

41288519

T R I B A L

# ANNUAL REPORT + ACCOUNTS

For the year ended 31 December 2011

Driving growth and creating value through focus

TUESDAY



\*A190GVQO\*

A25

15/05/2012

#87

COMPANIES HOUSE

---

## At a glance

---

**Our vision: to create and deliver world class technology based products and services that help our education, learning and training customers deliver excellence.**

### About us

Tribal is a leading provider of technology products and services to the education, learning and training markets

We are based in the UK, and operate internationally, particularly in Australia, New Zealand and the US

---

### We deliver

#### Technology

A range of proprietary software products to support the business needs of education, learning and training providers

#### Services

A range of services to support the improvement of education, learning and training delivery by our customers

---

### Our core markets

- Higher Education
  - Further Education and vocational learning
  - Schools
  - Local and central government authorities
- 

### Key market positions\*

- **Number 1 provider** of student management systems to UK universities
- **Number 1 provider** of school, college and nursery inspections in the UK on behalf of Ofsted
- **Number 2 provider** of Childrens Services information systems to local authorities in the UK
- **Number 1 provider** of student management systems to UK FE colleges and training providers

\* Company estimates

---

### Global reach

- Australasia
  - Middle East
  - North America
  - UK
-

## Contents

# 04

## John Ormerod

talks about  
repositioning  
the business

Create a simplified  
organisation, establish an  
efficient cost base  
and develop a  
3 year strategy plan

# 18

## Keith Evans

talks about our  
3 year plan

– we are committed  
to delivering shareholder value, and are targeting  
to more than double earnings per share within a  
three year period.

– our aim is to be the number 1 or  
2 provider of our key products or services in our existing  
geographic markets, and to build strong market  
entry positions in selected new geographic markets.

– we are building  
a high performance company culture which  
supports our values and strategic ambitions.

## Introduction

- 01 ■ Contents
- 02 ■ Financial summary
- 04 ■ Chairman's statement
- 08 ■ Our business - Technology
- 12 ■ Our business - Services
- 16 ■ Our markets

## Business review

- 18 ■ Our strategy - Group
- 20 ■ Our strategy - Technology
- 21 ■ Our strategy - Services
- 22 ■ Key performance indicators (KPIs)
- 24 ■ Operating review
- 28 ■ Financial review
- 34 ■ Principal risks and uncertainties
- 38 ■ Corporate responsibility

## Governance

- 40 ■ Board of directors
- 41 ■ Directors' report
- 43 ■ Corporate governance
- 46 ■ Audit committee
- 49 ■ Remuneration report
- 55 ■ Directors' responsibilities statement

## Financial statements

- 56 ■ Independent auditor's report to the members  
of Tribal Group plc
- 57 ■ Consolidated income statement
- 58 ■ Consolidated statement of comprehensive income
- 59 ■ Consolidated balance sheet
- 60 ■ Consolidated statement of changes in equity
- 61 ■ Consolidated cash flow statement
- 62 ■ Notes to the financial statements
- 106 ■ UK GAAP Tribal Group plc – company  
financial statements
- 112 ■ Five year summary

## Financial summary

|   | Year ended<br>31 December<br>2011 | Year ended<br>31 December<br>2010 | Change  |
|---|-----------------------------------|-----------------------------------|---------|
| Revenue   | £108.2m                           | £104.1m                           | 4.0%    |
| Adjusted operating profit <sup>1</sup>                      | £11.3m                            | £8.3m                             | 36.7%   |
| Adjusted operating profit margin                            | 10.4%                             | 8.0%                              | 30.0%   |
| Adjusted profit before tax <sup>1</sup>                     | £9.5m                             | £6.8m                             | 39.3%   |
| Exceptional costs (continuing business)                     | £5.4m                             | £6.3m                             | -       |
| Profit/(loss) before tax (continuing business)              | £3.7m                             | (£0.4m)                           | -       |
| Adjusted diluted earnings per share <sup>1</sup>            | 7.9p                              | 5.6p                              | 41.1%   |
| Loss for the year   | £22.4m                            | £62.1m                            | 63.9%   |
| Dividend per share  | 1.00p                             | 2.50p                             | (60.0)% |
| Operating cash flow from continuing operations <sup>2</sup> | £7.6m                             | £21.0m                            | (63.9)% |
| Net debt  | £16.0m                            | £18.5m                            | (13.5)% |

### Notes

<sup>1</sup> The adjusted operating profit, adjusted operating profit before tax and adjusted diluted earnings per share are in respect of continuing operations excluding intangible asset amortisation of £0.2m (2010: £0.3m), exceptional costs of £5.4m (2010: £6.3m) in the case of adjusted profit before tax and earnings per share, financial instruments charge of £0.1m (2010: £0.6m) and in the case of earnings per share, the related tax of £1.7m (2010: £1.4m)

<sup>2</sup> Operating cash flow from continuing operations is defined as net cash from continuing operating activities after capital expenditure and before exceptional cashflows

Revenue  
up to

**£108.2m**

↑4%

International revenue  
up to

**£13.1m**

↑30%

Adjusted operating profit<sup>1</sup>  
up to

**£11.3m**

↑37%

- Revenue increased by 4.0% to £108.2m (2010: £104.1m)
- Adjusted operating margins improved from 8.0% to 10.4%
- Adjusted profit before tax<sup>1</sup> increased by 39.3% to £9.5m (2010: £6.8m)
- Completion of sale of non-core Health, Government and Resourcing businesses - loss on discontinued activities of £25.8m (2010: £61.7m)
- Completion of restructuring programme, following the sale of non-core businesses, to reduce the Group's cost base and streamline the Group's organisational structure, delivering annualised savings of £5.3m
- Exceptional restructuring costs of £5.4m (2010: £6.3m)
- Adjusted diluted earnings per share<sup>1</sup> of 7.9p (2010: 5.6p)
- Final dividend of 0.60p (2010: 0.65p)
- Full dividend for the year of 1.00p (2010: 2.50p)
- Order book of £177.5m, a decrease of 4.6%
- Operating cash flow from continuing operations<sup>2</sup> of £7.6m (2010: £21.0m)
- Significant reduction in net defined benefit pension obligations to £0.5m
- Net debt of £16.0m (2010: £18.5m)

**“ The past two years have been a period of transformation for Tribal**  
We have restructured the business, focusing on our core strengths in the education, learning and training markets ”

**Kerth Evans** Chief Executive, Tribal

Adjusted operating margin<sup>1</sup>  
up from 8% to over

**10%**

↑30%

Adjusted earnings per  
share<sup>1</sup> up to

**7.9p**

↑41%

Net debt  
reduced to

**£16m**

↓14%

## Commentary

“The past two years have been a period of transformation for Tribal. We have restructured the business, focusing on our core strengths in the education, learning and training markets. Our cost base is leaner, we have simplified our organisational structure, and our strategy to build on our market leading technology assets and strong service related intellectual property is clear.

“Whilst the macro-economic environment has been uncertain during 2011, our products and services demonstrated resilience in mixed market conditions. Our financial performance improved and, with revenue growing by 4%, and adjusted operating margins rising to over 10%, we concluded 2011 with trading performance ahead of our earlier expectations.

“Our UK markets are responsive to our product and service propositions, and we have identified good opportunities to develop new products and services over the medium term. We have also established strong positions in our chosen international markets, and are seeing good opportunities for continued growth.

“Our current trading is in line with our expectations for 2012, which will continue to be a period of investment in our products, people and our international presence. As a result of seasonality in our business, and our programme of investment, we anticipate our profits will be weighted towards the second half of the year, and Tribal has good potential to make further progress over the medium term.”

**Kerth Evans**, Chief Executive, Tribal

## Chairman's statement

# This year has continued to be a period of significant change for Tribal, and one in which we have achieved a major repositioning of the group.

### Our evolution

The year ended 31 December 2011 was a period of significant change for Tribal, and one in which we have achieved a major repositioning of the group

#### Initial development as a support services business

Tribal evolved over the past decade as a diverse support services business, growing successfully during a period of economic prosperity. Initially developed through an acquisition-led strategy, the group evolved to encompass operations in a number of markets, and under a range of business models.

#### Addressing challenges

As the economic climate has become more challenging, some of the businesses within the group faced difficult trading conditions. During 2010 and 2011, we directly confronted these challenges. Our short-term strategy sought to

- exit those activities which created unacceptable risk to the future financial stability of the group,
- simplify our organisational structure,
- significantly reduce our cost base, and
- focus our future on areas of strength within the group

### Delivering our short-term objectives

We have made good progress in delivering our short-term objectives

#### Exiting non-core markets

We completed the disposal programme, which was initiated in 2010. The disposal of our Support Services division, made up of the Nightingale Associates architecture business, the Kindred communications business and the Tribal Resourcing business, was concluded in March 2011. In April 2011 we completed the sale of our Health and Government businesses to Capita Group PLC.

#### Simplifying our organisation

The conclusion of the disposal programme allowed us to focus on development of the former Education division. We have simplified our organisational structure, creating greater flexibility and enhancing accountability throughout the business.

We are now organised into two distinct, but clearly related, divisions:

- **Technology** – providing a range of proprietary software products to support the business needs of education, learning and training providers, and
- **Services** – delivering a range of services to support the improvement of education, learning and training delivery by our customers

| 2010  |                                    |                                    |                     | 2011                   |                                   |  |
|---|------------------------------------|------------------------------------|---------------------|------------------------|-----------------------------------|--|
| January   | June                               | July                               | October             | March                  | April                             | Ongoing  |
| Tribal comprises 4 divisions  | Disposal of Nightingale Associates | Acquisition of Class Measures (US) | Disposal of Kindred | Disposal of Resourcing | Disposal of Health and Government | Education, Learning and Training market focused business                           |
| <ul style="list-style-type: none"> <li>■ Education</li> <li>■ Health</li> <li>■ Government</li> <li>■ Support Services</li> </ul> |                                    |                                    |                     |                        |                                   | <ul style="list-style-type: none"> <li>■ Technology</li> <li>■ Services</li> </ul> |

**“ In eighteen months, Tribal has transformed itself from a diverse support services business into a technology and services business, focused on the education, learning and training markets. The building blocks are now in place to support our growth strategy ”**

