="list-style-type: none"> • Trusted UK management initially put into senior roles in new international operations • Limit geographical spread through careful selection of new markets and new developments 	<ul style="list-style-type: none"> • Increased - as success in international markets is growing 
<ul style="list-style-type: none"> • Revenue growth rates • Growth in revenues from international sources • Growth in proportion of revenues underpinned by technology • Sustainable earnings growth 	<ul style="list-style-type: none"> • Careful due diligence / investment appraisal before proceeding with new ventures • Strong programme of rolling review on major projects • Close attention from senior executive team, including frequent in-country presence on international programmes • Investment in additional capacity and skills 	<ul style="list-style-type: none"> • Increased - as success in international markets is growing 
<ul style="list-style-type: none"> • Growth in the proportion of revenues underpinned by technology • Sustainable earnings growth 	<ul style="list-style-type: none"> • Careful due diligence and design / evaluation of new propositions • Investment programme to identify new attractive technologies which can be brought into our existing product set • Increased resource with skilled individuals focusing on this area • Close monitoring of technological development, and maintenance of Triballabs innovation centre 	<ul style="list-style-type: none"> • Reduced - as we have expanded our software development capabilities, and enhanced our development methodologies 
<ul style="list-style-type: none"> • Revenue growth rates • Sustainable earnings growth 	<ul style="list-style-type: none"> • Careful due diligence and robust contractual frameworks for outsourcing partners • Establishment of robust legal protection where available 	<ul style="list-style-type: none"> • Unchanged - our development work is now operating on a greater international platform, but we have established relationships with high-quality partners 

The principal risks and uncertainties

continued

Risk categories	Examples of events and trends which may lead to manifestation of the risk	Potential impact
Customer demands	<ul style="list-style-type: none"> • Political or economic change driving rapid policy development • SALM contract cancellation • Ofsted terminates schools inspections regime 	<ul style="list-style-type: none"> • New business wins falling short of expectations • Adverse effect on future financial performance
Competitive positioning	<ul style="list-style-type: none"> • Aggressive competitor reaction to our international expansion • Inappropriate pricing strategy in new markets 	<ul style="list-style-type: none"> • Constraint on growth potential • Weakening of long-term customer relationships • Adverse effect on future financial performance
Reputation	<ul style="list-style-type: none"> • Adverse public profile in the event of failure on SALM • Ofsted inspection related media / political lobby attention • Data protection risks 	<ul style="list-style-type: none"> • Perceived value and integrity of our systems and solutions is undermined, weakening confidence of potential customers
People	<ul style="list-style-type: none"> • Insufficient sales and business development capability • Student management systems implementation resource cannot be expanded sufficiently rapidly to support international expansion • Sustaining expatriate teams whilst growing local management capacity 	<ul style="list-style-type: none"> • Inability to develop and execute business plans • Poor morale, and poor key staff retention • Competitive disadvantage • Weaker control of international operations
Governance and controls	<ul style="list-style-type: none"> • Lack of clarity in strategic direction • Failure to keep a tight grip on international growth • Inappropriate balance of control vs freedom to operate • Shortcomings in management information systems' ability to accommodate international growth 	<ul style="list-style-type: none"> • Adverse impact on current financial performance

Strategic objective impacted	Mitigating factors	Change in risk since 2011
<ul style="list-style-type: none"> • Revenue growth rates • Growth in revenues from international sources • Growth in proportion of revenues underpinned by technology • Sustainable earnings growth 	<ul style="list-style-type: none"> • Market intelligence and close senior management relationships into key customers • Increasingly innovative culture amongst senior management • Market positioning giving us strong customer insight 	<ul style="list-style-type: none"> • Unchanged - economic circumstances remain challenging and can create instability in policy-making by governments and those organisations which rely on government funding
<ul style="list-style-type: none"> • Revenue growth rates • Sustainable earnings growth 	<ul style="list-style-type: none"> • Close monitoring of market and competitor behaviour 	<ul style="list-style-type: none"> • Unchanged - we have not experienced a material change in the competitive environment in which we operate
<ul style="list-style-type: none"> • Growth in revenues from international sources • Growth in proportion of revenues underpinned by technology • Sustainable earnings growth 	<ul style="list-style-type: none"> • Focus on effective delivery and maintenance of strong customer relationships 	<ul style="list-style-type: none"> • Unchanged - good progress is being made on our key contracts
<ul style="list-style-type: none"> • Revenue growth rates • Growth in revenues from international sources • Sustainable earnings growth 	<ul style="list-style-type: none"> • Continued investment in sales and business development skills and resources • Investment in growth of implementation capacity, and development of innovative implementation models 	<ul style="list-style-type: none"> • Unchanged - while we have made considerable steps forward in enhancing our capacity, our growth internationally means that these pressures remain
<ul style="list-style-type: none"> • Sustainable earnings growth • Net debt reduction 	<ul style="list-style-type: none"> • Board strengthened with broader skills and experience • Development and enhancement of management information systems • Effective risk management and internal audit processes 	<ul style="list-style-type: none"> • Unchanged - while our international growth has accelerated, we have invested in enhanced local infrastructure and management capacity

Working with fairness and integrity, and fulfilling our responsibilities to communities where we work



Education is a great force for good, and Tribal is proud to be a part of the education world. We believe in fairness, integrity, and 'doing things right'. Giving something back to the communities where we work, through our charitable activities, is an important part of Tribal's ethos.

Keith Evans, Chief Executive

Increasing momentum led by our people

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

We provide our staff with the tools and flexible training opportunities to support and enable them to grow and develop to their potential, and we will be continuing to improve this support during 2013 both in the UK and in our international operations.

Developing our capability

The retention and development of high calibre people is key to our future growth. We believe that a multi-skilled workforce is essential to secure the talent, capabilities and deep understanding of our markets which Tribal needs.

Our development, retention and recruitment strategies at all levels of the business therefore contain a strong emphasis on diversity. During 2012, we launched a new programme across the business, our 'Women in Tribal Initiative', which seeks to ensure Tribal remains a vibrant, diverse and fair place to work for all of our people.

We have also continued to build on our learning and development programmes, which have over the past two years focused on professional sales and business development programmes, and a "Managers into Leaders" management development programme.

Our internal learning and development workspace was launched in February 2012; this provides a central portal for employees to access content and courses including subjects such as equality and diversity, through to courses specifically designed for our people's technical and managerial development needs.

Women in Tribal Initiative

During 2012, we launched a new programme across the business, the 'Women in Tribal Initiative', which seeks to ensure Tribal remains a vibrant, diverse and fair place to work for all of our people.



Our values

We pride ourselves on our values:

- Customer focus – we put customers first in everything we do;
- Excellence – we strive for excellence in all we do; each person's contribution is key to our success;
- Innovation – we are bold and creative in our approach to developing solutions;
- Integrity – we are open, honest and direct in all our dealings;
- Teamwork – we work together in partnership with colleagues, customers and communities.

Tribal operates in an increasing number of jurisdictions around the world, and we are proud of our reputation for acting fairly and ethically wherever we do business.

Our reputation is built on our values as a Group, the values of our employees and business partners, and our collective commitment to act with integrity throughout our organisation and in all our business dealings. We are committed to upholding the highest legal, ethical and moral standards and all our employees and business partners are expected to share this commitment. Tribal condemns bribery and corruption in all its forms and we will not tolerate it in our business or in those we do business with. Our commitment and determination in this respect is reflected in the anti-bribery and ethics policy, in which our staff have received training.

Engaging people

Tribal operates from a number of offices in the UK, as well as internationally. We use a combination of group-wide updates with specific local communications and engagement surveys to ensure that our people have a good understanding of the direction in which we are headed. Twice a year, approximately one in ten of our people are invited to the 'Tribal Summit', which allows engagement across all levels and disciplines in the business, on matters ranging from strategy and market developments, through to employee matters and our communications strategy. We supplement these events with continual communications through a number of channels, corporate social media and staff roadshows.

Our employer brand continues to be an important element of what will make us a success in the future. In 2012, we continued to work towards further IIP accreditation, we increased our ISO accreditation 9001 (quality management systems) in sites around the Group, and we extended our 14001 (environmental management systems) and 27001:2005 (information technology) accreditation, where appropriate.

Sustainability

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.

During 2012, we made good progress in a number of key areas of our strategy, such as using a 'green' electricity supplier and further rationalising our property portfolio. The use of our virtual meetings service is now firmly embedded, and not only saved significant travel time and cost, but also reduced our carbon emissions. As we grow internationally, our people need to travel more, but we are monitoring the impact our travel has, and continue to minimise its effects.

In 2012, we built on existing sustainability good practice in our selection of suppliers, and continued with incentive programmes such as the Cycle to Work scheme as part of our well established broader staff wellness programme.

Tribal Foundation

Tribal's charity, the Tribal Foundation, supports sustainable projects in the UK, Australasia and the developing world which reflect Tribal's expertise in education. The Foundation is a registered charity and is supported by staff fundraising initiatives, our payroll-giving scheme and donations from Tribal's profits.

Since its establishment, the Foundation has contributed over £400,000 to a variety of programmes. The Foundation seeks out projects which bring sustainable benefits, rather than short term remedies, and our activities include micro-credit schemes which encourage self-sufficiency, support for people with disabilities, and clean water supply projects in the developing world. We complement our support of these programmes with our local giving initiative, where Tribal offices nominate a local charity to receive a donation towards a project connected to one or more of our staff.

Our fundraising takes place throughout the year, but we have a particular focus through an annual campaign, the 'Foundation Fortnight', 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 throughout the year.



Board of directors



John Ormerod

Chairman
Age 64

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 nonexecutive director and chairman of the audit committees of Computacenter plc, ITV plc, and Gemalto NV. Prior to that, John, a chartered accountant, was a partner with Deloitte and before that Arthur Andersen.



Keith Evans

Chief Executive
Age 54

Keith joined the Board of Tribal Group in February 2011 and was previously Chief Operating Officer. 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. Before joining Mercury Health, he held senior positions in Capita plc.



Steve Breach

Group Finance Director
Age 44

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. Steve qualified as a chartered accountant with Ernst & Young in 1993 where he focused on providing corporate finance advice to technology businesses in the UK and internationally.



Katherine Innes Ker

Non-Executive Director
Age 52

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



Simon Ball

Non-Executive Director
Age 52

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 and a non-executive director of Allied Irish Bank plc. Simon was Group Finance Director of 3i Group plc until November 2008. Prior to this, Simon was finance director for the Robert Fleming Group and director general, finance for the Department for Constitutional Affairs.



Robin Crewe

Non-Executive Director
Age 52

Robin joined the Board of Tribal Group in July 2012. He is the Head of Engineering and QA for Misys Limited. He was previously the co CEO of Propero, a virtual desktop software company and has held senior technology positions with VMware, Dresdner Kleinwort Benson, Swiss Bank and Arthur Andersen.

Directors' report

Introduction

The directors present their Annual Report on the affairs of the Group, which includes the Chief Executive's report, business model, strategy overview, financial review, corporate governance report and audited financial statements for the year ended 31 December 2012. Pages 1 to 56 of this Annual Report comprise a Directors' Report which has been drawn up and presented in accordance with English law, which also governs the directors' liabilities and responsibilities in connection with that report. The Directors' Report also represents the management report for the purpose of DTR 4.1.4R of the UK Listing Authority Disclosure Rules.

The Business review contains certain forward-looking statements which are subject to assumptions, risks and uncertainties. Actual or future results may differ materially from those expressed or implied by such statements. Many of these assumptions, risks and uncertainties relate to factors that the Group is unable to control or estimate precisely. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report and will not be updated during this year. Nothing in this Annual Report should be construed as a profit forecast.

Corporate structure

Tribal Group plc is incorporated as a public limited company and is registered in England and Wales with registered number 4128850. Its registered office is at 1-4 Portland Square, Bristol, BS2 8RR. Tribal Group plc is a holding company with a number of trading subsidiaries.

Share capital

Details of the authorised and issued share capital are shown in note 28 to the Accounts. 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, or 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.

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

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

The directors have authority to allot new ordinary shares to an aggregate nominal amount of £1,876,926.85. This authority expires at the conclusion of the AGM in 2013.

Acquisition of the Company's own shares

At the end of 2012, by virtue of the shareholders' resolution passed at the AGM in 2011, the directors had authority to purchase 9,369,598 of the Company's ordinary shares through the market 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 will expire at the conclusion of the AGM in 2013.