**John Ormerod** Chairman, Tribal

Introduction

Business review

Governance

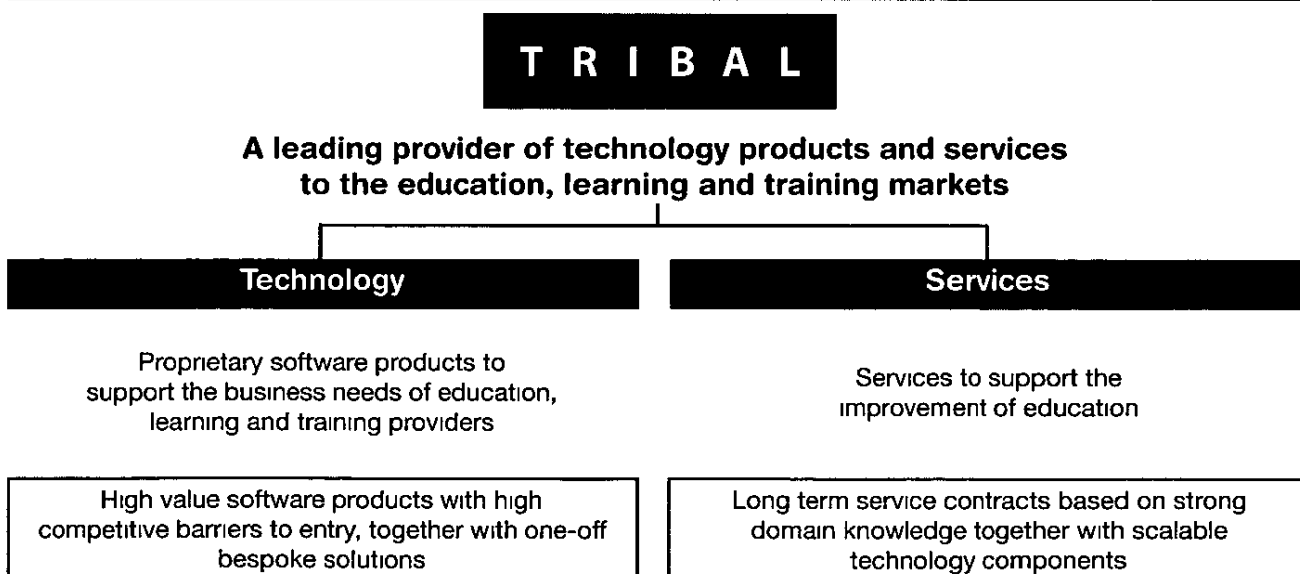
Financial statements

**Cost reduction programme**

Following the completion of our disposal programme, we undertook a further cost reduction programme, lowering our cost base by approximately £5.3m on an annualised basis. In so doing, we have removed unnecessary layers of management and exited surplus properties, whilst retaining our focus on delivering quality products and services.

**Developing a three year strategy**

Our strategy now aims, over the medium term, to build on the market-leading technology assets and strong service-related intellectual property within our business.



## Chairman's statement continued

### Establishing the foundations for growth

We have put in place building blocks that are fundamental to a well-balanced growth strategy, reducing risk and providing investment capacity

#### Management team

We were pleased to appoint Keith Evans, formerly Chief Operating Officer, to become our Chief Executive in November 2011. Keith has successfully led the business through a period of transformation, and continues to be supported by Steve Breach, our Group Finance Director who joined us in 2010.

Our divisional leadership has been refreshed. Clive Ansell (Managing Director – Technology) and Janet Tomlinson (Managing Director – Services) have considerable experience leading software and educational delivery in the UK and internationally.

We have a committed and energised leadership team, with the right skills and capability for the task at hand.

#### People and culture

Our business depends on the expertise of our staff. We are fortunate to work with a talented group of people, who have shown great resilience during a period of change. Tribal embraces a positive culture in which our people continue to grow, develop and innovate.

#### Efficient cost base

Streamlining an organisation is a painful process, but has been essential to create an efficient and flexible cost base to support our growth plans. Our cost base is now appropriate to our business' needs.

#### Dividends

The board has reviewed our dividend policy and believes it is appropriate, given the strength and prospects of the business, to continue to pay dividends. The Board has proposed a final dividend of 0.60p which taken with the earlier interim dividend of 0.40p means a total dividend per share of 1.00p. This dividend is well covered, and it is the company's intention to maintain this level of cover going forward, and progressively to grow the dividend in line with the growth in the company's underlying earnings. The board will continue regularly to review this policy, but at the current time believes re-investing surplus funds back into the business together with maintaining this policy is appropriate.

#### Financial stability

Whilst our reported net debt at 31 December 2010 was £18.5m, underlying net debt was somewhat higher for reasons set out in the Financial Review. During 2011, we have reduced our net borrowings to £16.0m, and have a long-standing and supportive relationship with our lending banks, HSBC and Lloyds Banking Group. As we enter 2012, our balance sheet is more resilient, and we have suitable financing facilities in place for the medium term to support our development strategy.

### Looking to the future

We look to the future with renewed confidence.

#### Competitive advantages

We remain cautious of the impact of uncertainties in the world economy. Nevertheless, given our competitive advantages and the market opportunities available to us, we believe that Tribal is well positioned to grow its existing strong customer base in the UK, and to take advantage of a significant range of international opportunities.

#### Our vision

Our vision is to build a business that creates, builds and delivers world-class technology-based software products and services that help our education, learning and training customers deliver excellence.

Our recent success in Australia and New Zealand demonstrates the world-class credentials of our technology products. The New South Wales Department of Education and Communities, one of the largest English-speaking education systems in the world, has provisionally chosen our systems to deliver its Student Administration and Learning Management programme, which subject to conclusion of negotiations will roll out our systems across New South Wales.

Likewise, our work in Nashville, Tennessee, helping the local school district to improve under-performing schools, demonstrates the international credentials of our service capabilities.

#### Our mission

Tribal is emerging from a period of transformation. Our mission is now to continue to provide market-leading products to our customers, to retain and recruit high calibre staff to support our growth, and to restore and grow shareholder value, in which respect we are targeting to more than double earnings per share within a three year period.

**John Ormerod**, Chairman  
22 March 2012

The University of Sydney was founded in 1850 and has over 3,000 academic staff and over 49,000 students. In a project running until October 2013, Tribal is working with the university to implement a pioneering new student management system based on our world leading SITS:Vision solution.

The new student system utilises self-service web access to simplify the way students pay fees, access timetables and check exam results, as well as enabling staff to reduce the amount of paperwork required.

In addition to the core solution, additional modules are being implemented including our Accessibility Management software that helps institutions to improve service levels to students and cater for the more effective management of student welfare. As well as the core implementation project, Tribal is working with the University on a change management and organisational transformation project as well as reviewing its information quality.

## Our business – Technology

# Technology products – A range of proprietary software products to support the business needs of education, learning and training providers.

### What do our products do?

We bring together world-class software development with deep domain expertise in our selected markets to provide the essential “plumbing” of records management for our customers’ core business. Our workflow processes manage student applications, curriculum design, training and learning records, through to social care records for children in local authorities. These systems increase the efficiency and effectiveness of our customers, and improve the experience of their students, learners and clients.

Our products have a growing international market, based on independent evaluation of the world-class nature of our products and associated delivery services.

In some areas, the requirements may be unique and spread across complex multiple institutions, in which case we provide bespoke one-off software tools, processes and content. Typically these are based on existing platforms we have developed and worked on with multiple customers.

Our expertise in the technology and practice of records and information management, in complex software oversight systems, and in mobile and e-learning, is sought after by public and private sector customers around the world.

### Product portfolio

#### Student management systems

In universities, SITS Vision™ streamlines student administration, managing the whole process from initial enquiries from prospective students to engaging with alumni. In Further Education colleges, ebs4™ records and manages information throughout the life of the student, simplifying curriculum planning and delivery and improving data reporting.

Both of these product sets require extensive configuration around detailed processes in educational institutions, led by our professional services teams, who are often drawn from practitioners with considerable experience in these institutions.

Maytas™ is the market leading solution for the management of work-based learner information and tracking, supporting training providers and major corporates’ internal training programmes.

#### Childrens Services systems

Our Synergy™ product range is designed to help Childrens Services departments to improve the way information is collated, analysed and distributed, from integrated school applications across a local authority, ranging from case management for Special Educational Needs through to a Family Information Service.

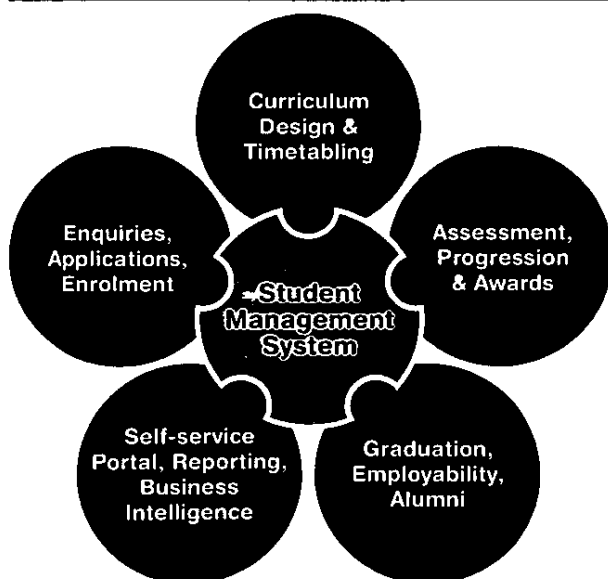
We have also recently introduced a new product, our Childrens Social Care Record system, developed during 2011, to provide an integrated information management system for the social care of children by local authorities, based on the latest policy drivers around whole-family, whole-environment information to support decision making.

#### Bespoke software development

We develop a wide range of solutions including mobile apps, collaborative web portals and online professional continuing professional development (CPD) systems.

Specific examples include k2, which offers a new and innovative approach to estate and property management, offering a single integrated system for all property-related management functions, and Advance, our leading e-learning solution to improve functional, key and core skills across workforces.

Other platforms provide, for example, integrated learning support for NHS South West, including a major programme of learning content digitisation, and a placement management service for the University of East London and 10 other tertiary educational establishments.



**“Increased customer focus, growth, innovation and international expansion are all features of the reconstituted and forward-looking Technology business. Our products and people are demonstrably world class and we look to drive and develop both as we deliver better performance to our customers and better returns for our shareholders ”**

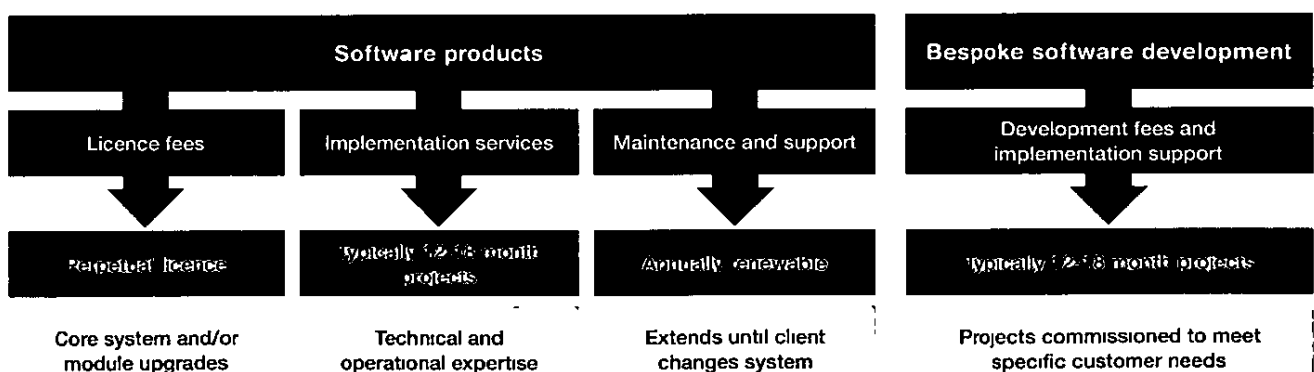
**Clive Ansell** Managing Director, Technology

**Sales and Revenue**

We sell our software products and our project capabilities directly to our end customers, both in the UK and internationally

In general, our software products attract a software licence fee, and additional fees for deployment and implementation, given that larger customers will require significant amounts of configuration to provide specific local and functional tailoring to their particular requirements. Subsequent maintenance includes scope for a series of upgrades, agreed at User Forums. Bespoke

projects may also attract ongoing service fees if there is an element of the solution that requires human services to support it, and/or if there is user-specific content that requires redesign, construction, or digitisation



## Our business – Technology continued

### Delivery

#### Technologies underpinning our products

Although rooted in an increasingly integrated technological architecture, we deploy a range of underlying software technologies, from specialist systems to Microsoft platforms to Open Source software, either because of appropriateness for the task at hand, or because of significant customer preference across a customer sector

Our products and bespoke implementations can be either hosted by customers, ourselves or using cloud-based or shared service models

#### Software development capabilities

Our products and projects are developed within so-called “Agile” methodologies, where the immediate software deliverables are very regularly prioritised to deliver the highest priority features and maintenance fixes, working closely with customers, including sector-specific User Forums. We also canvass customers around the long-term strategic direction of product development, for example through Strategic User Forums

Our software development teams are mainly based in the UK. We are however moving towards a global delivery model, where we have begun to deploy and recruit developers and implementation teams in the territories where we are seeing significant expansion, to add to our growing operations in the UK

Implementation teams are growing in scale to match the increasing number of larger contracts, and the associated increased geographic spread of those contracts. Within our global delivery model, this has already led to substantial professional service and programme management teams in Australia and New Zealand

In line with our product roadmaps, over the course of 2012, all of our products will have new modules provided, and a number will have programmes of re-platforming (entirely renewing the software base of a product) completed. In addition to the new product development of our Children’s Social Care Records system, and the development of some large new products for single customers, 2012 will be a period of investment in an increasingly strong and broadening portfolio of offers

|                             | Product                   | Customer   | UK market status*<br>(*Company estimates) | International market status                    |
|-----------------------------|---------------------------|--|---|--|
| Student management systems  |                           | Universities and other higher education institutions | Number 1                                  | Successfully entered Australia and New Zealand |
|                             |                           | Further Education colleges and secondary education   | Number 1                                  | As above                                       |
|                             |                           | Vocational learning providers and large employees    | Number 1                                  | Early stage                                    |
| Children’s Services systems |                           | Local education authorities                          | Number 2                                  | Early stage                                    |
|                             | Social care record system | Local education                                      | New product                               | Early stage                                    |
| Asset management system     |                           | Broad-based offering                                 | Established product                       | Early stage                                    |

Tribal has worked in partnership with the US Department of Defense to develop specialist smartphone learning applications for use by international medical teams and aid agencies to educate and guide aid workers in disaster relief situations.

Tribal is providing expert technical advice and software development capability focused on mobile learning. Underpinning the project is Tribal's innovative mobile learning suite, a software platform optimised for sharing critical information, and just-in-time learning, across all major smartphones and integrating with traditional learning platforms.

This platform has also been adopted by the central online learning platform at the Department of Defense as their core solution for all future mobile courses. Tribal will be providing all the apps and back-end systems to support this.

## Our business – Services

# Services – A range of services to support the improvement of education, learning and training.

### What do our Services deliver?

Our services underpin the better delivery of education and training by universities, colleges, schools and training providers. We deliver our services either as discrete activities, or as an integrated package of work, assisting customers to enhance their performance and efficiency.

#### Measurement

Our Measurement activities encompass primarily benchmarking and school improvement services.

We are the leading provider of benchmarking services to universities and Further Education colleges in the UK and New Zealand. Our teams use established cost accounting techniques to derive a range of measures that, with a broad databank, can be cross-compared to similar organisations. Benchmark findings are used to guide strategic planning by these institutions.

In school improvement services, we use evidence based diagnostic and assessment software tools developed as part of our compliance work. These self-evaluation tools enable education stakeholders' perceptions to be captured and analysed, before being correlated with external review findings.

In Nashville, we are using these tools within a wider programme which combines elements of measurement, compliance and delivery under a 5 year contract to support the evidence based improvement of under-performing schools.

#### Compliance

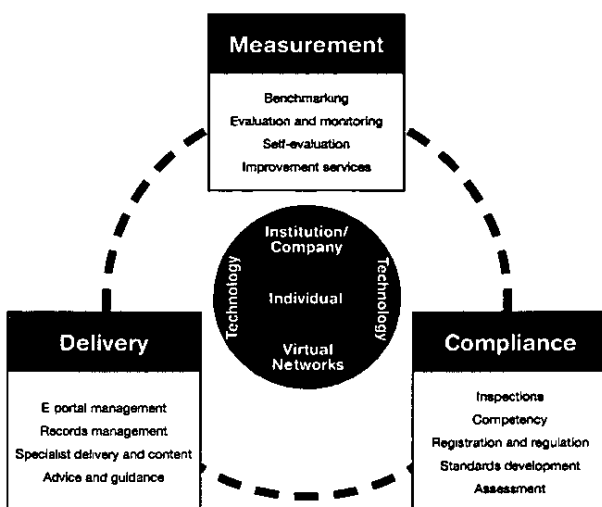
Tribal is the largest and leading provider of inspection services for Ofsted in the UK. We are the only provider to have been awarded two of the five Ofsted inspections contracts, one for school and learning and skills inspections, and the other for Early Years registrations and regulation. Tribal inspects more than 30,000 providers each year, including Further Education colleges, work-based learning providers, maintained schools, independent schools, child minders, childcare settings, and Initial Teacher Education providers.

We also provide inspection services for a range of customers in the UK and overseas, where our work extends from teacher accreditation services in Massachusetts, through establishing inspection protocols, competency frameworks and inspection activity. During 2011 we successfully delivered contracts for the education departments of Abu Dhabi and Guernsey. Looking forward into 2012, our work will continue in the Middle East, and will extend into new areas such as inspection of training provision for the National Skills Academy for Railway Engineers.

#### Delivery

Our Delivery services bring together specialist learning content and operational support capabilities, designed directly to enhance the outcomes achieved by education and training providers.

We are experts in personal development e-portal management, delivering the underpinning technology developed by our Technology business, and programme managing projects such as the National Centre for Excellence in the Teaching of Mathematics, which provides professional development for over 70,000 mathematics teachers in the UK, and a service for the NHS South West which provides e-learning professional development to over 120,000 staff across 3,000 sites.



**“ We enter 2012 with an exciting new business proposition for Services.**

By bringing together the wealth of domain expertise across our teams and building on the technology-based solutions developed for successful contracts, we are well positioned to drive forward our growth strategy.”

Janet Tomlinson Managing Director, Services

Introduction

Business review

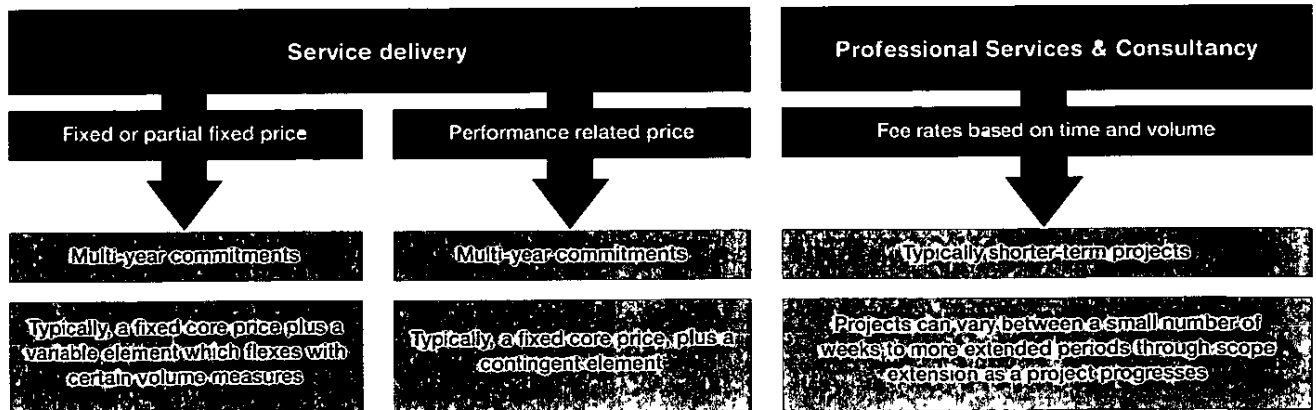
Governance

Financial statements

In Further Education, our specialist content activities deploy vocational learning material through remote and e-learning technologies to over 30,000 students in colleges and in the workplace

Tribal provides apprenticeship training programmes for large employers, including McDonald’s, where we combine deep vocational training domain expertise with technology solutions and service delivery capabilities

We are also a key participant in the provision of careers advice and guidance. We work in diverse settings, ranging from over 50 prisons in England where we engage with over 70,000 offenders each year to assist their return to the job market, through schools careers advice, to international locations such as Croatia where we are providing lifelong career guidance services under an EU funded contract



## Our business – Services continued

### Delivering our services

#### Our people

Our people bring a unique set of knowledge and direct experience in nurseries, schools, Further and Higher Education, adult learning and local/central government. Organisationally, we promote close working between our domain experts resulting in better solutions.

#### Driving operational efficiency

Bringing together our service offerings under a single management structure enables efficiency in our working style, and aids the identification of synergies.

### Underpinning technologies

Our services are becoming increasingly technology based. Our participation in important education and learning initiatives creates an ideal environment in which new products and services can be developed.

In order to accelerate the introduction of applied technology into our current portfolio, we are investing in the development of software solutions in our high growth areas.

|             | Services                            | Customers  | UK market status                       | International market status   |
|-------------|-------------------------------------|--|--|---|
| Measurement | Benchmarking                        | Universities and FE colleges   | Number 1                               | Number 1 in New Zealand   |
|             | Improvement services                | Early Years providers, schools and FE colleges   | Established provider                   | Successfully entered US (Tennessee)   |
| Compliance  | Inspections                         | UK Ofsted, education or training providers, Academy chains<br>International country/state education departments, British Schools | Number 1                               | Number 1 in Abu Dhabi<br>Successfully entered US (Tennessee)<br>DfE Accredited Inspectorate of British Schools Overseas |
|             | Competency and standards frameworks | UK Ofsted, Academy chains, local authorities,<br>International education departments of countries and states                     | Number 1                               | Number 1 in Abu Dhabi and Guernsey, successfully entered US (Tennessee and Massachusetts)                               |
|             | Registration and regulation         | UK Ofsted<br>International US states   | Number 1                               | Successfully entered US (Massachusetts)   |
| Delivery    | E-portal management                 | Government departments and education or training providers   | Strongly established provider          | Present in EU funded markets  |
|             | Specialist content and delivery     | Schools, FE colleges, training providers, employers  | Established provider                   | Products under development  |
|             | Apprenticeship services             | Large employers and vocational learning providers  | Established provider                   | N/a   |
|             | Careers advice and guidance         | Schools, local authorities, Government agencies  | Number 1 in offender management advice | Present in EU funded markets  |

## School Improvement – Nashville, Tennessee

Metropolitan Nashville Public Schools (“MNPS”) are responsible for the provision of public education in the metropolitan district of Nashville, Tennessee. Faced with the challenges of improving education standards within its schools the local school board, the Metropolitan Nashville Board of Public Education, wanted to explore new methods to drive sustainable change and improvement in its education standards.