Directors

The directors of the Company are listed on page 36. The appointment and replacement of directors is governed by the Company's Articles of Association, the UK Corporate Governance 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 the Company's website www.tribalgroup.com or on request from the Company Secretary, and in the Corporate Governance statement on pages 41 to 43.

Directors' report

continued

Directors' interests

Each director's interest in the Company's shares is detailed on page 55.

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 54.

Research and development

The Group continues to invest in research and development of software products, as set out in note 5 to the financial statements. This has resulted in a number of new products being launched recently across a number of our markets which are expected to contribute to the growth of the business.

Employment policies

Tribal is 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 Corporate responsibility section on page 34.

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.

The Board has considered the recommendations made in the Davies Report, published in February 2011, entitled 'Women on Boards' and while appointments will continue to be made based upon merit, the Group has implemented the "Women in Tribal Initiative" and has appointed two representatives to promote those recommendations where appropriate.

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 average credit period taken over 2012 was approximately 24 days (2011: 25 days).

Business ethics

In response to the introduction of the Bribery Act 2011, and in light of the Group's increasing presence in international markets, the Group required all employees to undertake specific training to ensure an understanding of the key risks relating to this legislation. This, together with the Group's Business Ethics Policy (which includes the Fraud, Bribery and Corruption Policy), are designed to prevent bribery and other prohibited activities within the Group's business.

Dividend

The Board has proposed a final dividend of 0.85p per share which, together with the interim dividend of 0.40p per share, gives a total dividend of 1.25p per share (2011: 1.00p).

Change of control

Our bank facility arrangements contain a clause which provides an option for our lending banks to require the repayment of our borrowings on a change of control. Consistent with industry practice for contracting with public sector customers, our major contracts contain clauses that either require written consent from our 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 £21,675 (2011: £13,950). The work of Tribal's charity, the Tribal Foundation, is described in more detail on page 35. The Group made no political donations during the year (2011: £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 Keith Evans. The Group is committed to the health and safety of its employees, customers, subcontractors 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 28 February 2013, the following voting interests in the ordinary share capital of the Company had been notified to the Company:

	Ordinary shares of 5p each	%
RWC Partners	22,873,334	24.41
Artemis Fund Managers Limited	8,636,522	9.22
Schroder Investment Management	7,200,000	7.68
JP Morgan Asset Management	6,309,456	6.73
Henderson Global Investors	4,280,548	4.57
Crystal Amber Fund	3,990,760	4.26

Directors' report

continued

Annual General Meeting

The Annual General Meeting (AGM) will be held at 2:30pm on 17 May 2013 at One London Wall, London EC2Y 5EB. A separate document accompanying this Annual Report contains the notice convening the AGM and an explanation of the special business to be conducted at that meeting.

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 Chief Executive's Report, Divisional Performance and Financial Review sections of this Annual Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Financial Review on pages 22 to 27.

The Group's forecasts and projections, which allow for reasonably possible changes in trading performance, show that the Group will have adequate headroom against its committed borrowing facilities and financial covenants 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.

Audit information

In the case of each of the persons who are directors of the Company at the date when this Annual Report was approved:

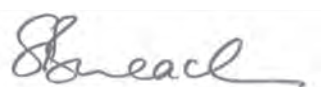
- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

A resolution for the re-appointment of Deloitte LLP as auditor of the Company is to be proposed at the 2013 AGM on 17 May.

On behalf of the Board



Company Secretary

13 March 2013

Corporate governance



As Tribal has moved forward, so the Board has needed to be agile in its approach. Our attention is now focused on overseeing Tribal's growth, internationalisation, and evolution into a technology-based business.

John Ormerod, Chairman

Governance supporting Tribal's evolution

The Board is committed to high standards of corporate governance, integrity and business ethics across Tribal, and we support the principles of the UK Corporate Governance Code (the Code). We are pleased to report that throughout 2012 the Group has complied with main principles and the supporting principles of the Code.

Tribal has, over the past two years, evolved substantially. Effective and proportionate governance, ensuring robust management of change while adapting to the new circumstances of the business, has been at the forefront of the Board's collective minds. During 2012, key areas of focus for the Board have included:

- securing a new non-executive director to bring additional operational and technology-based expertise to the Board;
- monitoring progress against our three year strategy plan;
- monitoring the key strategic risks affecting the business, and the sufficiency of mitigating controls and actions to address those risks;
- ensuring our talent management and succession planning keeps pace with the development of the business, particularly internationally;
- consideration of the commercial aspects of major new contracts, particularly in relation to the SALM contract;
- reviewing the Group's pension obligations, and the approach to managing those obligations going forward;
- approving the acquisition of i-graduate towards the end of the year; and
- continuing to evaluate the Board's performance, and to seek ways to improve its performance.

This report provides a detailed explanation of how we fulfil and comply with our corporate governance responsibilities.

Board of directors

The Board currently comprises six directors: Simon Ball, Steve Breach, Keith Evans, Katherine Innes Ker, Robin Crewe 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.

On 3 July 2012, Robin Crewe was appointed to the Board, and following Caledonia Investment plc's sale of its holding in Tribal, Mathew Masters, who joined the board on 21 October 2009 and is an associate director of Caledonia, resigned from the Board in order to focus on his other commitments.

The non-executive directors bring a wide range of skills and 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 Board believes that 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.

The Chairman, John Ormerod, has other significant time commitments. 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.

John Ormerod is also 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.

Corporate governance

continued

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 47 to 55.

Each director is required to submit himself/herself for re-election annually at the AGM. Save for Robin Crewe, all directors were re-elected at the 2012 AGM on 16 May 2012.

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 division 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.

The Companies Act imposes a statutory duty on directors to avoid conflicts of interest with the Company. The Company's Articles of Association, adopted in May 2010, 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 Secretary who 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 monthly management accounts, a review of performance, and a corporate governance update.

An evaluation of the Board's effectiveness, and the effectiveness of its committees, was conducted in the second half of 2012 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 Group Legal Counsel through a series of one-to-one interviews, the results of which were reported to the Board in December. Interviews focused on how the board functions as a unit, board composition, the tone set by the chairman (including the chair of the Audit and Remuneration Committees), the relationship between the executive and non-executive directors, the range of topics covered at Board meetings, and the quality of papers and presentations and of discussions in Board meetings.

The Board concluded that the Board and its committees continue to operate effectively but that certain areas of its effectiveness could be improved. An action plan to address these has been approved and will be implemented and monitored during the year.

Attendance at Board and Committee meetings during 2012

	Board	Audit committee	Nominations committee	Remuneration committee
Number of meetings in period	12	4	4	6
Number of meetings attended by members:				
John Ormerod	12	4	4	6
Keith Evans	12	-	-	-
Steve Breach	12	-	-	-
Simon Ball	12	4	4	5
Katherine Innes Ker	12	4	3	5
Robin Crewe ¹	6	-	-	-
Mat Masters ²	8	-	-	-

¹ Robin Crewe was appointed as a non-executive director on 3 July 2012.

² Mat Masters resigned as a non-executive director on 14 August 2012.

The performance of each individual director was also assessed. 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 views 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 2013 AGM.

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

Nomination Committee

The Nomination Committee is chaired by John Ormerod. Its members are Simon Ball and Katherine Innes Ker. The Chief Executive attends meetings by invitation. 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 appropriate, 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 2012, the Committee met four times and recommended to the Board the appointment of Robin Crewe as an additional non-executive director. He was subsequently appointed to the Board on 3 July 2012, and brings operational experience and strong technological expertise, complementing Tribal's strategic direction.

Remuneration Committee

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

The Committee met six 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 incentive-related 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 Secretary and takes advice as appropriate from external advisers. The Remuneration report is set out on pages 47 to 55.

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 a number of the 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 investment 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. 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.

Audit Committee



The pace of change within Tribal has continued into 2012. As the Group grows and internationalises, the Audit Committee has focused on the business's approach to new and evolving control requirements.

Simon Ball, Chairman of the Audit Committee

Audit Committee

The Audit Committee is appointed by the Board from the non-executive directors of the company. Its terms of reference are set out on our website. 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. The Chief Executive also attends by invitation. The Committee met four times during 2012.

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

During the year, the Audit Committee has:

- reviewed the December 2011 annual report and financial statements, the June 2012 half year results and the interim management statements issued in May and November; 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;
- approved the internal audit plan for 2012;
- reviewed the effectiveness of the group's internal controls and approach to risk management, including a review of the Group's whistle-blowing policy, anti-bribery controls, and controls and risk management in the Group's international businesses;
- 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 auditor for their audit of the December 2012 financial statements and review of the June half year results; and
- reviewed its own effectiveness.

Amongst the key areas that the Audit Committee reviewed during the year were:

- the Group's revenue recognition policies in view of the increasing complexity of the Group's contracts, and in particular the accounting methodology to be applied to the SALM contract;
- the accounting methodology being applied in relation to software development costs;
- the appropriate accounting treatment for discontinued and closed business streams;
- the classification of certain costs as exceptional items;
- the Group's tax strategy and its policies in relation to its tax affairs; and
- the Group's management of its exposure to foreign exchange risks and the appropriate level of hedging to mitigate those risks, particularly in light of the Group's international growth strategy.

External auditor

The external auditor meets privately with the Audit Committee before key meetings of the Committee without executive management being present. 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 auditor.

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

- the arrangements for ensuring the external auditor's 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;
- the content of the external auditor's reporting on internal control; and
- the reports of the Audit Inspection Unit on Deloitte.

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

Level of non-audit fees

The Audit Committee has adopted a policy for approving the award of non-audit work to the external auditor so as to ensure that the auditor's independence is not jeopardised. In applying this policy, the Audit Committee is aware of the views of certain shareholder representative groups that non-audit fees should not exceed the audit fee.

The Committee regularly monitors the other services being provided to the Group by its external auditor, and has developed a formal policy to ensure that this does not impair their independence or objectivity. The policy is based on the five key principles which underpin the provision of other services by the external auditor. These are that the auditor may not provide a service which:

- places it in a position to audit its own work;
- creates a mutuality of interest;
- results in the auditor developing close personal relationships with Tribal employees;

- results in the auditor functioning as a manager or employee of Tribal; or
- puts the auditor in the role of advocate for Tribal.

The Committee pre-approves the categories of other services that may be performed by the external auditor and explicitly sets out the categories of work that they may not perform. The auditor is eligible for selection to provide non-audit services only to the extent that their skills and experience make them a competitive and most appropriate supplier of these services.

Maintenance of a sound system of internal control

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The directors are committed to maintaining a control-conscious culture across the Group while allowing each division sufficient autonomy to manage and develop their business.

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 regularly reviewed by the executive directors to enhance further the internal control and risk management culture of the Group throughout its subsidiaries.

The executive directors review risk management action plans on a regular basis to ensure that the Board's plans for improvement are being implemented and that the outputs of strategic risk assessments remain relevant to the Group. 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.

Responsibilities and authority structure

The Board has overall responsibility for making strategic decisions and there is a written schedule of matters reserved for the Board.

An organisational structure is in place within which the business can be planned, controlled and monitored. A flat reporting structure is maintained across the Group, with clearly defined responsibilities for operational and financial management. This structure includes appropriate written delegation of authority, physical controls and procedures such as authorisation limits and segregation of duties. Access controls exist where processes have been automated to ensure the security of data.

Audit Committee

continued

Divisional management regularly reviews their responsibilities and compliance with the Group's policies and procedures. The Group's senior executives, including the Executive Directors, meet regularly to discuss day-to-day operational matters.

Planning and reporting processes

A three-year strategic plan is prepared or updated annually and reviewed by the Board. A detailed budgetary process is completed annually and is subject to the approval of the Board. Performance is monitored through a detailed financial and management reporting system, by which monthly results are compared to budgets, the previous year and the agreed targets. The results and explanations for variances are regularly and routinely reported to the Board. Appropriate action is taken where variances arise.

The finance function is responsible for ensuring the appropriate maintenance of financial records and processes that ensure that financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. All financial information published by the Group is subject to review by the Audit Committee.

Capital expenditure and investments

Procedures exist and authority levels are documented to ensure that capital expenditure is properly assessed and authorised. Major investment projects are subject to approval by the Board, and Board input and approval is sought for all merger and acquisition proposals.