Building on its expertise in delivering inspection and school improvement services in the UK, Tribal has partnered with MNPS to develop a tailored improvement programme which will be delivered initially to the 33 highest priority schools in the Metropolitan Nashville District.

The five year programme uses a model which delivers sustainable improvement by allowing the school and its community to lead the action. Supported by an analytical software tool, the programme seamlessly combines school and online self review, external review and school improvement support. A key feature is the development of a school-to-school support network to help schools tackle the improvements needed. Its ultimate goal is to ensure that every student in the identified schools is college-ready.

**The programme was launched in September 2011 and initial findings are already promising. Feedback from participating schools shows an increased focus on student achievement**

“The programme has given my staff a voice, focused us on the student and empowered us to progress towards greater expectations and aspirations”

“We have the answers to our problems within our schools - the programme catalyzes action”

“The philosophy of examining what interventions are truly increasing achievement and abandoning the rest is very appealing and compelling”

## Our markets

# Continued investment in education, learning and training remains a key theme for governments and businesses around the world.

### Introduction

With continued investment in education, learning and training remaining a key theme for governments and businesses around the world, Tribal operates in markets which have good long term growth potential. We are seeing growth opportunities in the majority of our markets although, given current macroeconomic conditions, some areas are currently experiencing longer buying cycles.

### Group revenue by market

|                                |     |
|--------------------------------|-----|
| ■ Higher Education             | 19% |
| ■ Further Education            | 29% |
| ■ Schools                      | 29% |
| ■ Other Government Departments | 23% |

### Higher education

Tribal is the leading provider of student management systems to universities in the UK, with 89 of 165 UK universities using our systems. Student management systems are characterised by long replacement cycles (typically in excess of 10 years), with opportunities for multiple module enhancement purchases over the lifecycle of the system.

In the UK, funding changes for universities have brought the "student experience" into sharp focus, as universities compete for student fees. The administrative interaction between a prospective student and a university is a key feature of that experience, and universities are investing to enhance their "front end", creating demand for new functionality in our student management systems.

In addition, across the UK and our international markets, we believe that there are more than 50 universities which continue to use in-house or near end-of-life systems, and which will need to procure replacement systems within the next 3-4 years. Tribal is well placed to participate in this renewal process both in the UK and in its chosen international markets.

### Further education and vocational training

The longer buying cycles we are experiencing in Further Education colleges in the UK, particularly in student management system procurements, have been more than compensated by strong levels of activity in the Further Education and vocational learning markets in Australia and New Zealand.

Our Services division is increasingly active across a range of areas in the Further Education market. Our Measurement business, which includes benchmarking services across all aspects of college performance, has experienced good demand in the UK and internationally. In Delivery, we have seen good activity levels in apprenticeship investment programmes by large employers, supported by UK government policy and funding, and our careers advice and guidance services continue to see a healthy level of opportunities in both schools and in offender management programmes.

Further Education training providers are also responding to cost-challenges by seeking more efficient ways of delivering training and learning. Our specialist content business is responding to this trend, with increased remote learning and e-learning solutions, and we are encouraged by our progress to date.

### Technology revenue by market

|                                |     |
|--------------------------------|-----|
| ■ Higher Education             | 39% |
| ■ Further Education            | 24% |
| ■ Other Government Departments | 37% |

### Services revenue by market

|                                |     |
|--------------------------------|-----|
| ■ Higher Education             | 5%  |
| ■ Further Education            | 32% |
| ■ Schools                      | 50% |
| ■ Other Government Departments | 13% |

### Schools

Governments around the world are placing ever-greater emphasis on the pursuit of quality in their schools. Tribal is the leading provider of quality assurance services on behalf of the UK Government through its inspection contracts with Ofsted. Whilst the UK market for such compliance work is stable, we are seeing increasing opportunities in international markets to develop our compliance activities, both through direct inspection work (such as we are undertaking in the Middle East) or allied to evidence based school improvement programmes (such as we are delivering in Nashville in the US).

## Other government departments

Tribal provides specialist services to government departments, both in local and central government

In local government, Tribal is a leading provider of management information systems to Childrens Services departments in the UK. We have seen subdued activity levels in this market over the last year, as funding pressures have reduced local government's capacity to invest. However, the recommendations of the Munro report now place increased obligations on Childrens Services departments to maintain key information on at-risk children. Our new Childrens Services Care Record system satisfies the requirements of the Munro report. Whilst it is at an early stage, we are encouraged by the

progress made by this new product, and believe that this will stimulate further activity during 2012.

Elsewhere, the UK government has adopted a cautious approach to new initiatives which require significant expenditure. We were pleased recently to extend our contract to operate the National Centre for Excellence in the Teaching of Mathematics, but the wider environment means we have seen reduced activity levels in our work with UK central government during 2011, and we expect this to continue during 2012.

|  | Higher Education  | Further Education  | Schools  | Other Government Departments and non-government | Total Tribal share of market (revenue in year ended 31 December 2011) | Overall market growth potential (high/medium/low) |
|--|---|--|--|---|---|---|
| <b>Student management systems</b>  | Systems used in 89 of 165 UK universities<br>Systems used in 10 universities outside the UK | Systems used in 391 of c2,800 FE colleges and training providers in the UK<br>Systems used in 6 FE colleges outside the UK |  |   | Tribal share: £28.1m  | High  |
| <b>Childrens Services systems</b>  |   |  |  | Systems used in 112 of 202 local authorities    | Tribal share: £5.0m   | Medium  |
| <b>Bespoke software development</b>  |   |  |  |   | Tribal share: £13.4m  | Low   |
| <b>Measurement</b>   | Benchmarking in 21 of 165 universities  | Benchmarking in 39 of 328 FE colleges  |  |   | Tribal share: £5.9m   | Medium  |
| <b>Compliance</b>  |   | Inspecting 160 of 328 FE colleges  | Inspecting c9,500 of c30,000 schools, and 47,000 of 105,000 early years settings<br>Inspecting 266 schools internationally |   | Tribal share: £31.5m  | Low   |
| <b>Delivery</b>  |   | 150 of 328 FE colleges use our specialist content<br>52 of 135 prisons use our careers advice service                      |  |   | Tribal share: £26.9m  | Medium  |
| <b>TRIBAL REVENUES</b>   | <b>£20.8m</b>   | <b>£32.2m</b>  | <b>£31.7m</b>  | <b>£26.1m</b>                                   | <b>£110.8m</b>  |   |
| <b>Less intersegment sales relating to bespoke software development provided from Technology division to Services division</b> |   |  |  |   | <b>£(2.6)m</b>  |   |
| <b>TOTAL TRIBAL EXTERNAL REVENUES</b>  |   |  |  |   | <b>£108.2m</b>  |   |

## Our strategy - Group

# After two years of change, during which we have overcome considerable challenges, Tribal is emerging as a refocused business.

### Refocused and re-energised

After two years of change, Tribal is emerging as a refocused business, underpinned by strong competitive advantages in both its Technology and its Services activities

Our vision is to establish a business that creates, builds and delivers world-class technology based products and services that help our education, learning and training customers deliver excellence. We have organised our business with this aim in mind

### Customer focused

Our strong market positions give us considerable insight and empathy with our customers' needs. This allows us to create the right products and services to remain or become number 1 or 2 provider in our chosen markets

### Right people, right roles, right incentives

Delivery of our goals depends on our people, and the environment in which we facilitate their success. We sustain a high performance culture which supports our strategic ambitions. We keep and attract the right people, put them in the right roles, and provide the right incentives to reward success

### Focus on organic growth

Tribal's strategy is based on organic growth, which we believe offers the most attractive returns to our shareholders. We will however consider acquisition opportunities which may arise, particularly smaller bolt-on acquisitions which can enhance our product or service offerings

### Delivering shareholder value

Our mission is now to restore and grow shareholder value. We are focused on more than doubling earnings per share over the medium term, underpinned by resilient and profitable revenue streams across our selected domestic and international markets

### Delivering our strategy - across the Group

We are driving towards key goals which have applicability across the Group

### Embedding technology throughout the business

The power of technology to drive efficiency for our customers is dramatic. Our student management systems help education and training providers run their businesses intelligently and cost effectively. Our services are more compelling for customers when delivered on the

### Group - Key strategic actions

### Applicable key performance measures

|   |  |
|---|--|
| Embedding technology throughout Tribal, with creative synergy between Technology and Services businesses, moving us from a Technology and Services business to become a technology-based Products and Services business | Proportion of revenues which are underpinned by technology |
| Internationalise our customer base, growing international revenue as a proportion of total revenue  | Revenues from international sources                        |
| Enhancing our sales and business development capability to drive profitable organic revenue growth  | Total revenue growth rates                                 |
| Deliver shareholder value through earnings per share growth, growing revenue whilst maintaining a tight grip on costs   | Sustainable earnings per share growth                      |
| Revenue growth across the Technology and Services divisions   | Revenue growth year-on-year                                |
| Enhancing operating margins through increased efficiency and controlling overheads  | Operating margins growth                                   |
| Reducing debt, create the opportunity (subject to investment opportunities) for a debt free business  | Cash conversion %<br>Net debt levels                       |

**“ Tribal is now an efficiently structured and focused business with a clear organic growth strategy. Our market leading technology and service capabilities in the UK are complementary and also combine to create a powerful innovation engine to produce and bring to market a strong supply of new products and services which can be delivered to our existing customer base and new customers. We also continue to leverage the strength of our UK market credentials to enter and rapidly establish strong positions in our chosen international markets ”**

**Keith Evans** Chief Executive, Tribal

back of scalable applied technology which allows us to capture our intellectual property in “repeatable” systems, and opens up access to our services to many new users, often across physically dispersed locations

**Maintaining creative synergy between Technology and Services**

Our Technology and Services businesses are complementary and increasingly collaborative. Our technology expertise allows us to develop efficient tools and approaches to enhance our service provision. At the same time, our services place us in the front line with our customers, bringing us insight into the challenges they face, and stimulating innovative ideas for new technology products which can help our customers

**Internationalise our customer base**

Our products and services have increasing resonance in international markets. We are now established in Australia and New Zealand, and are pleased with our initial progress in the US. We aim to enter other carefully

selected international markets, focusing on English-speaking locations where our credentials are most powerful

**Enhancing our sales and business development capability**

Organic growth demands a high-performing sales and business development capability. We are expanding our sales and business development teams to support our growth aspirations