Centralised treasury function

The Board has established and reviews regularly key treasury policies over matters such as borrowing arrangements and foreign exchange exposure management. All cash payments and receipts are managed by the central finance function. The management of liquidity and borrowing facilities for ongoing capital expenditure and working capital of the business is undertaken by the Group Finance Director, with regular reporting to the Board.

Quality and integrity of staff

Rigorous recruitment procedures are in place to ensure that new employees are of a suitable calibre. Management regularly monitors training requirements and ongoing appraisal procedures are in place to ensure that required standards are maintained.

Business ethics

The Company has a comprehensive Business Ethics Policy in place; should an employee be found in breach of the policy, appropriate disciplinary actions are applied. Part of this policy is the Company's whistleblowing procedure where concerns of wrongdoing can be reported. Following the effective date of the new UK Bribery Act, on 1 July 2011, the Company also reviewed its policy and procedures to actively prevent bribery within the Company's business, in addition to establishing a separate and specific Anti-Bribery Code of Ethics, across the Group.

Internal audit

The Group has an internal audit function, outsourced to RSM Tenon, which reports jointly to the Chairman of the Audit Committee and the Group Finance Director. The Board, acting through the Audit Committee, has directed the work of the Internal Audit Department towards those areas of the business that are considered to be of the highest risk. The Audit Committee approves a rolling audit programme, ensuring that significant areas of the business are independently reviewed over suitable period. The programme and the findings of the reviews are continually assessed to ensure that they take account of the latest information and in particular the results of the annual review of internal control and any shifts in the focus areas of the various businesses. The effectiveness of the internal audit function and the Group's risk management programme are reviewed annually by the Audit Committee.

Remuneration Committee



As Tribal has emerged from a period of restructuring into a growth phase, the rewards and incentives available to its leadership and other key people have been shaped to encourage pursuit of balanced but ambitious targets.

Katherine Innes Ker, Chairman of the Remuneration Committee

Introduction

As described elsewhere in this Annual Report, 2012 has continued to be a year of change for Tribal as we implement our three-year strategic plan.

The Remuneration Committee met six times during 2012, and its work included:

- approving the 2011 bonus awards, and the 2012 bonus scheme for the Executive Directors and senior executives;
- reviewing and approving the 2012 grants under the Long Term Incentive Plans to the Executive Directors in the context of the stretching performance targets linked to our three-year strategy plan;
- consulting with principal shareholders on the incentive structures for the Executive Directors, and responding to questions raised by shareholders on remuneration;
- reviewing the 2012 salaries of the Executive Directors, including the bonus framework and objectives;
- recommending the Chairman's fee; and
- undertaking an evaluation of the Remuneration Committee and reviewing the Committee's terms of reference and evaluating its own performance.

The Remuneration report has been prepared in accordance with 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 UK Corporate Governance Code ("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 auditor 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.

Remuneration Committee

continued

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. Keith Evans attends by invitation. The Group Legal Counsel acts as secretary to the Committee.

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 Code. The terms of reference are available on our website, www.tribalgroup.com, or on request from the Company Secretary.

The Committee's main responsibility is to ensure that the executive directors and other senior executives of the Tribal Group are fairly rewarded for their individual contribution to the overall performance of the Company. The Committee also establishes a framework for reward for the rest of the organisation, which supports individual and collective accountability, performance and success.

Remuneration Committee activity and main responsibilities

During the year the Committee has taken independent advice from New Bridge Street ("NBS"), an Aon Hewitt company. NBS is a member of the Remuneration Consultants Group and has signed up to its Code of Conduct. Other than in relation to advice on remuneration, NBS does not provide any other services to the Group. The terms of engagement with NBS are available from the Company Secretary on request.

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

The Committee is responsible for setting the remuneration policy for the executive directors and the Company Chairman, and also monitors the remuneration of other senior management. 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 is dependent upon the achievement of growth in adjusted 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 and to align interests with those of shareholders.

When considering the remuneration policy for executive directors, the Committee considers pay and employment conditions existing elsewhere in the Group.

Risk

The Committee is cognisant of the need for the remuneration policy to operate within an effective risk management system. The Committee reviews the various elements of remuneration on an annual basis to ensure that they do not encourage any undue risk-taking by executive directors or senior management.

When setting performance targets for variable components of remuneration, the Committee remains mindful of environmental, social and governance ("ESG") issues. The Committee does not believe that the current remuneration structure will encourage dysfunctional behaviours or would reward despite a negative ESG event.

Remuneration policy

The table below shows how the remuneration policy is linked to overall Company strategy.

Element of Remuneration	Strategic Purpose
Base Salary (fixed)	To attract and retain high-quality individual with the appropriate skills, experience, and knowledge, while also recognising their ongoing performance.
Benefits (fixed)	To provide a range of cost-effective benefits which are typical with market practice.
Pension (fixed)	To provide cost-effective long-term retirement benefits which are aligned with market practice.
Annual Bonus (variable)	To incentivise and reward for the achievement of short-term goals and objectives which are linked to the Company's KPIs.
Long Term Incentive Plans ("LTIPs")	To incentivise and reward for the achievement of long-term financial performance which is aligned to the generation of shareholder wealth creation.

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 roles. 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, John Ormerod, receives an annual fee of £110,000. Under the terms of his appointment, John Ormerod 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. John Ormerod has agreed to apply his net monthly fee in March, June, September and December each year to purchase Tribal shares at the prevailing market price.

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

The fees payable to the Chairman and other non-executive directors will, with effect from 1 April 2013, be increased by approximately 3% in line with changes to pay and employment conditions across the Group.

Remuneration Committee

continued

Executive directors

Summary of executive director remuneration packages

For the performance period 1 January 2012 to 31 December 2012, the following table shows a breakdown of the executive director packages:

Element	Keith Evans Chief Executive	Steve Breach Group Finance Director
Basic Salary	£300,000	£210,000
Maximum Annual Bonus (% of Salary)	100%	100%
Bonus payable	£295,500	£208,425
LTIP Award (% of Salary)	200%	200%
Annual Pension Contributions (% of Salary)	12%	12%
Other Benefits	Car Allowance, Private Medical Insurance and Life Assurance.	Car Allowance, Private Medical Insurance and Life Assurance.

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. The Committee will also consider the skills and experience of the individual and their ongoing performance when deciding upon any changes to basic salary. Given pay and employment conditions elsewhere in the Group and changes to other elements of the remuneration package the Committee has decided that the Chief Executive's basic salary will increase by 3% to £309,000. The Finance Director's basic salary will increase by 2.9% to £216,000.

Benefits (normally a car allowance, 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 senior executives at similar sized companies.

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 2012, the Company made employer contributions of 12% of basic salary into the Company's defined contribution scheme or equivalent personal pension plan on behalf of Keith Evans and Steve Breach. Steve Breach has entered into a trading plan under which he has agreed to apply his net monthly pension contribution for one year, ending 30 June 2013, to purchase Tribal shares at the prevailing market price.

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 operating profit, 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 adjusted operating profit 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 100% of basic salary for the Group Finance Director. Bonus payments do not form part of salary for pension purposes.

In addition to any bonus entitlement and within the maximum of 100% of salary, 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.

Given the strong financial and personal performance during the year, the Committee awarded annual bonus payments equivalent to 98.5% and 99.3% for Keith Evans and Steve Breach respectively. This reflected a 2012 financial adjusted operating profit performance which was above target, cash flow performance which was above threshold, and between target and maximum levels of personal objectives achieved.

For Keith Evans this meant a total annual bonus of £295,500, and for Steve Breach this meant a total bonus of £208,425.

For 2012, the Committee will continue to use a combination of financial targets and personal performance measures within the annual bonus arrangement. The maximum will remain unchanged at 100% of salary.

Current share incentive schemes

1. LTIPs

At the 2010 AGM, shareholders approved the introduction of a long-term incentive plan. Under the 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. The Committee continues to feel that EPS is the most appropriate long-term performance measure as it reflects a financial metric linked to the Group's strategy which should lead to long-term shareholder value.

The Committee's policy is to make annual LTIP awards of nil cost options to senior executives of up to 100% of basic salary. In January 2012, an exceptional grant equal to 200% of salary was made. The Committee is of the view that these awards are directly linked to the Group's strategy and provide a meaningful incentive to management over a key period of business turnaround.

The 2012 LTIP awards are subject to particularly stretching performance targets linked to adjusted earnings per share over a three-year vesting period. These cumulative targets are 29.0p for 20% vesting, 36.0p for 50% vesting and full vesting at 42.8p. Therefore to achieve the threshold, target and maximum vesting, EPS levels would require annual adjusted EPS growth of circa 10%, 22% and 33% respectively above the 7.9p for 31 December 2011. Further, for the 2012 award, 50% of post-tax shares vesting will be held in escrow for two years with an equal tranche (i.e. 25% of the award) being released to the executive on the first and second anniversaries of vesting. In addition, each of Keith Evans and Steve Breach must meet shareholding obligations to purchase Tribal shares in the open market in order for these LTIP awards to vest. In aggregate, these directors are required to purchase Tribal shares to the value of at least their basic annual salary over a period prior to vesting. The Committee consulted with major shareholders prior to making the 2012 grant and received their support given the challenging nature of the performance targets, the deferral period and the additional shareholding requirements.

The Committee intends to maintain its normal grant policy of 100% of salary for 2013 subject to stretching earnings per share targets.

2. SAYE

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.

No SAYE schemes were offered in 2012.

3. 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.

The Group's employee share plan grants made in any 10-year period may not exceed 10% of the Company's issued share capital at any time.

Remuneration Committee

continued

Executive directors' service contracts

It is Group policy to fix notice periods for executive directors for a period of no more than 12 months.

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, while 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. Annual bonuses are only included under termination provisions to the extent they are pro-rated for time and performance.

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)
K M Evans	26.10.2009	Ongoing ¹	12	12
S D Breach	01.01.2010	Ongoing ¹	12	12

The executive directors do not hold any significant external non-executive positions.

¹Subject to re-election at the 2013 AGM.

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:

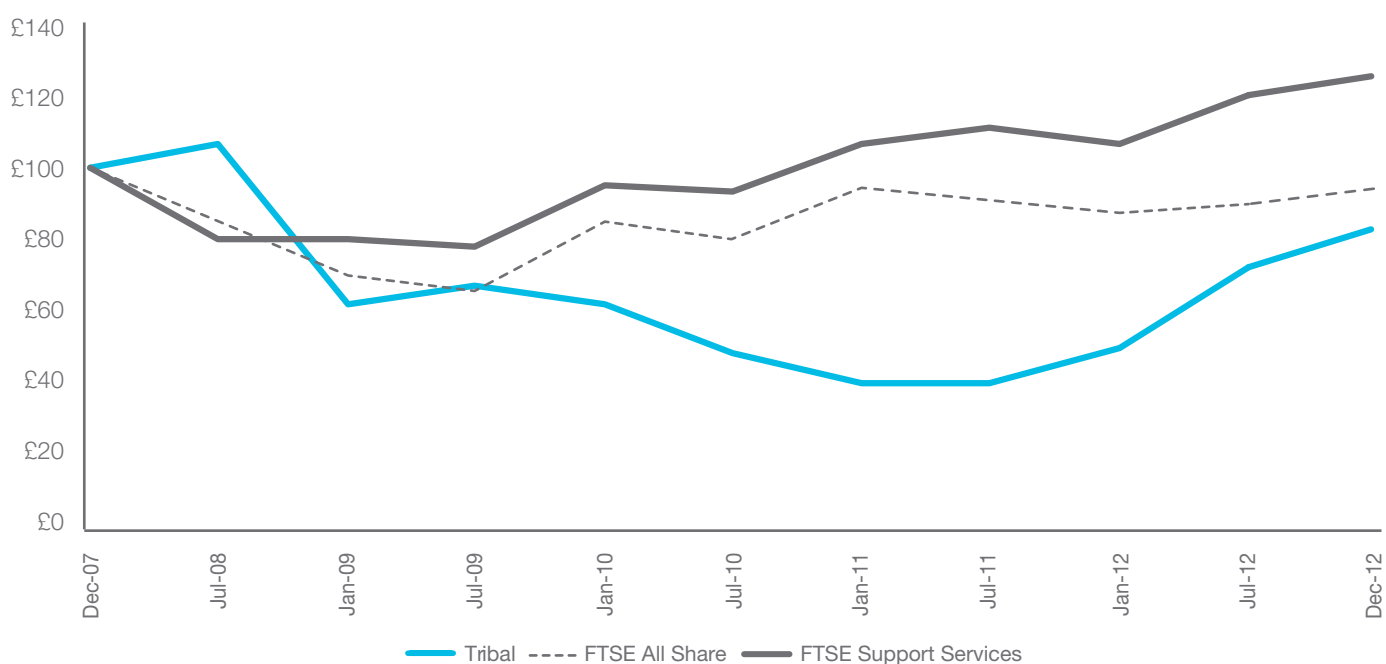
Name of director	Effective date of contract	Expiry/retirement date	Notice period for company (months)	Notice period for directors (months)
K C M Innes Ker	01.11.2008	2013 AGM	3	3
J Ormerod	21.10.2009	2013 AGM	3	3
R Crewe	03.07.2012	2013 AGM	3	3
S Ball	01.06.2010	2013 AGM	3	3

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 2007 to 31 December 2012.