**Maintain a tight grip on our overheads**

We have significantly reduced our overhead cost base, and we now benefit from a lean organisational structure. We will continue to focus on overhead cost reduction

**Reducing debt**

We remain focused on driving down our borrowings, and on generating cash from our operations



## Our strategy - Technology

### Delivering our strategy - Technology

#### Maintaining our leading UK positions through investment in our products

We will continue to invest in development of our existing products, ensuring that the underlying technology remains robust and its functionality meets customers' evolving needs in our chosen markets

#### Establishing leadership in Australia and New Zealand

During 2010 and 2011, we have established a strong presence in Australia and New Zealand with our student management systems. As universities and colleges in these locations are increasingly upgrading their legacy systems, we now aim to establish ourselves as the leading provider of these systems in those markets

#### Entering new markets

We consider that universities and colleges in other English-speaking Commonwealth markets will follow a similar path to those in Australia and New Zealand. North America is a competitive and advanced market, but we believe it nevertheless offers potential opportunities to a new entrant such as Tribal. We continue to assess the most appropriate new markets for our software products and the most effective means of market entry

### Establishing a leading position in the UK for Childrens Services systems

We are a leading provider of management information systems for education services to Childrens Services departments of local authorities in the UK. In addition, we have recently launched a new product, focused on the Childrens Social Care Record requirements of the Munro report. We aim to maintain our leading position in the education services market, and establish a leading position in the childrens' social care market

| Technology - Key strategic actions   | Applicable key performance measures                           |
|--|---|
| Investment in our technology products – maintain technological robustness and enhance functionality  | Product development investment as a % of technology revenue   |
| Internationalising our software products<br>Establish leading market positions in Australia and New Zealand - for student management system products<br>Entering new markets – consider selective entry to new markets with student management system products | Number 1 or 2 in the market<br>Establish market participation |
| Establish leading position in UK market for Childrens Services systems   | Number 1 or 2 in market                                       |

## Our strategy - Services

### Delivering our strategy - Services

#### Create new technology-based tools and solutions

We are leaders in measurement, inspections and career advice and guidance services in the UK, and today we use technology to enhance our productivity and quality assurance. We will build on these existing skills and tools to develop and market new software products based on this expertise.

#### Establishing leadership for Measurement-based services internationally

Our education performance measurement services hold a leading position in the UK, we aim to grow these activities in Australasia, where we are already a leader in the FE college market.

In the US, we believe there are significant market opportunities in evidence based school performance improvement. We are progressing well with our initial school project in Nashville, and we aim to replicate this in due course with similar projects in the US.

#### Expand support for apprenticeship providers

Tribal has established a strong presence in managing apprenticeship programmes for large employers, such as McDonald's. Our service brings together our technology products to manage apprenticeship student records, and delivery expertise through remote e-learning provision. Government policy increasingly supports vocational learning, and more large employers are establishing

apprenticeship schemes to develop junior staff. Tribal is well placed to support these programmes.

#### Expand scope of careers guidance services

We are a key provider of careers guidance in UK prisons and schools. Under the 2012 Education Bill, UK schools are obliged to provide careers advice and guidance to pupils. Tribal will use its expertise to support schools in meeting this new duty, drawing on our skills and our technology capabilities.

#### Specialist learning content and management

We are a leading provider of specialist vocational learning materials to FE colleges in the UK. We are also an innovator in professional development solutions for virtual communities, such as healthcare professionals, teaching professionals in mathematics and special educational needs.

Introduction

Business review

Governance

Financial statements

| Services - Key strategic actions   | Applicable key performance measures   |
|--|---|
| <p>Create new technology-based tools and solutions to enhance the productivity of ourselves and our customers through</p> <hr/> <p>Productising technology platforms for measurement services (focused on benchmarking and school improvement activities)</p> <hr/> <p>Developing technology-based self-evaluation tools to support, complement and enhance compliance services (primarily inspections activities)</p> <hr/> <p>Creating new technology based solutions for professional and workforce development requirements and specialist content needs</p> | <p>Proportion of revenues which are underpinned by technology</p>                                 |
| <p>Establish leadership positions in measurement-based education performance improvement services internationally</p>  | <p>Number 1 or 2 in relevant market</p> <hr/> <p>Services revenues from international sources</p> |
| <p>Expand support for apprenticeship providers - grow large employer customer base in apprenticeship programme management</p>  | <p>Related revenue growth</p>   |
| <p>Expand scope of careers guidance services - grow careers advice and guidance service into schools and specialist communities</p>  | <p>Related revenue growth</p>   |

## Key performance indicators (KPIs)

The Board uses a range of performance measures to monitor and manage the business.

### Adjusted earnings per share

**Objective:** Long term sustainable growth in EPS

**(53)%**

Performance 2010

**41%**

Performance 2011

**Commentary:** Whilst we plan to invest in additional business development resource during 2012, we see the opportunity for sustainable growth in the medium term

### Adjusted operating margin

**Objective:** Maintain and enhance our operating margin

**8%**

Performance 2010

**10%**

Performance 2011

**Commentary:** We have made good progress during the latter part of 2011, and the increasing application of technology throughout the business is expected to enhance margins further over the medium term

### Internationalisation

**Objective:** Increasing proportion of overall revenue generated from international markets

**10%**

Performance 2010

**12%**

Performance 2011

**Commentary:** Our international sales pipeline continues to grow, and the New South Wales Student Administration and Learning Management project, subject to completion of negotiations, will underpin international revenue growth

### Order book

**Objective:** Increasing order book supporting enhanced revenue visibility

**£186m**

Performance 2010

**£178m**

Performance 2011

**Commentary:** Subsequent to the year end, we announced our appointment as preferred bidder on the New South Wales Student Administration and Learning Management contract which, subject to completion of negotiations, will significantly increase our order book

### Product development investment

**Objective:** Sustained investment in development of existing and new technology products, stated as a percentage of Technology division revenue

**3%**

Performance 2010

**6%**

Performance 2011

**Commentary:** We are investing and working to product roadmaps which will see enhancement and upgrades across our product range over the medium term

### Cash conversion

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

**254%**

Performance 2010

**67%**

Performance 2011

**Commentary:** After a period of some distortion to our working capital profile, we are now working from a stable platform, cash generation will remain a key measure as we explore new business opportunities going forward

Note it is our intention to extend our KPI reporting over the forthcoming reporting periods, to include measures such as retention of people, environmental impact and the extent to which technology underpins our wider activities. However, at this stage, with the restructuring programme having only recently been completed, we wish to establish a suitable track record in new KPI measurements before disclosing them in our reports

## Operating review

# Despite the distraction of substantial change across Tribal during 2011, the continuing business has performed well throughout the year.

### Introduction

Following changes to our sales and business development capabilities, and after completion of our cost reduction programme, the Group performed particularly strongly during the final quarter of the year. As a result, our operating profit for the year ended 31 December 2011 was significantly ahead of our previous expectations.

| Technology                           |               |               |
|--------------------------------------|---------------|---------------|
| Year ended 31 December               | 2011<br>£'000 | 2010<br>£'000 |
| Revenue                              |               |               |
| Licence                              | 7,854         | 6,802         |
| Implementation                       | 16,969        | 16,767        |
| Maintenance                          | 14,641        | 14,607        |
| Other                                | 7,098         | 6,161         |
|                                      | <b>46,562</b> | <b>44,337</b> |
| Of which                             |               |               |
| UK                                   | 82%           | 87%           |
| International                        | 18%           | 13%           |
|                                      | <b>100%</b>   | <b>100%</b>   |
| Adjusted segment operating profit    | 9,343         | 10,733        |
| Adjusted operating profit margin     | 20%           | 24%           |
| Technology product development       |               |               |
|                                      | £3.0m         | £1.1m         |
| Services product development         |               |               |
|                                      | £0.6m         | £0.8m         |
| Total product development investment | £3.6m         | £1.9m         |

Our Technology business grew revenue by 5.0% to £46.6m (2010: £44.3m). Divisional adjusted operating profit was £9.3m (2010: £10.7m), and the adjusted operating margin was 20% (2010: 24%).

We experienced mixed market conditions across the different sectors and geographies in which our Technology business operates. In the UK, funding pressures on some of our customers have continued to present challenges, and have contributed to extended purchasing cycles. Nevertheless, we have continued to win important new customers in both Higher Education and Further Education in the UK.

Our products also continue to demonstrate their credentials in international markets, and we have had a number of further notable successes in New Zealand and Australia. As a result, we grew our international revenues from £6.2m to £8.3m, which represents 18% of our total Technology revenues.

Our group-wide cost reduction programme has contributed to margin improvements within the Technology division during the second half of 2011. Approximately £1.5m of the total £5.3m of annualised savings arising from this programme relates to streamlining the organisational structure in our Technology business.

The reduced operating margin in the year ended 31 December 2011 reflects significant, non-recurring licence sales to the University of Sydney in 2010, the impact of the reduced level of funding for our UK customers in 2011, increasingly complex implementations (primarily in our Bespoke Solutions business) which requires heavier up-front investment ahead of significant revenue generation, and increased investment in business development activities in our international markets. We have already experienced returns on this additional business development investment with strong UK sales of software product upgrades and module enhancements during the final quarter of the year, and internationally securing preferred bidder status on the recently announced student management system contract with the New South Wales Department of Education and Communities. As a consequence, we expect to see margins improve in 2012.

### Technology revenue by product type

|                              |     |
|------------------------------|-----|
| ▪ Student management systems | 60% |
| ▪ Children Services systems  | 11% |
| ▪ Bespoke                    | 29% |

The cost reduction programme and the strong software sales in the final quarter of the year have resulted in operating margins improving since the half year and we now plan to further increase our investment in business development activities during 2012 in both the UK and internationally.

We have also continued to invest in product development. During the year we invested £3.6m in enhancements across all of our key products. In particular our focus has been on developments to further tailor our products for the Australasian markets and our recently launched Childrens Social Care Record system. We expect to continue to invest in product development over the medium term in line with the broad investment levels we have made in 2011.

At 31 December 2011, our order book in our Technology business was £55.9m (2010: £52.6m), of which £28.9m related to software maintenance and support services extending two years to 31 December 2013. These maintenance and support arrangements typically extend over the entire period of a customer's use of our products, which usually is in excess of 10 years, and thus we would anticipate these sources of revenue substantially to recur for the foreseeable future.

#### Higher Education (HE)

We have continued to build on our UK market-leading position, securing significant new customers and delivering product enhancements to our existing customer base.

We are now well progressed with the implementation of our student management system in both the University of Oxford and Trinity College Dublin. The scope of our system implementation has continued to expand in the University of Sydney, which is now our largest HE customer site.

In spite of uncertainties in the worldwide economy, our pipeline of opportunities is strong, particularly in international markets.

#### Further Education (FE)

Our Further Education and work-based learning student management systems business has performed well, driven by strong international activity levels compensating for subdued activity in the UK.

Domestically, the Further Education and work-based learning markets continue to be affected by funding pressures, although we have seen signs of easing towards the latter part of 2011, with for example our ebs4 student management system recently being purchased by Kingston College and Tower Hamlets College.

In New Zealand, we have continued to expand our installed customer base, and in the second half of 2011 we completed the sale of our ebs4 system to six further polytechnic colleges. We now provide student management systems to approximately 20% of colleges in New Zealand, having initially entered the market in 2010.

In Australia, our preferred bidder status on the contract with the New South Wales Department of Education and Communities will, subject to negotiations, provide significant underpinning to our expectations for 2012, whilst our international pipeline remains promising.

#### Childrens Services

The market for our Childrens Services software has experienced inertia following government consultation in late 2010 which recommended changes in the approach to records management taken by Childrens Services departments. As a result, new software product sales in this market have been low during 2011, although our installed base remains in place.

In response to the new legal requirements faced by our customers, at the end of 2011 we launched our new Childrens Social Care Record system which provides the requisite functionality for Childrens Services departments to meet their obligations, and Stockport Council has recently become the first local authority to purchase this new system. Looking forward, we are seeing positive signs that this new product will stimulate revenue growth in this market.

#### Bespoke Solutions

Our Bespoke Solutions capability undertakes a range of specialist software development work, focused on creation of database systems for customers in a number of markets, as well as supporting development projects for our Technology and Services businesses.

During 2011, our Bespoke Solutions business' customers remained cautious due to public funding constraints, and we have seen lower procurement activity as a result. However, our Bespoke Solutions team delivered the technology solution underpinning our NHS South West professional development contract in conjunction with our Services business.

Looking forward, our pipeline of new opportunities is showing positive trends. We have a number of significant one-off bespoke project opportunities, are seeing increased activity for our Microsoft product implementation services by local government and have recently been selected by the Department of Education to support delivery of its Property Data Survey programme across schools in England.

## Operating review continued

| <b>Services</b>                   |                       |                       |
|-----------------------------------|-----------------------|-----------------------|
| <b>Year ended 31 December</b>     | <b>2011<br/>£'000</b> | <b>2010<br/>£'000</b> |
| Revenue                           |                       |                       |
| Measurement                       | 5,922                 | 5,710                 |
| Compliance                        | 31,474                | 23,238                |
| Delivery                          | 26,897                | 33,563                |
|                                   | <b>64,293</b>         | <b>62,511</b>         |
| Of which                          |                       |                       |
| UK                                | 93%                   | 93%                   |
| International                     | 7%                    | 7%                    |
|                                   | <b>100%</b>           | <b>100%</b>           |
| Adjusted segment operating profit | 5,442                 | 1,607                 |
| Adjusted operating profit margin  | 8%                    | 3%                    |

Our Services business grew revenue by 3% to £64.3m (2010 £62.5m). Divisional adjusted operating profit was £5.4m (2010 £1.6m), and the adjusted operating margin was 8% (2010 3%).

Our markets have generally remained active, in spite of public sector funding restraint. New opportunities in discretionary spending areas remain subdued, but domestically we have seen continued good opportunities in apprenticeships, vocational learning and careers advice and guidance, reflecting the Government's wish to enhance the quality of vocational training and careers support across the UK. Internationally, the appetite of governments to drive up educational achievement is leading to a range of interesting new opportunities for which we are well qualified.

### Services revenue by service type

|               |     |
|---------------|-----|
| ■ Measurement | 9%  |
| ■ Compliance  | 49% |
| ■ Delivery    | 42% |

Our international revenues were £4.8m, up £0.7m in comparison to 2010, and representing 7% of our total Services revenue. Our services are establishing increasingly strong credentials in our international markets. Within our measurement business, our college benchmarking offering is the leading provider in New Zealand and in the US we are progressing well with the Nashville schools improvement programme. In compliance, we have recently extended our schools inspection work in the Middle East and we are seeing

increasing interest in our inspection capabilities from a number of other international markets.

Our group-wide cost reduction programme, coupled to a firm focus on efficient delivery, exiting loss-making activities and increasing use of technology to enable that efficiency, has contributed to margin improvements within the Services division during the second half of 2011. Approximately £1.7m of the total £5.3m of annualised savings arising from this programme relate to streamlining the organisational structure in our Services business.

At 31 December 2011, our order book in our Services business was £121.6m (2010 £133.5m).

### Measurement

Our Measurement activities have experienced solid demand through the year, underpinned by our benchmarking activities in both the UK and New Zealand.

In the US, delivery of our schools improvement work in Nashville, Tennessee commenced in the second half of 2011. This contract represents an example of our strategy to deploy our technology to enhance our service delivery. Supported by analytical software tools, the program uses a model which delivers sustainable evidence based improvement by allowing the school and its community to lead the action plan. Early feedback on the program is encouraging and we anticipate expanding the activity in this area in both Nashville and surrounding areas. This contract will last for up to 5 years and is worth up to US\$6m.

### Compliance

Our Compliance revenue growth has been led by the successful implementation of our Ofsted Early Years inspection contract, which went live in the last quarter of 2010. We continue to benefit from a strong working relationship with Ofsted.

We are successfully expanding our inspections activities both in the UK and internationally. For example, in the UK, we secured a 3 year £0.5m contract to inspect the provision of training by the National Skills Academy of Railway Engineering. Internationally, we are active in the US through our Class Measures business which we acquired in 2010, and following successful delivery of schools inspections on behalf of the Abu Dhabi Education Council in 2011, we have recently been awarded a contract worth up to £6m to conduct school inspections in Abu Dhabi over the next 3 years.

### Delivery

Our delivery activities are underpinned by a number of contracts in careers guidance, apprenticeships, vocational learning and professional development.

Revenue in this area declined due to a number of contracts reaching completion at the end of 2010 which were not renewed or replaced due to restrictions in public sector funding. As a result a number of business lines were closed in the UK in order to focus our delivery activities in areas where we see an ongoing demand for our services.

The University of London International Academy provides around 50,000 flexible and distance learning programmes to students in 180 countries around the world.

Tribal worked with the Academy to replace an out-of-date, paper-based student administration process with our SITS:Vision student management system, alongside our Enterprise Service Desk software which helps institutions to improve services to their students.

Above all, our software has been configured to support the Academy meet its efficiency targets, and to support its international growth aspirations. Alongside our student management system, we have also developed a bespoke stock control and distribution system to manage the flow of the Academy's study materials to its students. The system has so far has processed approximately 35,000 study material parcels, accounting for over 350,000 individual study items that have been distributed to students around the world.

Since implementing the solution the time taken to process applications has halved, and substantial savings have been realised by the Academy. Approximately 36,000 students have registered online and approximately 130,000 students have selected their modules over the internet, with around 70% paying for their fees online.

Our careers advice and guidance expertise is deployed in the UK and internationally in donor aid markets. Our Offender Learning And Skills Services ("OLASS") careers advisory contracts, under which we provide advice and guidance to offenders in 52 prisons in England, performed well throughout the year. Implementation of our National Offender Management Services contract is well underway and this contract went live in early 2012. Under this contract, our people work hard to reach offenders in custody or in the community to help move them towards participation in mainstream further learning and employment. Internationally, we are working in Turkey and Croatia on behalf of the European Union to enhance and develop frameworks to improve educational delivery in specialist areas such as Special Educational Needs.

In apprenticeships, we have worked increasingly closely with McDonald's, which operates one of the UK's largest apprenticeships programmes. Elsewhere, in Further Education, we are a leading provider of specialist e-content and vocational learning. Following difficult trading conditions in 2010 in this area, as government funding streams changed, we have evolved our offering and have seen a significant improvement in trading during 2011. We believe we are now well placed to develop further our remote learning capabilities in 2012.

Our professional development services are performing well. Having established the National Centre for the Excellence in Teaching of Mathematics under a contract with the Department for Education, we have now successfully won the second phase of this project under a £5m contract which extends to early 2015.

## Financial Review

**“ Tribal is now on a firm footing, with increased revenue visibility, a leaner and more flexible cost base, and a more resilient balance sheet from which to grow.”**

Steve Breach, Group Finance Director, Tribal

### Introduction

Tribal has completed a significant restructuring programme during 2011. The continuing business has continued to perform well, and the changes to the business' operating structures and strategy are benefiting our trading performance and balance sheet strength.

### Group Trading Summary

| Continuing operations   |         |         |         |
|---|---------|---------|---------|
|   | 2011    | 2010    |         |
|   | £'000   | £'000   | Change  |
| Revenue   | 108,231 | 104,097 | 4.0%    |
| Adjusted operating profit from divisions before central costs | 14,785  | 12,340  | 19.8%   |
| Central costs   | (3,473) | (4,065) | 14.6%   |
| Adjusted operating profit                                     | 11,312  | 8,275   | 36.7%   |
| Net finance costs   | (1,860) | (1,491) | (24.7)% |
| Adjusted profit before tax                                    | 9,452   | 6,784   | 39.3%   |
| Adjusted effective tax rate                                   | 21.9%   | 21.9%   |         |
| Adjusted diluted earnings per share                           | 7.9p    | 5.6p    |         |

In the year ended 31 December 2011, the Group's revenue from continuing operations was £108.2m (2010 £104.1m). Adjusted operating profit was £11.3m (2010 £8.3m) and adjusted operating margin was 10.4% (2010 8.0%). Adjusted profit before tax was £9.5m (2010 £6.8m) and adjusted diluted earnings per share were 7.9p (2010 5.6p). The statutory profit for our continuing business before tax was £3.7m (2010 loss of £0.4m).

### Revenue

Revenue from continuing operations increased by 4.0% to £108.2m, driven by organic growth in the Technology business of 5.0% and the Services business of 2.9% (divisional growth rates are stated gross of intra-divisional trading).

### Adjusted operating profit

Adjusted operating profit for the year ended 31 December 2011 grew from £8.3m to £11.3m, and adjusted operating margins grew from 8.0% to 10.4%. Our operating margin for the six months ended 30 June 2011 was 6.8%.

### Revenue by year (£m)

- Dec 10 104.1
- Dec 11 108.2

### Adjusted operating profit by year (£m)

- Dec 10 8.3
- Dec 11 11.3

After completing our programme of disposals in May 2011, our restructuring and cost reduction programme focused on streamlining our organisational structure and rationalising our property portfolio. Within the continuing business, our staff numbers at the end of 2011 were 1,300 compared to 1,389 at the start of the year. We have now focused the business into 9 key operating offices in the UK, and have re-balanced our operational activities towards low cost locations. Our central costs were 3.2% of revenue during the year ended 31 December 2011.

In our continuing business, we have achieved annualised savings of £5.3m, of which £2.9m has benefitted the year ended 31 December 2011. The operating margin enhancement arose from a combination of the benefits of the cost reduction programme, together with good underlying performance in both the Technology and Services divisions in the final quarter of 2011.