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 2007 would have been worth £83.20 on 31 December 2012, compared to £94.10 for the FTSE All Share Index and £125.10 for the FTSE Support Services Index.



Remuneration Committee

continued

Information subject to audit

Directors' remuneration

The remuneration of individual directors was as follows:

	Salary £'000	Bonus £'000	Benefits £'000	Pension £'000	2012 Total £'000	2011 Total £'000
Executive directors						
K Evans	300	296	10	36	642	443
S Breach	210	208	16	25	459	405
Non-executive directors						
K Innes Ker	45	-	-	-	45	45
J Ormerod	110	-	-	-	110	110
M Masters ¹	18	-	-	-	18	35
R Crewe ¹	18	-	-	-	18	-
S Ball	40	-	-	-	40	40
Total	741	504	26	61	1,332	1,078

Note:

1. Mathew Masters stepped down as a director of the Company on 14 August 2012 and Robin Crewe was appointed as a director of the Company on 3 July 2012.

The interests of directors in share options were as follows:

	At 1 January 2012	Granted	Lapsed	Exercised	At 31 December 2012	Exercise price £	5 day average Market price on date of grant	Date from which exercisable	Expiry date
K Evans									
LTIP – June 2011 ²	1,019,400	-	-	-	1,019,400	Nil	41.2p	March 2014 ¹	June 2021
LTIP – January 2012 ⁴	-	1,078,554	-	-	1,078,554	Nil	55.6p	March 2015 ³	January 2022 ³
S Breach									
LTIP – June 2011 ²	1,019,400	-	-	-	1,019,400	Nil	41.2p	March 2014 ¹	June 2021
LTIP – January 2012 ⁴	-	754,988	-	-	754,988	Nil	55.6p	March 2015 ³	January 2022 ³

Notes:

1 The date on which the Company's results for the year ending 31 December 2013 are announced.

2 The LTIP awards made in June 2011 are subject to an aggregate EPS performance condition for the three financial years to 31 December 2013. 25% of awards vest for aggregate EPS of 28p, 50% vest for EPS of 31.5p and 100% vest for EPS of 40p. Award will also only vest if executive directors have purchased shares to the value of £105,000 before 31 December 2013.

3 The date on which the Company's results for the year ending 31 December 2014 are announced.

4 The LTIP awards made in January 2012 are subject to an aggregate EPS performance condition for the three financial years to 31 December 2014. 20% of awards vest for aggregate EPS of 29.0p, 50% vest for aggregate EPS of 36.0p, and 100% vest for aggregate EPS of 42.8p.

The closing share price at 31 December 2012 was 102.75p and during the year ranged from 43.28p to 102.75p.

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

Directors' interest in shares of Tribal Group plc

The directors who held office (and their connected parties) at the end of the financial period had the following interests in the shares of the Company:

	Interest at start of period	Interest at end of period
S Breach	77,611	264,367
K Evans	203,130	534,822
J Ormerod	219,157	237,904
S Ball	100,000	100,000
K Innes Ker	-	-
R Crewe	-	-

Approval

This report was approved by the Board of directors on 13 March 2013 and signed on its behalf by:

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;
- 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.

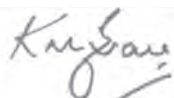
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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, proposed in accordance with the relevant Financial Reporting Framework, give a true and fair view of the assets, liabilities, financial position and profit or loss 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



Keith Evans
Chief Executive
13 March 2013



Steve Breach
Group Finance Director
13 March 2013

Independent auditor's 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 2012 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 39. 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 and of its profit 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:

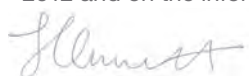
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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 UK Corporate Governance 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 2012 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
13 March 2013

Consolidated income statement for the year ended 31 December 2012

	Note	Underlying £'000	Closed businesses and exceptional costs £'000	Year ended 31 December 2012 Total £'000	Underlying £'000	Closed businesses and exceptional costs £'000	Year ended 31 December 2011 Total £'000
Continuing operations							
Revenue	3	113,417	1,978	115,395	105,759	2,472	108,231
Cost of sales		(69,253)	(2,440)	(71,693)	(63,816)	(2,700)	(66,516)
Gross profit		44,164	(462)	43,702	41,943	(228)	41,715
Other administrative expenses		(30,282)	(1,927)	(32,209)	(29,949)	(5,803)	(35,752)
Amortisation of IFRS 3 intangibles	16	-	(24)	(24)	-	(218)	(218)
Total administrative expenses		(30,282)	(1,951)	(32,233)	(29,949)	(6,021)	(35,970)
Operating profit		13,882	(2,413)	11,469	11,994	(6,249)	5,745
Investment income	8	162	-	162	50	-	50
Other gains and losses	9	-	(453)	(453)	-	(145)	(145)
Finance costs	10	(1,205)	-	(1,205)	(1,910)	-	(1,910)
Profit before tax	6	12,839	(2,866)	9,973	10,134	(6,394)	3,740
Tax	11	(2,633)	619	(2,014)	(2,246)	1,831	(415)
Profit for the year from continuing operations		10,206	(2,247)	7,959	7,888	(4,563)	3,325
Discontinued operations							
Profit/(loss) from discontinued operations	13	925	840	1,765	(1,113)	(24,651)	(25,764)
Profit/(loss) for the year	5	11,131	(1,407)	9,724	6,775	(29,214)	(22,439)
Attributable to:							
Equity holders of the parent				9,724			(22,439)
Earnings per share							
From continuing operations							
Basic	14	10.9p	(2.4)p	8.5p	8.4p	(4.9)p	3.5p
Diluted	14	10.9p	(2.4)p	8.5p	8.4p	(4.9)p	3.5p
From continuing and discontinued operations							
Basic	14	11.9p	(1.5)p	10.4p	7.2p	(31.1)p	(23.9)p
Diluted	14	11.9p	(1.5)p	10.4p	7.2p	(31.1)p	(23.9)p

As explained in note 6, the results of closed businesses have been excluded from the underlying result. Prior year comparatives have been amended accordingly.

Consolidated statement of comprehensive income for the year ended 31 December 2012

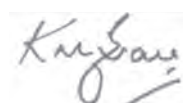
	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit/(loss) for the year		9,724	(22,439)
Actuarial gain/(loss) on defined benefit plans	34	290	(175)
Transfer from cash flow hedge reserve		453	234
Deferred tax	26	141	(121)
Exchange differences on translation of foreign operations		16	4
Total comprehensive income for the year attributable to equity holders of the parent		10,624	(22,497)

Consolidated balance sheet at 31 December 2012

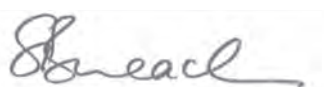
	Note	2012 £'000	2011 £'000	2010 £'000
Non-current assets				
Goodwill	15	72,616	72,616	95,116
Other intangible assets	16	10,195	5,655	7,801
Property, plant and equipment	17	3,146	2,576	6,188
Investments	18	1	1	1
Deferred tax assets	26	2,033	1,661	3,256
		87,991	82,509	112,362
Current assets				
Inventories	19	1,931	333	610
Trade and other receivables	20	28,225	23,323	34,885
Cash and cash equivalents	21	8,424	6,524	14,659
Assets held for sale		-	-	4,319
		38,580	30,180	54,473
Total assets		126,571	112,689	166,835
Current liabilities				
Trade and other payables	23	(7,642)	(8,781)	(16,915)
Accruals and deferred income		(39,814)	(28,271)	(33,856)
Tax liabilities		(2,797)	(2,671)	(2,227)
Provisions	25	(1,159)	(2,419)	(525)
Liabilities held for sale		-	-	(5,382)
		(51,412)	(42,142)	(58,905)
Net current liabilities		(12,832)	(11,962)	(4,432)
Non-current liabilities				
Bank loans	24	(18,274)	(22,503)	(33,157)
Retirement benefit obligations	34	(419)	(540)	(1,159)
Deferred tax liabilities	26	-	(178)	(1,024)
Derivative financial instruments	22	-	-	(2,173)
Provisions	25	(523)	(1,439)	-
Other payables		-	-	(662)
		(19,216)	(24,660)	(38,175)
Total liabilities		(70,628)	(66,802)	(97,080)
Net assets		55,943	45,887	69,755
Equity				
Share capital	28	4,685	4,685	4,685
Other reserves	30	26,913	26,245	26,246
Retained earnings	31	24,345	14,957	38,824
Total equity attributable to equity holders of the parent		55,943	45,887	69,755

Notes 1 to 39 form part of these financial statements.

The financial statements were approved by the Board of directors and authorised for issue on 13 March 2013 and were signed on its behalf by:



Keith Evans
Director



Steve Breach
Director

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012	4,685	26,245	14,957	45,887
Total comprehensive income for the year	-	302	10,322	10,624
Dividends	-	-	(934)	(934)
Credit to equity for share-based payments	-	366	-	366
Balance at 31 December 2012	4,685	26,913	24,345	55,943

For the year ended 31 December 2011

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	4,685	26,246	38,824	69,755
Total comprehensive income for the year	-	169	(22,666)	(22,497)
Dividends	-	-	(980)	(980)
Charge to equity for share-based payments	-	(170)	(221)	(391)
Balance at 31 December 2011	4,685	26,245	14,957	45,887

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)
Charge 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

Consolidated cash flow statement for the year ended 31 December 2012

	Note	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Net cash from/(used in) operating activities	35	15,063	(408)
Investing activities			
Interest received		117	49
Proceeds on disposal of discontinued operations		1,542	12,786
Proceeds on disposal of property, plant and equipment		-	160
Purchases of property, plant and equipment		(2,178)	(836)
Expenditure on product development and business systems		(6,188)	(3,804)
Acquisitions and deferred consideration		(50)	(70)
Cash and cash equivalents disposed		-	(408)
Net cash (outflow)/inflow from investing activities		(6,757)	7,877
Financing activities			
Interest paid		(750)	(1,606)
Equity dividend paid		(934)	(980)
Repayment of borrowings		(4,695)	(11,500)
Settlement of interest rate swap		-	(2,086)
New bank loans		-	542
Net cash used in financing activities		(6,379)	(15,630)
Net increase/(decrease) in cash and cash equivalents		1,927	(8,161)
Cash and cash equivalents at beginning of year		6,524	14,659
Effect of foreign exchange rate changes		(27)	26
Cash and cash equivalents at end of year		8,424	6,524

Notes to the financial statements

1. Accounting policies

Basis for accounting

The financial statements on pages 58 to 100 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

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):

IAS 27 (revised)	Separate Financial Statements
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (amended)	Employee Benefits
IFRS 7 (amended) and IAS 32 (amended)	Disclosures - Offsetting Financial Assets and Financial Liabilities

It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

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.

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 Directors' report on page 40.

Notes to the financial statements continued

1. Accounting policies (continued)

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 or repeat service contracts is as set out below:

- Revenue from the sale of goods and services is recognised upon transfer to the customer of the risks and rewards of ownership. This is generally when goods are despatched to, or services performed for, customers.
- Revenue on software licences is recognised on transfer to the customer of the risks and rewards of ownership providing there are no unfulfilled obligations that are essential to the functionality of the product. If such obligations exist, revenue is recognised as they are fulfilled. Revenues for arrangements that involve significant production, modification, or customisation of the software are recognised on a time-and-material basis, or using the percentage of completion method, based on direct costs incurred to date as a percentage of total estimated project costs required to complete the project.
- Revenue from contracts for software maintenance and support is recognised on a pro-rata basis over the contract period.
- Revenue from software implementation, consultancy and other services is recognised as the service is provided.
- Interest is 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 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 at which point, to the extent that they are expected to be recovered over the contract term, the costs are capitalised 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.