The adjusted numbers set out above exclude exceptional costs of £5.4m associated with the cost reduction programme in our continuing business.

| Exceptional costs  |               |               |
|--|---------------|---------------|
|  | 2011<br>£'000 | 2010<br>£'000 |
| Restructuring costs  |               |               |
| - redundancy costs   | 3,327         | 1,151         |
| - property-related costs   | 1,773         | 1,161         |
| - other  | 913           | 626           |
|  | <b>6,013</b>  | <b>2,938</b>  |
| Write down of business system  | -             | 1,888         |
| Business development costs relating to abortive venture in China                                 | -             | 770           |
| Other including professional fees relating to responding to expressions of interest in the Group | -             | 661           |
| Release of deferred consideration relating to US acquisition                                     | (664)         | -             |
| Exceptional costs arising from continuing activities   | 5,349         | 6,257         |
| Exceptional costs arising from discontinued activities   | 4,506         | 6,369         |
| <b>Total exceptional costs</b>   | <b>9,855</b>  | <b>12,626</b> |

During the year, Tribal incurred significant costs which are outside the normal course of trading relating primarily to restructuring costs following the completion of the disposal programme. These costs have been excluded from our adjusted operating profit as they distort the underlying trading performance of the Group.

The restructuring costs relate in part to the costs of reducing headcount, particularly as we have reduced the number of management layers and sought to reduce our Group overheads. Alongside headcount reduction, our property rationalisation programme has

resulted in onerous lease charges for the remaining cost commitments under property leases where we have exited surplus locations, appropriately reduced for any mitigation.

Other exceptional costs incurred in the year include mainly intangible asset impairments arising as a result of our restructuring activities.

| Discontinued activities                                 |                 |                 |
|---|-----------------|-----------------|
|   | 2011<br>£'000   | 2010<br>£'000   |
| Loss attributable to Resourcing                         | (2,528)         | (1,399)         |
| Loss attributable to Health and Government              | (2,764)         | (57,414)        |
| Loss attributable to Kindred                            | (780)           | (4,738)         |
| Profit attributable to Nightingale Associates           | -               | 639             |
| Operating loss attributable to discontinued operations  | <b>(6,072)</b>  | <b>(62,912)</b> |
| Loss on disposal of Resourcing                          | (2,661)         | -               |
| Loss on disposal of Health and Government               | (18,390)        | -               |
| Loss on disposal of Kindred                             | (3)             | (1,326)         |
| Profit on disposal of Nightingale Associates            | 1,087           | 352             |
| <b>Loss on disposal of discontinued operations</b>      | <b>(19,967)</b> | <b>(974)</b>    |
| Attributable tax credit                                 | 275             | 2,239           |
| <b>Net loss attributable to discontinued operations</b> | <b>(25,764)</b> | <b>(61,647)</b> |

During the early part of 2011, the discontinued activities incurred trading losses and exceptional restructuring costs prior to their disposal. Revenue from all discontinued operations in the period was £23.3m (2010 £97.8m). Operating losses from discontinued operations before IFRS3 intangibles and exceptional costs were £1.3m (2010 profit of £0.6m). Total losses from discontinued operations were £25.8m (2010 £61.7m).

On 1 March 2011, we completed the sale of our Resourcing business to TMP (UK) Limited for an initial consideration of £1 resulting in a loss on disposal of £2.7m. TMP will pay to Tribal 20% of the revenue from existing customers for three years following completion for its Advertising and E-Solutions business streams up to a maximum deferred consideration of £6m.

On 28 April 2011, we concluded the sale of our Health and Government businesses to Capita Group PLC for a maximum consideration of £15.9m, of which up to £0.5m remains payable subject to the satisfaction of certain conditions. Net assets disposed of totalled £31.7m.

## Financial Review continued

of which £22.5m related to goodwill, and £0.9m of liabilities related to retirement benefit obligations. A loss on disposal arose of £18.4m. Additionally a contingent liability of £10.6m in relation to a further defined benefit pension scheme was transferred out of the Group as part of this transaction.

### 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 £0.5m (with gross assets of £3.2m and gross liabilities of £3.7m), compared to £1.2m last year.

### Group net finance costs

|                       | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------|---------------|---------------|
| Investment income     | (50)          | (143)         |
| Finance costs         | 1,910         | 1,634         |
| Net finance costs     | 1,860         | 1,491         |
| Financial instruments | 145           | 625           |
|                       | 2,005         | 2,116         |

Net finance costs for the year were broadly consistent with costs of the prior year, in spite of reducing net debt levels.

The interest rate hedge which was in place at the start of the year meant that the Group bore interest at a margin of 4.90% over LIBOR for the six months ended 30 June 2011. This hedge instrument was settled on 1 July 2011, and the Group has borrowed at a floating rate since that date, thus benefiting from currently low interest rates.

### Tax

The effective tax rate on our continuing business of 21.9% is lower than the standard rate due to group relief from the parts of the Group that were loss making up to disposal. The ongoing tax charge on current year profits is likely to be in broadly line with the standard corporation tax rate, reflecting disallowed expenses and non-qualifying depreciation.

### Earnings per share

As a result of the losses attributable to discontinued operations, and the exceptional costs incurred during the year, the basic loss per share was 23.9p (2010: 66.3p).

The adjusted diluted earnings per share from continuing operations before exceptional costs and intangible asset amortisation, which reflects the underlying trading performance of the Group, grew from 5.6p to 7.9p.

### Shareholder returns and dividends

Following completion of the restructuring programme, the statutory loss for the year was £22.4m (2010: £62.1m).

In light of the significant changes to the Group, the business opportunities now available to the business, and the risks presented by the continuing macro-economic environment, we have reviewed our dividend policy. The Board has proposed a final dividend of 0.60p per share which, together with the interim dividend of 0.40p per share, gives a total dividend of 1.00p per share (2010: 2.50p).

The dividend is covered 7.9 times by adjusted earnings per share. The final dividend will be paid on 13 July 2012 to shareholders on the register on 15 June 2012.

The Directors intend to pursue 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 sufficient to allow the Group to implement its strategic plan.

### Cash flow and net debt

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Cash at bank and in hand                                   | 6,524         | 14,659        |
| Short-term loans   | -             | -             |
| Syndicated bank facility<br>(net of bank arrangement fees) | (22,503)      | (33,157)      |
| Gross debt   | (22,503)      | (33,157)      |
| Net debt   | (15,979)      | (18,498)      |
| Gearing  | 35%           | 27%           |

Group net debt decreased from £18.5m at 31 December 2010 to £16.0m at 31 December 2011. At 31 December 2010, our net debt levels were significantly reduced through non-recurring favourable working capital terms from third parties which reversed by the end of the first quarter of 2011. Adjusting for the one-off effect of these favourable working capital terms, the underlying net debt of the Group at 31 December 2010 was £20.9m.

**Cash flow and cash management**

|  | 2011<br>£'000  | 2010<br>£'000  |
|--|----------------|----------------|
| <b>Continuing operations</b>   |                |                |
| Net cash from operating activities before tax and before exceptional cashflows                               | 12,200         | 26,016         |
| Capital expenditure (net)  | (836)          | (1,847)        |
| Capital expenditure on product development and business systems  | (3,764)        | (3,166)        |
| <b>Operating cash flow from continuing operations after capital expenditure before exceptional cashflows</b> | <b>7,600</b>   | <b>21,003</b>  |
| Exceptional cashflows  | (4,786)        | (2,101)        |
| <b>Operating cash flow from continuing operations after capital expenditure</b>                              | <b>2,814</b>   | <b>18,902</b>  |
| <b>Discontinued operations</b>   |                |                |
| Net cash from operating activities before tax  | (8,540)        | (6,605)        |
| Capital expenditure (net)  | 160            | (555)          |
| Capital expenditure on product development and business systems  | (40)           | (37)           |
| <b>Operating cash flow from discontinued operations after capital expenditure</b>                            | <b>(8,420)</b> | <b>(7,197)</b> |
| Net interest   | (1,557)        | (1,353)        |
| Tax  | 718            | (1,439)        |
| <b>Free cash flow</b>  | <b>(6,445)</b> | <b>8,913</b>   |
| Acquisitions and deferred consideration  | (70)           | (839)          |
| Disposal of discontinued operations  | 12,378         | 5,285          |
| Dividends paid   | (980)          | (4,284)        |
| Financing  | (10,958)       | (3,843)        |
| Settlement of interest rate swap instrument  | (2,086)        | -              |
| Effect of foreign exchange rate changes  | 26             | 57             |
| <b>(Decrease)/increase in cash and cash equivalents in year</b>  | <b>(8,135)</b> | <b>5,289</b>   |

During 2011, the Group generated operating cash flows after capital expenditure, but before exceptional cashflows of £7.6m (2010 £21.0m). The Group's operating cash flow from continuing operations before exceptional cash outflows and after adjusting for the distortive effects of non-recurring working capital terms was £10.0m (2010 £18.6m).

Cash conversion for the year from continuing operations was 67% (2010 254%). This is defined as operating cashflow from continuing activities before exceptional cash flows and after capital expenditure, divided by adjusted operating profit. After further adjusting for the distortive effect of the non-recurring favourable working capital terms at 31 December 2010 (as described above), underlying cash conversion for the continuing operations for the year ended 31 December 2011 was 88%.

**Order book**

The total forward order book of the Group as at 31 December 2011 was lower by 5% at £178m (2010 £186m). This relates to the next five years, but includes only 2 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 2011 was £14.6m.

At 29 February 2012, our order book was £170m. We have been appointed to continue to deliver the UK Government's National Centre for the Excellence in Teaching of Mathematics under a contract with a value of approximately £5m, and to conduct school inspections for the Abu Dhabi Education Council under a contract with a value of up to £6m.

## Financial Review continued

### Order book (£m)

- Dec 10 186
- Dec 11 178

### 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 runs until February 2015 with Lloyds Banking Group and HSBC, subject to compliance with covenants. Under the terms of the facility, £30m is available under a fully fluctuating 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, renewable in March 2013.

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

#### Credit risk

The Group seeks to reduce the risk of bad debts arising from non-payment from our customers. This risk is closely monitored by the Group finance team, of which the credit control function forms part. We incurred no material bad debts (less than 0.5% of revenue) during 2011 due to our strong relationships with our predominantly public sector customers.

However, to reflect the risk associated with the sharp slowdown in the UK economy, we have maintained a relatively high allowance for doubtful debts. Debtor days outstanding at 31 December 2011 were 38 days (2010: 43 days).

#### 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. During the year ended 31 December 2011, a pre-existing £25m designated

hedge under which the Group paid 4.90% was settled early as it was determined that it was economically disadvantageous to continue with the hedge arrangement. 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 3% plus the relevant margin until 2 January 2014.

#### Foreign exchange risk

A proportion of Tribal's business is transacted overseas, and the performance of the company 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 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.

There is increased risk of economic events in Europe leading to disruption in the Eurozone, possible sovereign default, banking instability and a consequent impact on economic growth rates. A relatively small part of the Group operates in countries at the centre of the Euro crisis. We currently have no activity in Greece, and aggregate revenue in 2011 across the rest of the Eurozone was less than 1%. Our cash deposits are principally with UK banks.

#### Outlook

Tribal now benefits from a leaner, focused operating structure. We have a clear organic growth strategy in place, which is directing our activity and decision-making.