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.

1. Accounting policies (continued)

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.

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.

Notes to the financial statements continued

1. Accounting policies (continued)

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 three to five 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

Leases

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. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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.

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.

1. Accounting policies (continued)

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. This includes any entries in relation to hedge ineffectiveness of interest rate swaps and amortisation of IFRS 3 intangibles. The Group withdrew from the reselling and implementation of Microsoft Dynamics software and the direct delivery of apprenticeship training programmes during 2012, and the results of these businesses have been included within the middle column of the income statement. The comparatives have been restated accordingly.

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.

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 expense 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.

Notes to the financial statements continued

1. Accounting policies (continued)

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

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

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.

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.

1. Accounting policies (continued)

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'.

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.

Notes to the financial statements continued

1. Accounting policies (continued)

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 at 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 37.

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 to the financial risks of changes in interest rates and exchange rates. The Group uses interest rate and foreign exchange instruments to manage this exposure where appropriate.

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 37 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.

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.

1. Accounting policies (continued)

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, the Board has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Goodwill and other intangible assets

The carrying value of goodwill at the year end is £72.6m (2011: £72.6m, 2010: £95.1m). 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.

The carrying value of other intangible assets is £10.2m (2011: £5.7m, 2010: £7.8m). Judgement is required to assess whether costs meet the criteria for capitalisation set out in IAS 38, and subsequently the consideration of the potential need for impairment of these assets in particular in relation to their expected ability to generate future revenue.

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. Where revenue is recognised under a percentage complete methodology, judgement is required to assess the level of work remaining to complete a project.

Share-based payments

The Group has issued certain employees with share-based incentives which vest based on cumulative three-year EPS targets. Judgement is required to determine the expected future EPS which drives the level of charge made in respect of the incentives.

Tax

The Group holds provisions against a number of tax related risks, the most significant being associated with 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:

	2012 £'000	2011 £'000
Continuing operations		
Sales of services	115,395	108,231
Investment income	162	50
	115,557	108,281
Discontinued operations		
Sales of services	-	23,216
Total revenue	115,557	131,497

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

Approximately 72% (2011: 85%) 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 continued

4. Business segments

The Group is organised into two business segments: Solutions and Systems. These segments were previously referred to as “Services” and “Technology” respectively.

In accordance with IFRS 8 ‘Operating Segments’ information on segment assets is not shown as this is not provided to the Chief Operating decision-maker.

The principal activities of the Group are now as follows:

- Systems** – a range of proprietary software products and related services to support the business needs of education, learning and training providers
- Solutions** – a range of services to support the improvement of education, learning and training delivery by our customers

Year ended 31 December 2012

	Systems £'000	Solutions £'000	Eliminations £'000	Consolidated £'000
Adjusted revenue				
External sales	54,083	59,334	-	113,417
Inter-segment sales	1,461	8	(1,469)	-
Total adjusted revenue	55,544	59,342	(1,469)	113,417
Adjusted segment operating profit	12,072	5,282	-	17,354
Unallocated corporate expenses				(3,472)
Adjusted operating profit				13,882
Amortisation of IFRS 3 intangibles				(24)
Exceptional costs				(1,545)
Closed businesses				(844)
Operating profit				11,469
Investment income				162
Other gains and losses				(453)
Finance costs				(1,205)
Profit before tax				9,973
Tax				(2,014)
Profit for the year from discontinued operations				1,765
Profit after tax and discontinued operations				9,724

Inter-segment sales are charged at prevailing market prices.

Of the total losses from closed businesses of £844,000, £483,000 arose in relation to the Systems division and £361,000 in relation to the Solutions division.

4. Business segments (continued)

Year ended 31 December 2011

	Systems £'000	Solutions £'000	Eliminations £'000	Consolidated £'000
Adjusted revenue				
External sales	42,690	63,069	-	105,759
Inter-segment sales	2,481	104	(2,585)	-
Total adjusted revenue	45,171	63,173	(2,585)	105,759
Adjusted segment operating profit	10,104	5,363	-	15,467
Unallocated corporate expenses				(3,473)
Adjusted operating profit				11,994
Amortisation of IFRS 3 intangibles				(218)
Exceptional costs				(5,349)
Closed businesses				(682)
Operating profit				5,745
Investment income				50
Other gains and losses				(145)
Finance costs				(1,910)
Profit before tax				3,740
Tax				(415)
Loss for the year from discontinued operations				(25,764)
Loss after tax and discontinued operations				(22,439)

Inter-segment sales are charged at prevailing market prices.

The figures above have been restated to remove the results of closed businesses from adjusted operating profit. Of the total losses from closed businesses of £682,000, £762,000 of losses arose in relation to the Systems division and £80,000 of profit in relation to the Solutions division.

Geographical information

Revenue from external customers

	2012 £'000	2011 £'000
UK	89,212	93,328
Asia Pacific	16,449	7,084
North America and rest of the world	7,756	5,347
Total adjusted revenue	113,417	105,759
UK revenue from closed businesses	1,978	2,472
	115,395	108,231

Notes to the financial statements continued

5. Profit for the year (continuing and discontinued)

	2012 £'000	2011 £'000
Profit for the year is stated after charging/(crediting):		
Depreciation and other amounts written off property, plant and equipment	1,625	1,892
Restructuring costs (net)	878	10,519
Staff costs (see note 7)	55,598	68,215
Amortisation of acquired IFRS 3 intangible assets	24	455
Amortisation and write-down of business systems	356	344
Cost of inventories recognised as an expense	456	773
Write-down of inventories recognised as an expense	235	266
Impairment loss (reversed)/recognised on trade receivables	(833)	888
Research and development expenditure	1,293	771
Amortisation of development costs	1,268	1,354
Net foreign exchange losses/(gains)	361	(62)

The analysis of auditor's remuneration is as follows:

	2012 £'000	2011 £'000
Fees payable to the company's auditor for the audit of the company's annual report	80	80
Fees payable to the company's auditor and its associates for other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	72	56
	152	136
– audit related assurance	23	21
– other assurance	3	5
– tax services: compliance		-
– tax services: other	-	79
– corporate finance services	-	359
– other services	-	10
Total non-audit fees	26	474
Total auditor's remuneration	178	610

Fees payable to Deloitte LLP and its 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.

Corporate finance services arose in relation to the disposal of the Health and Government businesses.

See page 45 for the Group policy on use of auditor for non-audit work.

6. Exceptional costs and closed businesses

	2012 £'000	2011 £'000
Closed businesses:		
– Turnover	1,978	2,472
– Cost of sales	(2,440)	(2,700)
– Administrative expenses	(382)	(454)
Trading loss from closed businesses	(844)	(682)
- Redundancy costs - closed businesses	(279)	-
- Other restructuring costs - closed businesses	(1,007)	-
Operating loss from closed businesses	(2,130)	(682)
Other exceptional costs:		
– Redundancy	-	(3,327)
– Property related	-	(1,773)
– Other restructuring costs	-	(913)
– Acquisition costs	(209)	-
– Movements in deferred consideration	(50)	664
– Amortisation of IFRS3 intangibles	(24)	(218)
– Hedge ineffectiveness	(453)	(145)
	(2,866)	(6,394)

Exceptional costs have arisen throughout the year, which are not part of the Group's normal trading activities. As explained in the Financial Review, redundancy and other costs have been incurred in relation to the closure of the Direct Delivery and Microsoft Practice businesses. In order to show more clearly the underlying results of the ongoing Group, the trading results of these closed businesses have also been excluded from the underlying result. Prior year comparatives have been amended accordingly. Also included within exceptional items are adjustments to deferred consideration in respect of historical acquisitions and direct costs arising on acquisition activity in progress at the year end.

7. Staff numbers and costs

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

	2012 No.	2011 No.
Selling, operations and marketing	1,183	1,163
Finance and administration	212	293
	1,395	1,456

The aggregate payroll costs of these persons were as follows:

	2012 £'000	2011 £'000
Wages and salaries	46,834	54,719
Social security costs	4,564	5,603
Pension costs	3,038	3,839
Redundancy costs	796	4,277
Share option charge/(credit)	366	(223)
	55,598	68,215
Discontinued operations	-	(11,396)
Continuing operations	55,598	56,819

Notes to the financial statements continued

8. Investment income

	2012 £'000	2011 £'000
Interest on bank deposits	42	42
Net interest receivable on retirement benefit obligations	45	1
Other interest receivable	75	7
	162	50

9. Other gains and losses

	2012 £'000	2011 £'000
Unwinding of hedge ineffectiveness in the cash flow hedges	453	84
Charge on settlement of interest rate swap	-	61
	453	145

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

	2012 £'000	2011 £'000
Interest on bank overdrafts and loans	1,014	1,910
Other interest payable	191	-
	1,205	1,910

11. Tax

	Continuing operations		Discontinued operations		Total	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current tax						
UK corporation tax	1,976	-	30	-	2,006	-
Overseas tax	313	506	-	-	313	506
Adjustments in respect of prior years	-	(567)	(452)	(168)	(452)	(735)
	2,289	(61)	(422)	(168)	1,867	(229)
Deferred tax						
Current year	221	(215)	23	43	244	(172)
Adjustments in respect of prior years	(496)	691	(157)	(150)	(653)	541
	(275)	476	(134)	(107)	(409)	369
Tax charge/(credit) on profits/(losses)	2,014	415	(556)	(275)	1,458	140

The continuing tax charge can be reconciled to the profit from continuing operations per the income statement as follows:

	2012 £'000	2011 £'000
Profit before tax on continuing operations	9,973	3,740
Tax charge at standard rate of 24.5% (2011: 26.5%)	2,443	991
Effects of:		
Overseas tax rates	95	57
Intangible amortisation and impairment	(1)	63
Expenses not deductible for tax purposes	279	339
Adjustments in respect of prior years	(496)	125
Group relief and utilisation of losses	(41)	(928)
Additional deduction for R&D expenditure	(367)	-
Taken to equity	61	(47)
Timing differences	(180)	255
Movement in deferred tax	221	(215)
Release of deferred consideration	-	(176)
Share-based payments and discounting charges	-	(49)
Tax expense for the year	2,014	415

In addition to the amount charged to the income statement, a deferred tax credit of £141,000 (2011: charge of £121,000) has been taken directly to equity (see consolidated statement of comprehensive income on page 59).

The Group continues to hold an appropriate corporation tax provision in relation to the Group relief claimed from Care UK for the year ended 31 March 2007.

The income tax expense for the year is based on the blended UK statutory rate of corporation tax for the period of 24.5% (2011: 26.5%). This rate reflects the reduction of the UK corporation tax rate from 26% to 24% from 1 April 2012.

The reduction in the corporation tax rate to 23%, from 1 April 2013, will affect the Group's future effective tax rate accordingly. The effective tax rate of the continuing Group in future years is anticipated to be broadly equivalent to the UK corporation tax rate.

Notes to the financial statements continued

12. Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2011 of 0.60 pence (year ended 31 December 2010: 0.65 pence) per share	560	606
Interim dividend for the year ended 31 December 2012 of 0.40 pence (year ended 31 December 2011: 0.40 pence) per share	374	373
	934	979
Proposed final dividend for the year ended 31 December 2012 of 0.85 pence (year ended 31 December 2011: 0.60 pence) per share	796	562

The interim dividend for 2012 was approved by the Board on 13 August 2012 and was paid on 19 October 2012 to ordinary shareholders who were on the register on 21 September 2012.

The Board is recommending a final dividend of 0.85p per share. This dividend will be paid on 2 July 2013 to shareholders on the register at 14 June 2013.

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.

13. Discontinued operations

Discontinued operations include the Health & Government, Resourcing and Communications businesses which were disposed of during 2010 and 2011. The Resourcing and Communications sales were trade and asset deals and so there continue to be small transactions, for example as leases associated with those businesses wind down. The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	2012 £'000	2011 £'000
Turnover	-	27,591
Direct agency costs	-	(4,275)
Revenue	-	23,316
Operating profit/(loss) before amortisation of IFRS 3 intangibles and exceptional costs	369	(1,329)
Exceptional restructuring costs	433	(4,506)
Amortisation of IFRS 3 intangibles	-	(237)
Operating profit/(loss)	802	(6,072)
Attributable tax credit	556	275
Profit/(loss) on disposal of discontinued operations	407	(19,967)
Net profit/(loss) attributable to discontinued operations	1,765	(25,764)
Operating cash flows for discontinued operations	(1,213)	(8,540)
Investing cash flows for discontinued operations	1,542	12,498
Financing cash flows for discontinued operations	-	(11,500)
Total cash flows for discontinued operations	329	(7,542)

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:

	2012 thousands	2011 thousands
Weighted average number of shares outstanding:		
Basic weighted average number of shares in issue	93,696	93,696
Employee share options	-	-
Weighted average number of shares outstanding for dilution calculations	93,696	93,696

Diluted earnings per share only reflects the dilutive effect of share options for which performance criteria have been met. Current share incentive schemes vest based on cumulative EPS for a 3 year period with the earliest vesting based on the Group's results for the 3 years to 31 December 2013.

The adjusted basic and adjusted diluted earnings per share figures shown on the consolidated income statement on page 58 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:

	2012 £'000	2011 £'000
Earnings		
From continuing operations		
Net profit from continuing operations attributable to equity holders of the parent	7,959	3,325
Earnings per share		
Basic	8.5p	3.5p
Diluted	8.5p	3.5p
From continuing and discontinued operations		
Net profit/(loss) from continuing and discontinued operations attributable to equity holders of the parent	9,724	(22,439)
Earnings per share		
Basic	10.4p	(23.9)p
Diluted	10.4p	(23.9)p
	2012 £'000	2011 £'000
From discontinued operations		
Net profit/(loss) from continuing and discontinued operations attributable to equity holders of the parent	1,765	(25,764)
Earnings per share		
Basic	1.9p	(27.5)p
Diluted	1.9p	(27.5)p

Notes to the financial statements continued

14. Earnings per share (continued)

	2012 £'000	2011 £'000
Adjusted earnings		
From continuing operations		
Net profit from continuing operations attributable to equity holders of the parent	7,959	3,325
Amortisation of IFRS 3 intangibles (net of tax)	18	160
Closed businesses (net of tax)	610	502
Exceptional costs (net of tax)	1,166	3,756
Financial instruments charge (net of tax)	453	145
Adjusted earnings	10,206	7,888
Adjusted earnings per share		
Basic	10.9p	8.4p
Diluted	10.9p	8.4p
From continuing and discontinued operations		
Net profit/(loss) from continuing and discontinued operations attributable to equity holders of the parent	9,724	(22,439)
Amortisation of IFRS 3 intangibles (net of tax)	18	338
Closed businesses (net of tax)	610	502
Exceptional costs (net of tax)	733	8,262
(Profit)/loss on disposal of discontinued operations and associated tax adjustments	(407)	19,967
Financial instruments charge (net of tax)	453	145
Adjusted earnings	11,131	6,775
Adjusted earnings per share		
Basic	11.9p	7.2p
Diluted	11.9p	7.2p
From discontinued operations		
Net profit/(loss) from discontinued operations attributable to equity holders of the parent	1,765	(25,764)
Amortisation of IFRS 3 intangibles (net of tax)	-	178
Exceptional costs (net of tax)	(433)	4,506
(Profit)/loss on disposal of discontinued operations and associated tax adjustments	(407)	19,967
Adjusted earnings	925	(1,113)
Adjusted earnings per share		
Basic	1.0p	(1.2)p
Diluted	1.0p	(1.2)p

15. Goodwill

	2012 £'000	2011 £'000	2010 £'000
Cost			
At beginning of year	102,196	259,605	269,888
Additions	-	-	926
Disposals	-	(157,409)	(11,209)
At end of year	102,196	102,196	259,605
Accumulated impairment losses			
At beginning of year	29,580	164,489	111,838
Impairment charge – discontinued	-	-	56,360
Disposals	-	(134,909)	(3,709)
At end of year	29,580	29,580	164,489
Net book value			
At end of year	72,616	72,616	95,116
At beginning of year	72,616	95,116	158,050

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, with the change during 2012 made to reflect an internal reorganisation:

	2012 £'000	2011 £'000	2010 £'000
Health	-	-	9,351
Government	-	-	13,149
Systems	37,520	42,430	42,430
Solutions	35,096	30,186	30,186
	72,616	72,616	95,116

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

The recoverable amounts of the Systems and Solutions CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, short to medium-term trading performance, longer-term growth rates and expected changes to selling prices, sales volumes and direct costs during the period. The assumptions made reflect a cautious view of the short-term in the current economic climate. 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, sales volumes 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 the Board 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 ongoing caution in the market. The rate used to discount the forecast cash flows is 11% and is chosen to reflect the directors' assessment of the relative degree of risk associated with the CGUs.

The goodwill has not been impaired. The Group has conducted a sensitivity analysis on the impairment test for each CGU's carrying value. For the Systems division, a reduction in the operating profit in each of the forecast years by 46% would result in the carrying value of goodwill being reduced to its recoverable amount. The equivalent figure for the Solutions division is 41%.

Notes to the financial statements continued

16. Other intangible assets

	Customer relationships, contract pipeline and brands £'000	Development costs £'000	Business systems £'000	Total £'000
Cost				
At 1 January 2011	6,918	8,668	4,331	19,917
Additions	-	3,598	206	3,804
Disposals	(4,472)	(1,581)	(188)	(6,241)
At 1 January 2012	2,446	10,685	4,349	17,480
Additions	-	6,188	-	6,188
At 31 December 2012	2,446	16,873	4,349	23,668
Amortisation				
At 1 January 2011	3,754	5,743	2,619	12,116
Amortisation and impairment charge for the year – continuing	218	1,354	344	1,916
– discontinued	237	-	-	237
Disposals	(1,846)	(452)	(146)	(2,444)
At 1 January 2012	2,363	6,645	2,817	11,825
Charge for the year	24	1,268	356	1,648
At 31 December 2012	2,387	7,913	3,173	13,473
Carrying amount				
At 31 December 2012	59	8,960	1,176	10,195
At 31 December 2011	83	4,040	1,532	5,655
At 31 December 2010	3,164	2,925	1,712	7,801

Customer relationships, contract pipeline and brands have arisen from acquisitions, and are amortised over their estimated useful lives, which on average is five years. As at 31 December 2012 the total net book value is made up of £0.1m relating to customer relationships (2011: £0.1m, 2010: £2.8m), £nil relating to contract pipeline (2011: £nil, 2010: £0.2m) and £nil relating to brands (2011: £nil, 2010: £0.2m).

The amortisation period for development costs incurred on the Group's software development and product development is three to five 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.

17. Property, plant and equipment

	Freehold buildings £'000	Leasehold buildings £'000	Fixtures, fittings and other equipment £'000	Total £'000
Cost or valuation				
At 1 January 2011	781	5,364	13,477	19,622
Additions	-	182	654	836
Disposals	(781)	(3,792)	(7,528)	(12,101)
At 1 January 2012	-	1,754	6,603	8,357
Additions	-	510	1,668	2,178
Disposals	-	-	(221)	(221)
At 31 December 2012	-	2,264	8,050	10,314
Accumulated depreciation and impairment				
At 1 January 2011	29	2,706	10,699	13,434
Charge for the year	5	479	1,408	1,892
Disposals	(34)	(2,189)	(7,322)	(9,545)
At 1 January 2012	-	996	4,785	5,781
Charge for the year	-	275	1,350	1,625
Disposals	-	-	(238)	(238)
At 31 December 2012	-	1,271	5,897	7,168
Net book value				
At 31 December 2012	-	993	2,153	3,146
At 31 December 2011	-	758	1,818	2,576
At 31 December 2010	752	2,658	2,778	6,188

18. Investments

Available for sale investments carried at fair value:

	2012 £'000	2011 £'000	2010 £'000
Cost			
At beginning of period	1	1	38
Disposals	-	-	(37)
At end of period	1	1	1

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.

19. Inventories

	2012 £'000	2011 £'000	2010 £'000
Work in progress	1,655	115	275
Finished goods and goods for resale	276	218	335
	1,931	333	610

Notes to the financial statements continued

20. Trade and other receivables

	2012 £'000	2011 £'000	2010 £'000
Amounts receivable	16,823	12,024	17,714
Allowance for doubtful debts	(287)	(1,178)	(860)
	16,536	10,846	16,854
Amounts recoverable on contracts	812	228	-
Other receivables	903	3,605	3,608
Prepayments and accrued income	9,974	8,644	14,423
	28,225	23,323	34,885

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.

Other receivables includes amounts of £0.2m which are due in more than one year.

Trade receivables

The average credit terms on sales is 30 days (2011: 30 days).

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.

Included in the Group's trade receivable balance are debtors with a carrying amount of £3.4m (2011: £3.5m, 2010: £6.1m) 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.

20. Trade and other receivables (continued)

The average age of receivables is 41 days (2011: 34 days).

Ageing of past due but not impaired receivables:

	2012 £'000	2011 £'000	2010 £'000
30-60 days	1,984	2,292	4,116
60-90 days	865	624	848
90-120 days	404	99	655
120+ days	160	490	442
Total	3,413	3,505	6,061

Movement in the allowance for doubtful debts:

	2012 £'000	2011 £'000	2010 £'000
Balance at the beginning of the year	1,178	860	1,399
Discontinued operations	-	(469)	(147)
Amounts written off during the year	(58)	(251)	(506)
Recognised in the income statement	(833)	888	264
Transferred from/(to) assets held for sale	-	150	(150)
Balance at the end of the year	287	1,178	860

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:

	2012 £'000	2011 £'000	2010 £'000
30-60 days	26	36	237
60-90 days	5	40	124
90-120 days	18	58	14
120+ days	238	1,044	485
Total	287	1,178	860

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 £8.4m (2011: £6.5m, 2010: £14.7m) 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, £0.8m (2011: £0.5m, 2010: £1.2m) represents funds restricted in use by the relevant commercial terms of certain trading contracts. These terms have been complied with. An additional £0.6m relates to funds held by solicitors on behalf of the Group in escrow accounts.

Notes to the financial statements continued

22. Derivative financial instruments

	2012 £'000	2011 £'000	2010 £'000
Non-current liabilities			
Interest rate swaps that are designated and effective as hedging instruments carried at fair value	-	-	2,173

Further details of derivative financial instruments are provided in note 37.

23. Trade and other payables

	2012 £'000	2011 £'000	2010 £'000
Trade payables	3,284	4,241	4,864
Other taxation and social security	3,349	2,587	9,813
Other payables	1,009	1,953	2,166
Deferred cash consideration	-	-	72
	7,642	8,781	16,915

The average credit period taken for trade purchases is 24 days (2011: 25 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.

24. Bank loans and loan notes

	2012 £'000	2011 £'000	2010 £'000
Bank loans (maturing in the second to fifth years inclusive)	18,274	22,503	33,157

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

	Fixed rate 2012 £'000	Floating rate 2012 £'000	Total 2012 £'000	Fixed rate 2011 £'000	Floating rate 2011 £'000	Total 2011 £'000
Bank loans	-	18,274	18,274	-	22,503	22,503

The weighted average interest rates paid were as follows:

	2012	2011	2010
Bank loans	2.7%	5.4%	3.3%

There are £11.0m (2011: £6.5m) undrawn committed borrowing facilities, which all expire in two to five years. The Group also has cash balances of £8.4m (2011: £6.5m) (see note 21), giving net debt at the year end of £9.9m (2011: £16.0m). In addition, at the year end there was a £5m undrawn overdraft facility giving underlying headroom of £24.4m.

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

	2012 £'000	2011 £'000	2010 £'000
Bank loans	18,274	22,503	35,330

A £30m 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 where appropriate. At 31 December 2012, the amount drawn down (net of bank arrangement fees) was £18.3m (2011: £22.5m). The loan is secured by way of a fixed and floating charge over the assets of the Group.

25. Provisions

	2012 £'000	2011 £'000	2010 £'000
At beginning of year	3,858	525	435
Addition/(reduction) in provision in year	(423)	-	315
Reclassification from accruals	-	3,350	-
Utilisation of provision	(1,753)	(17)	(225)
At end of year	1,682	3,858	525

At 31 December 2012, there were provisions of £1.7m (2011: £3.9m, 2010: £0.5m). £1.2m of the December 2012 balance represents provisions for future lease costs on properties vacated as part of the restructuring undertaken by the Group following the sale of the Health and Government businesses during 2011 (2011: £3.4m). Of this, £0.7m is classified as current (2011: £1.9m). The balance represents 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. The provision made is management's best estimate of the Group's liability based on past experience, commercial judgement and legal advice. There is no expected reimbursement for any economic outflow that may be required. Further details are contained in note 36.

26. Deferred tax

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

	2012 £'000	2011 £'000	2010 £'000
Deferred tax assets			
Retirement benefit schemes	190	135	323
Depreciation in excess of capital allowances	1,305	1,066	2,147
Other timing differences	207	53	451
Share-based payments	227	153	16
Derivative financial instruments	104	254	319
	2,033	1,661	3,256
Deferred tax liabilities			
Intangible assets	-	33	865
Fair value adjustment on investment property	-	-	-
Leasehold property not qualifying for tax allowances	-	145	159
	-	178	1,024

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

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

	Temporary differences on non-current assets £'000	Retirement benefit schemes £'000	Derivative financial instruments £'000	Other temporary differences £'000	Total £'000
At 1 January 2012 as previously reported	921	135	254	173	1,483
Credit to income statement	384	6	-	19	409
Items taken directly to equity	-	49	(150)	242	141
At 31 December 2012	1,305	190	104	434	2,033

Notes to the financial statements continued

26. Deferred tax (continued)

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

	Temporary differences on non-current assets £'000	Retirement benefit schemes £'000	Derivative financial instruments £'000	Other temporary differences £'000	Total £'000
At 1 January 2011 as previously reported	1,139	323	319	451	2,232
Included within assets held for sale in 2010	106	-	-	96	202
Credit/(charge) to income statement	(324)	8	-	(53)	(369)
Items taken directly to equity	-	63	(65)	(119)	(121)
Disposal of operations	-	(259)	-	(202)	(461)
At 31 December 2011	921	135	254	173	1,483

27. Share-based payments

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

	2012 £'000	2011 £'000
Continuing operations		
LTIP	382	(122)
SAYE	(16)	(7)
	366	(129)
Discontinued operations		
LTIP	-	(11)
Acquired schemes	-	(82)
SAYE	-	(1)
	-	(94)
Total	366	(223)

LTIP

Awards made to eligible employees under the LTIP are nil cost options with an award period of four years. 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.

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.

27. Share-based payments (continued)

Options outstanding during the year are as follows:

	ESOS		LTIP		SAYE	
	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 2012	133	£2.46	3,264	£nil	126	£1.08
Exercised during the year	-	-	-	-	-	-
Granted during the year	-	-	2,784	£nil	-	-
Lapsed during the year	(84)	£2.11	(378)	-	(92)	£1.08
Outstanding at 31 December 2012	49	£3.05	5,670	£nil	34	£1.08
Exercisable at 31 December 2012	49	£3.05	-	-	-	-
Weighted average remaining contractual life (years)	0.9	-	8.75	-	2.4	-
Weighted average share price at date of exercise	-	-	-	-	-	-

Share options outstanding at the year end have a range of exercise prices: ESOS: £1.96 - £3.26, LTIP: £nil and SAYE: £1.08.

For the year ended 31 December 2012, 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 2012	LTIP 31 December 2011
Date of grant	January 2012	June 2011
Share price	£0.6125	£0.49
Exercise price	£nil	£nil
Expected dividend yield	1.9%	5.3%
Risk free interest rate	0.5%	1.30%
Expected volatility	57.6%	62.3%
Term (years)	3.0	3.0
Option fair value	£0.57	£0.42

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

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

Notes to the financial statements continued

27. Share-based payments (continued)

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	
	2012 thousands	2011 thousands
Options granted before 7 November 2002	-	133

28. Share capital

	2012 £'000	2011 £'000	2010 £'000
Authorised			
125,000,000 (2011: 125,000,000; 2010: 125,000,000) ordinary shares of 5p each	6,250	6,250	6,250

	2012 number	2012 £'000	2011 number	2011 £'000	2010 number	2010 £'000
Allotted, called up and fully paid						
At beginning and end of the year	93,695,985	4,685	93,695,985	4,685	93,695,985	4,685

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

29. Share premium

	2012 £'000	2011 £'000	2010 £'000
At beginning of the year	-	-	78,723
Premium on share issues (net of expenses)	-	-	-
Capital reduction	-	-	(78,723)
At end of the year	-	-	-

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 2009	9,545	22,359	(1,548)	1,616	(375)	31,597
Net expense recognised directly in equity	-	-	-	-	(445)	(445)
Movement in relation to share-based payment	-	-	564	(1,144)	-	(580)
Transfers (see note 31)	-	(4,326)	-	-	-	(4,326)
At 31 December 2010	9,545	18,033	(984)	472	(820)	26,246
Net credit recognised directly in equity	-	-	-	-	169	169
Movement in relation to share-based payment	-	-	216	(386)	-	(170)
At 31 December 2011	9,545	18,033	(768)	86	(651)	26,245
Net credit recognised directly in equity	-	-	-	-	302	302
Movement in relation to share-based payment	-	-	-	366	-	366
At 31 December 2012	9,545	18,033	(768)	452	(349)	26,913

The capital reserve of £9.5m (2011: £9.5m) resulted from a share exchange when Tribal Group plc was listed in February 2001.

The merger reserve of £18.0m (2011: £18.0m) relates to the premium arising on shares issued subject to the provisions of section 612 of the Companies Act 2006 (previously section 131 of the Companies Act 1985), net of cumulative goodwill impairment of £52.0m (2011: £52.0m) in respect of related acquisitions deemed to be impaired.

The own share reserve of £0.8m (2011: £0.8m) represents the cost of 392,892 shares (2011: 392,892) 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 2012, no shares (2011: 110,382) were disposed of on exercise of options.

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

The hedging reserve represents movements relating to cash flow hedges net of deferred tax.

31. Retained earnings

	2012 £'000	2011 £'000	2010 £'000
At beginning of the year	14,957	38,824	21,512
Profit/(loss) for the year	9,724	(22,439)	(62,104)
Dividends	(934)	(980)	(4,284)
Net income/(expense) recognised directly in equity	598	(448)	651
Capital reduction	-	-	78,723
Transfers (see note 30)	-	-	4,326
At end of the year	24,345	14,957	38,824

Notes to the financial statements continued

32. Capital and other commitments

There are no capital commitments at 31 December 2012 (2011: £nil).

	2012 £'000	2011 £'000
The Group as lessee		
Minimum lease payments under operating leases recognised as an expense in the year	1,798	3,258

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:

	2012 £'000	2011 £'000
Within one year	193	322
In the second to fifth years inclusive	2,578	3,894
After five years	2,227	6,203
	4,998	10,419

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.

The Group as lessor

The Group has sub-let certain properties previously used in its discontinued businesses, with rental income earned during the year totalling £1,125,000 (2011: £639,000). At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2012 £'000	2011 £'000
Within one year	35	13
In the second to fifth years inclusive	-	791
	35	804

33. Acquisition of subsidiary

On 2 January 2013, the Group acquired 100% of the issued share capital of International Graduate Insight Group Limited.

This transaction has been accounted for by the purchase method of accounting. The total cost of acquisition was £6,008,000. This comprised an initial cash consideration of £3,450,000 and a deferred consideration of £3,398,000.

Deferred consideration that becomes due shall be satisfied in the period January 2013 to March 2016.

The maximum amount payable is £7,500,000.

The carrying amount of each class of International Graduate Insight Group Limited's assets before combination is set out below:

	Book value £'000	Provisional fair value adjustments £'000	Acquisition Adjustments £'000	Provisional fair value £'000
Intangible assets	-	1,340	-	1,340
Tangible assets	151		(47)	104
Trade and other receivables	457		(69)	388
Cash and cash equivalents	915			915
Trade and other payables	(1,151)	-	70	(1,081)
Deferred tax liabilities	(22)	(287)		(309)
Net assets/(liabilities) acquired	350	1,053	(46)	1,357
Goodwill arising on acquisition				4,651
Consideration				6,008
Satisfied by:				
Initial cash consideration				3,450
Deferred cash consideration for performance related consideration				2,558
				6,008

The cash consideration paid by Tribal to date of £3,450,000 was satisfied out of the cash reserves of the Group.

The goodwill arising on the acquisition is attributable to the anticipated profitability of the distribution of the Group's products and services in the new markets.

Intangible assets arising on acquisition are in respect of the order book, £105,000, and customer relationships, £1,235,000.

Notes to the financial statements continued

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 2012 was £3,038,000 (2011: £3,839,000), of which £1,263,000 (2011: £1,869,000) related to defined contribution schemes and £1,755,000 (2011: £1,970,000) to defined benefit schemes.

Contributions amounting to £346,000 (2011: £343,000) were payable to the funds at the year end and are included in current liabilities.

Defined benefit schemes

At 31 December 2012 the Group operated three 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 2 active members at the year end. Employer contributions amounting to £21,000 were paid in the year ended 31 December 2012 (2011: £20,000). These accounting figures have been calculated using the valuation as at 31 March 2009, updated to 31 December 2012 by a qualified actuary independent of the scheme's sponsoring employer.

Scheme 2 – 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 5 active members at the year end. Employer contributions amounting to £27,000 were paid in the year ended 31 December 2012 (2011: £26,000). The accounting figures have been updated on an approximate basis to 31 December 2012 by a qualified independent actuary.

Scheme 3 – 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 who 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 179 active members at the year end. Employer contributions amounting to £1,558,000 were paid in the year ended 31 December 2012 (2011: £1,785,000). The accounting figures have been updated on an approximate basis to 31 December 2012 by a qualified independent actuary.

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:

	2012 % per annum	2011 % per annum	2010 % per annum
Inflation	2.70 - 2.90	2.50 - 3.00	3.50
Salary increases	3.00 - 3.70	3.50 - 4.00	4.50
Rate of discount	4.50	4.70	5.40
Pension in payment increases	2.70 - 2.90	2.50 - 3.00	3.00 - 3.50

The mortality assumptions adopted at 31 December 2012 imply the following life expectations:

	Males	Females
Aged 60 in 2012	28	31
Aged 60 in 2032	30	33

The analysis of the schemes' assets at the balance sheet date was as follows:

	2012 £'000	2011 £'000	2010 £'000
Equities	3,462	2,102	3,008
Target return portfolio	-	-	385
Alternative assets	18	-	490
Corporate Bonds	1,758	1,051	301
Gifts	28	25	12
Cash	133	-	435
Total fair value of scheme assets	5,399	3,178	4,631

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 12%
Rate of inflation	Increase by 0.5%	Increase by 8%
Rate of salary growth	Increase by 0.5%	Increase by 5%
Rate of mortality	Increase by one year	Increase by 3%

Notes to the financial statements continued

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:

	2012 £'000	2011 £'000	2010 £'000
Present value of defined benefit obligations	(5,818)	(3,718)	(5,790)
Fair value of scheme assets	5,399	3,178	4,631
Deficit in schemes	(419)	(540)	(1,159)
Liability recognised in the balance sheet	(419)	(540)	(1,159)

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

	2012 £'000	2011 £'000	2010 £'000
Fair value of scheme assets at beginning of year	3,178	4,631	3,917
Expected return on assets	219	129	285
Actuarial gains/(losses)	324	(5)	(160)
Contributions by employer	1,606	1,831	861
Contributions by scheme participants	128	143	83
Benefits paid	(56)	(53)	(355)
Sale of subsidiary	-	(3,498)	-
Fair value of scheme assets at end of year	5,399	3,178	4,631

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

	2012 £'000	2011 £'000	2010 £'000
Defined benefit obligation at beginning of year	3,718	5,790	6,060
Current service cost	1,819	1,971	775
Interest cost	175	128	356
Contributions by scheme participants	128	143	83
Actuarial losses/(gains)	34	170	(1,129)
Benefits paid	(56)	(53)	(355)
Sale of subsidiary	-	(4,431)	-
Defined benefit obligation at end of year	5,818	3,718	5,790

The Group's contribution rate for 2012 was 22% (2011: 22%) of pensionable earnings for the TfL Pension Fund, 30% (2011: 30%) for the Prudential Platinum Fund and 34% to 35% (2011: 27% to 33%) for the Federated Pension Plan.

34. Retirement benefit schemes (continued)

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

	2012 £'000	2011 £'000	2010 £'000
Current service cost	1,819	1,971	775
Recognised in arriving at operating profit/(loss)	1,819	1,971	775
Other finance costs			
Interest on pension scheme liabilities	175	128	356
Expected return on pension scheme assets	(219)	(129)	(285)
Net finance (credit)/charge	(44)	(1)	71
Total charge to income statement	1,775	1,970	846

Analysis of actuarial loss in the consolidated statement of comprehensive income:

	2012 £'000	2011 £'000	2010 £'000
Actual return less expected return on pension scheme assets	324	(5)	(160)
Experience gains and (losses) arising on the scheme liabilities	(54)	(151)	553
Changes in assumptions underlying the present value of scheme liabilities	20	(19)	576
Total actuarial gains and (losses) recognised in the consolidated statement of comprehensive income	290	(175)	969

Cumulative actuarial loss recognised in the consolidated statement of comprehensive income since 1 April 2004 is £194,000 (2011: £484,000).

The history of experience adjustments is as follows:

	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000	31 December 2009 £'000	31 December 2008 £'000
Present value of defined benefit obligations	(5,818)	(3,718)	(5,790)	(6,060)	(4,808)
Fair value of scheme assets	5,399	3,178	4,631	3,917	3,383
Deficit in the scheme	(419)	(540)	(1,159)	(2,143)	(1,425)
Experience adjustments arising on scheme assets:					
Amount	(324)	5	(160)	398	(1,089)
Percentage of the scheme assets	6%	(0%)	(3%)	10%	(32%)
Experience adjustments arising on scheme liabilities:					
Amount	(54)	151	569	8	4
Percentage of the present value of the scheme liabilities	(1%)	4%	10%	0%	(0%)

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

Notes to the financial statements continued

35. Notes to the cash flow statement

	2012 £'000	2011 £'000
Operating profit from continuing operations	13,599	6,397
Operating loss from closed businesses	(2,130)	(652)
	11,469	5,745
Operating profit/(loss) from discontinued operations	802	(6,072)
Depreciation and impairment of property, plant and equipment	1,625	3,310
Amortisation of other intangible assets	1,648	2,153
Net pension charge	15	102
Loss on disposal of property, plant and equipment	-	1,590
Share-based payments	366	(223)
Movement in deferred consideration	50	(664)
Operating cash flows before movements in working capital	15,975	5,941
(Increase)/decrease in inventories	(1,400)	359
Increase in receivables	(6,049)	(4,310)
Increase/(decrease) in payables	8,229	(3,116)
Net cash from/(used in) operating activities before tax	16,755	(1,126)
Tax (paid)/received	(1,692)	718
Net cash from/(used in) operating activities	15,063	(408)

Net cash from/(used in) operating activities before tax can be analysed as follows:

	2012 £'000	2011 £'000
Continuing operations (excluding restricted cash)	17,083	8,110
Increase/(decrease) in restricted cash	885	(696)
	17,968	7,414
Discontinued operations	(1,213)	(8,540)
	16,755	(1,126)

36. Contingent liabilities

The Group has received notification of a number of potential litigation claims, the majority of which relate to discontinued activities. On the basis of legal advice, claims are being robustly contested as to both liability and quantum. A provision of £0.5m (2011: £0.5m) 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 £12.6m (2011: £19.0m).

In addition, the Company and its subsidiaries have provided performance guarantees issued by its banks on its behalf, in the ordinary course of business totalling £6.9m. These are not expected to result in any material financial loss.

37. 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.

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.

37. Financial instruments (continued)

Categories of financial instruments

	2012 £'000	2011 £'000	2010 £'000
Financial assets			
Loans and receivables (including cash and cash equivalents):			
Cash	8,424	6,524	14,659
Trade receivables	16,536	10,846	16,854
	24,960	17,370	31,513
Financial liabilities			
Derivative instruments in designated hedge accounting relationships	-	-	2,173
At amortised cost:			
Trade payables	3,284	4,241	4,864
Bank loans and loan notes	18,274	22,503	33,157
	21,558	26,744	40,194

Financial risk management objectives

Treasury management is led by the Group finance team which is responsible for managing the Group's exposure to financial risk. It operates within a defined set of policies and procedures reviewed and approved by the Board. 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 where appropriate. 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 although there is increasing exposure to overseas markets, particularly in Australasia. There have been no other significant changes to the Group's exposure to market risk 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 enters 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 2012 would decrease/increase by £61,000 (2011: decrease/increase by £170,000).

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 £11.0m at the balance sheet date (2011: £6.5m). In addition at the year end, there was a £5.0m (2011: £5.0m) undrawn overdraft facility. The Group expects to meet its obligations from operating cash flows. The Group also had cash balances at 31 December 2012 of £8.4m (2011: £6.5m) as detailed in note 21. Net debt at the year end was £9.9m (2011: £16.0m), giving underlying headroom at the balance sheet date of £24.4m (2011: £19.0m).

Notes to the financial statements continued

37. Financial instruments (continued)**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
31 December 2012						
Trade payables	3,284	3,284	1,346	1,672	106	160
Bank loans	18,274	20,650	48	95	428	20,079
	21,558	23,934	1,394	1,767	534	20,239
31 December 2011						
Trade payables	4,241	4,241	813	2,637	788	3
Bank loans	22,503	25,480	78	157	705	24,540
	26,744	29,721	891	2,794	1,493	24,543

38. Related party disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

No material contract or arrangement has been entered into during the year, nor subsisted at 31 December 2012, 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'.

	2012 £'000	2011 £'000
Short-term employee benefits	1,108	881
Share-based payment	261	(76)
	1,369	805

Included within directors' emoluments are pension costs of £61,000 (2011: £63,000) in respect of payments made to two (2011: three) directors' individual defined contribution pension schemes.

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

Arrangements with the Group's pension schemes are set out in note 34.

39. Principal subsidiary undertakings

The principal direct subsidiary undertakings at 31 December 2012 are shown below. The subsidiary undertakings are registered in the United Kingdom and prepare accounts to 31 December each year.

	Country of incorporation	Principal activity	Holding
Tribal Education Limited	United Kingdom	Education related systems and solutions	100%
Tribal Holdings Limited	United Kingdom	Holding company	100%
Tribal Group PTY Limited	Australia	Education related systems and solutions	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 2012 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012;
- 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 2012.



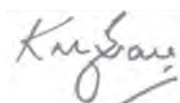
John Clennett (Senior Statutory Auditor) for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
13 March 2013

Company balance sheet at 31 December 2012

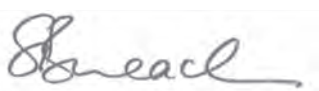
	Note	2012 £'000	2011 £'000
Fixed assets			
Investments	2	64,084	64,045
Current assets			
Debtors: amounts falling due within one year	3	1,115	3,194
Cash at bank and in hand		100	100
		1,215	3,294
Creditors: amounts falling due within one year	4	(23,033)	(23,359)
Net current liabilities		(21,818)	(20,065)
Total assets less current liabilities		42,266	43,980
Creditors: amounts falling due after more than one year	5	(10,274)	(15,503)
Net assets		31,992	28,477
Capital and reserves			
Called up share capital	6	4,685	4,685
Merger reserve	7	18,032	18,032
Hedging reserve	7	(349)	(651)
Own share reserve	7	(768)	(768)
Share-based payment reserve	7	451	86
Profit and loss account	7	9,941	7,093
Equity shareholders' funds		31,992	28,477

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 13 March 2013. They were signed on its behalf by:



Keith Evans
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 profit for the Company amounted to £3.8m (2011: loss of £15.6m). The auditor's remuneration for audit services to the Company was £80,000 (2011: £80,000).

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 47 to 55 and should be regarded as an integral part of this note. The Company has no employees.

Related parties

The Company has taken advantage of the exemption under Financial Reporting Standard Number 8 not to disclose transactions with entities, 100% of whose voting rights are wholly controlled within Tribal Group plc.

Notes to the company balance sheet continued

2. Fixed asset investments

	Shares in subsidiary undertakings £'000	Long term loans £'000	Total £'000
Cost			
At 1 January 2011	29,300	67,262	96,562
Disposals	(5,230)	-	(5,230)
Capital contribution relating to share-based payments	(171)	-	(171)
Movement in long-term loans	-	(27,116)	(27,116)
At 1 January 2012	23,899	40,146	64,045
Disposals	-	-	-
Capital contribution relating to share-based payments	365	-	365
Movement in long-term loans	-	(326)	(326)
At 31 December 2012	24,264	39,820	64,084

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.

A listing of principal subsidiaries is included in note 39 to the Group financial statements.

3. Debtors

	2012 £'000	2011 £'000
Amounts owed by group undertakings	961	1,929
Corporation tax	-	54
Other debtors	12	912
Deferred taxation	142	299
	1,115	3,194

	2012 £'000	2011 £'000
Deferred taxation		
At start of year	299	376
Effect of rate change	(4)	-
Charge to income statement	(3)	(12)
Items taken directly to equity	(150)	(65)
At end of year	142	299

The deferred tax asset is analysed as follows:

	2012 £'000	2011 £'000
Derivative financial instruments	104	254
Other timing differences	38	45
	142	299

4. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Amounts owed to group undertakings	21,659	22,287
Other creditors	4	88
Accruals	1,370	984
	23,033	23,359

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

	2012 £'000	2011 £'000
Bank loan (maturing between two and five years)	10,274	15,503

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

	2012 £'000	2011 £'000
Authorised		
125,000,000 ordinary shares of 5p each (2011: 125,000,000)	6,250	6,250

	2012 number	2012 £'000	2011 number	2011 £'000
Allotted, called up and fully paid				
At beginning and end of the year	93,695,985	4,685	93,695,985	4,685

Details of options in respect of shares outstanding at 31 December 2012 are as follows:

Employee share option schemes:	Number outstanding	Price payable	Date from which exercisable
PLC scheme	49,436	£3.05	31.07.2006
2011 LTIP	3,036,300	£nil	31.03.2014
2012 LTIP	2,633,542	£nil	31.03.2015
	5,669,842		
Savings related option scheme:			
SAYE	20,033	£1.08	01.12.2013
	13,999	£1.08	01.12.2015
	34,032		
Total Tribal Group plc share option schemes	5,753,310		

Notes to the company balance sheet continued

7. Share premium and reserves

	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	18,032	(651)	(768)	86	7,093
Loss for the year	-	-	-	-	3,781
Dividends	-	-	-	-	(933)
Fair value movement on cash flow hedges	-	302	-	-	-
Movement in relation to share-based payments	-	-	-	365	-
At end of the year	18,032	(349)	(768)	451	9,941

The merger reserve of £18.0m (2011: £18.0m) 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 £0.8m (2011: £0.8m) represents the cost of 392,892 (2011: 392,892) shares in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group's share option schemes. See note 27 of the consolidated accounts for details of the Group's share options schemes.

8. Contingent liabilities

A cross-guarantee exists between group companies in respect of bank facilities totalling £12.6m (2011: £19.0m).

Five year summary

Summarised consolidated Group income statement

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Revenue	113,417	108,231	175,372	238,048	233,990
Profit before interest, amortisation and impairment on goodwill and intangibles and exceptional items	13,882	11,312	7,374	18,218	19,823
Exceptional costs and closed businesses	(2,389)	(5,349)	(10,446)	-	-
Amortisation and impairment on goodwill and intangibles	(24)	(218)	(52,637)	(62,805)	(556)
Interest	(1,496)	(2,005)	(2,116)	(1,045)	(1,315)
Taxation	(2,014)	(415)	1,984	(3,863)	(4,810)
Minority interests	-	-	-	(828)	(910)
Dividends	(934)	(980)	(4,284)	(4,055)	(3,957)
Retained profit/(loss)	7,025	2,345	(60,125)	(54,378)	8,275
Adjusted diluted earnings per share	10.9p	7.9p	5.0p	13.3p	14.7p
Dividend per ordinary share	1.25p	1.00p	2.50p	4.60p	4.35p

Summarised consolidated Group balance sheet

Intangible assets	82,811	78,271	102,917	166,847	217,505
Other non-current assets	5,180	4,238	9,445	11,165	11,259
Current assets	38,580	30,180	54,473	72,781	80,889
Current liabilities	(51,412)	(42,142)	(58,905)	(72,541)	(77,195)
Non-current liabilities	(19,216)	(24,660)	(38,175)	(41,735)	(37,055)
Net assets	55,943	45,887	69,755	136,517	195,403

The amounts disclosed above are for the underlying business as defined at the time of the publication of the respective Annual Reports.

Company information

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Registered in England and Wales
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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

Ex-dividend date	12 June 2013
Record date	14 June 2013
Annual General Meeting	17 May 2013
Final dividend payment date	2 July 2013



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