Our UK markets are responsive to our product and service propositions, and we have identified good opportunities to develop new products and services over the medium term. We have also established strong positions in our chosen international markets, and are seeing good opportunities for continued growth.

Our current trading is in line with our expectations for 2012, which will continue to be a period of investment in our products, people and our international presence. As a result of seasonality in our business, and our programme of investment, we anticipate our profits will be weighted towards the second half of the year, and Tribal has good potential to make further progress over the medium term.

22 March 2012

## Early Years Inspection Contract – Using Technology to Improve Performance

Alongside our schools and colleges inspection work, during 2011 Tribal delivered 20,336 inspections and registrations of early years providers in the South of England and London as part of our Ofsted Early Years contract. Complex operational processes, which vary according to the many types of inspections we undertake, present considerable challenges. Our proprietary software-led system of inspection workflows ensures timely delivery of inspection reports in line with tight deadlines, and automates the processes to deliver efficiency.

The workflows contain the steps each inspection goes through during its lifecycle – there may be over 100 steps in a typical workflow. These include a range of activities, including logistics and productivity tools, investigatory work, analytical assessments, document management, and internal and external reporting. During 2011, our systems facilitated the completion of 1,548,928 tasks linked to delivery of Early Years inspections.

We have increased the efficiency of inspection delivery under the Early Years contract by 352% since the contract started in the latter part of 2010, and by 185% over the course of 2011.

Introduction

Business review

Governance

Financial statements

**Principal risks and uncertainties**

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

**Risk management**

The board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. During 2011, Tribal has reviewed and enhanced its risk management processes in the context of the structure 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

- 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 on-going performance management process.

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

- seek 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

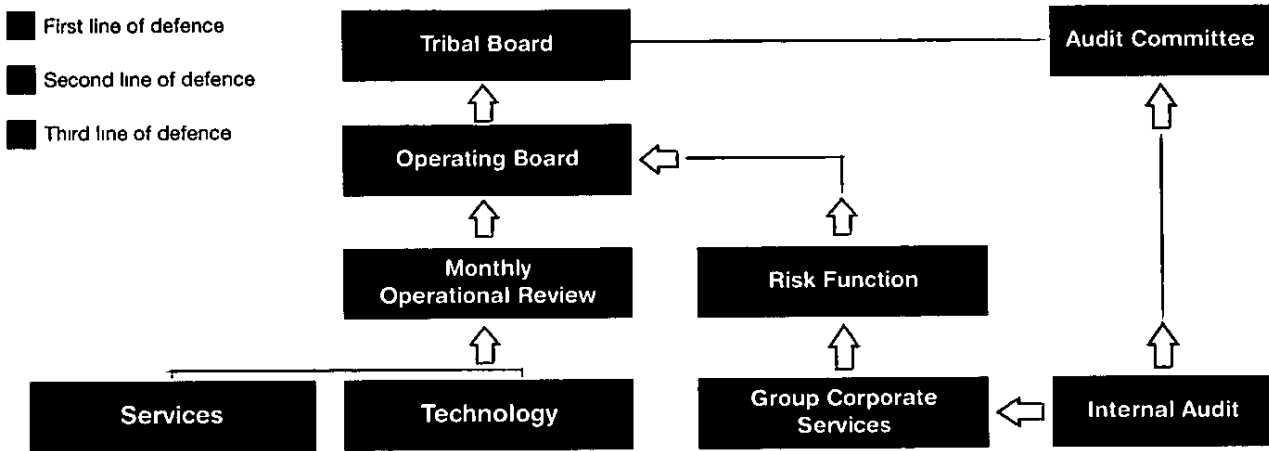
**Risk register**

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.

**Risk management resources and internal audit**

Risk management is embedded into our organisational structure.

|                                       | <b>Specific risk(s)</b>  | <b>Possible impact</b>  |
|---------------------------------------|--|---|
| <b>Technological change</b>           | Technological progress, particularly the use of the Cloud and delivery of Software as a Service (SaaS), renders our existing products obsolete             | Development of new offerings by Tribal or our competitors, and managing transition of existing customers to those new offerings, may damage our existing income streams |
| <b>Attracting and retaining staff</b> | Organisational change destabilises morale<br>Failure to retain key staff<br>Inability to attract high calibre staff, particularly in the technology market | Inability to develop and execute business plans<br>Poor morale<br>Competitive disadvantage  |



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

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

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

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.

**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.

**Mitigating factors**

Development resource is being maintained and diversified with judicious use of international capacity.  
 Significant on-going investment in the development of new or enhanced software.  
 Our products can already be deployed through the Cloud or through a SaaS model.  
 At the current time, our customers typically express a wish to use traditional stand-alone systems managed within their existing IT resources.

**Change since 2010**

No change – technological development continues









Training and development  
 Clear staff performance management system  
 Competitive incentive and bonus plans  
 Succession planning

Lower – following completion of our restructuring programme, stability is being restored



## Principal risks and uncertainties continued

|  | Specific risk(s)   | Possible impact  |
|--|--|--|
| <b>Economic environment</b>            | <p>Economic uncertainty, including that in the Eurozone, can delay purchasing decisions and reduce discretionary expenditure and appetite for innovation</p> <p>Funding cuts by governments can reduce capacity for investment by our customers</p>  | Adverse effect on financial performance, new business wins falling short of expectations   |
| <b>International expansion</b>         | <p>Poor management control in geographically remote locations</p> <p>Foreign currency risk</p> <p>Misjudgment of market opportunity and / or local commercial environment</p>  | <p>Adverse effect on financial performance and our reputation</p> <p>Constraint on growth potential</p>  |
| <b>Operational delivery</b>            | <p>Substandard delivery of key contracts</p> <p>Significant new business wins create resource and management stretch</p> <p>Significant international delivery programmes present new challenges to which Tribal has not previously been exposed</p> | <p>Failure to meet contractual obligations</p> <p>Financial penalties and potential loss of contracts</p> <p>Reputational damage</p> <p>Adverse impact on financial growth and performance</p> |
| <b>Business development capability</b> | <p>Increasing international aspirations requiring new market penetration</p> <p>Misunderstanding obligations and challenges in new markets</p> <p>Inability to design and present compelling propositions in new markets</p>                         | Adverse effect on financial performance  |
| <b>Data security</b>                   | Loss of, or inadvertent disclosure of, sensitive customer data   | <p>Contractual penalties</p> <p>Reputation damage</p>  |
| <b>Fraud, bribery and corruption</b>   | Corrupt business practices in UK or international markets  | <p>Civil and criminal penalties for business or senior management</p> <p>Reputational damage</p> <p>Exclusion from bidding for public sector contracts</p>                                     |

| Mitigating factors   | Change since 2010   |   |
|--|---|---|
| <p>Internationalisation, diversifying our dependence on single countries' economic climate</p> <p>Our strong UK market position, with a substantial installed basis across our technology products, will be protected by customers' reluctance to invest in change in the short term</p> <p>Weak economic conditions encourage our customers to seek efficiencies, which our products and services support</p> <p>Supply of services that support essential functions rather than discretionary activities</p> <p>Ensuring we keep an efficient and flexible cost base</p> | <p>No change – levels of uncertainty continue to be high</p>  |    |
| <p>Strengthened management teams in international locations</p> <p>Foreign currency management policies in place</p> <p>Due diligence / market research prior to material investment in new markets</p> <p>Initial new market entry through low cost structures</p>  | <p>No change – we are now established in Australasia, the Middle East and the US, new geographies are being evaluated</p> |    |
| <p>MOR review processes</p> <p>Risk management framework and Board escalation of risks / issues</p> <p>Operating performance indicators in place</p> <p>Internal audit</p> <p>Fit with strategy and pricing is subject to review and approval by the Board for significant new contracts</p>   | <p>Higher – our strategic aspirations place emphasis on creation of innovative solutions, and entering new markets</p>    |   |
| <p>Increased investment in business development resources</p> <p>Enhanced senior management focus on business development activities</p> <p>Strengthened bid review controls</p> <p>Development of sales and business development team networks to encourage collaboration</p> <p>Key account management processes refreshed</p> <p>Renewed and focused incentive programmes</p>   | <p>No change – impact of increased challenges offset by progress on mitigating factors during 2011</p>                    |  |
| <p>Robust information security framework through an Information Security Working Group, which is tasked with identifying and mitigating key information assurance risks and establishing best practice</p> <p>Escalation to operating board</p> <p>Staff training, monitoring and awareness programme</p> <p>Internal audit</p>  | <p>No change – enhanced control measures in place</p>   |  |
| <p>Appropriate policies and procedures</p> <p>Zero tolerance approach to corruption</p> <p>Internal audit</p>  | <p>Lower – through enhancement of policies, procedures and staff training</p>   |  |

## Corporate responsibility

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

### A year of change supported by our people

Despite the substantial organisational challenges in 2011, our staff remained committed and focused. As a result, we have made considerable progress across the business during a difficult period.

Tribal provides employees with the tools and flexible training opportunities to support and enable them to grow and develop to their potential, and we will be working to improve this support during 2012.

### 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 understanding of our markets which Tribal needs. Our recruitment strategy at all levels of the business therefore contains a strong emphasis on diversity.

During 2011, Tribal continued to build on its Learning and Development programme focusing on the specific needs of our Technology and Services Divisions in line with the new strategy. This includes the design of a professional sales and business development programme and the launch of a Learning and Development workspace in February 2012.

Our work builds on the training already available to staff, and provides a central portal for employees who can access content and courses including equality and diversity and bite-size courses specifically designed for line managers to improve their capabilities in areas such as managing performance, employment law and recruitment.

### Our values

Tribal's values statement was refreshed this year, reflecting the changes in our business. We pride ourselves in 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 a 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 company, 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.

### Engaging people

In order successfully to complete the large scale organisational restructure, retain key staff and continue to secure new business opportunities employee engagement was key during 2011.

We used a combination of group-wide updates with specific local communications and engagement surveys to deal with restructures affecting specific areas. Following completion of the restructuring programme, approximately one in ten of our people were invited to an event (the "Tribal Summit") to refresh our values and culture, and to engage staff on the approach to staff communication that Tribal would develop over 2012. This will be rolled out to staff across a number of communications channels, corporate social media and roadshows over 2012.

Our employer brand continues to be an important element of what will make us a success in the future. In 2011, we have continued to work towards further IIP accreditation and have increased our ISO accreditation 9001 (quality management systems) in further sites around the Group, and have extended our 14001 (environmental management systems) and 27001 2005 (information technology) accreditation, where appropriate.

**“ Tribal takes its responsibilities as a good employer and a good corporate citizen very seriously. The Tribal Foundation is our way of helping others less fortunate than ourselves, through sharing our skills, time and money to support sustainable projects in the UK and the developing world which help people turn their lives around.”**

**Steve Breach**, Trustee of the Tribal Foundation

## 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

In 2011, we consolidated our strategic sustainability framework activities, which included a sustainable procurement policy and revised environmental policy. These were given internal visibility through regular communications and updates specifically on sustainability and volunteering.

We maintained progress in a number of key areas of our strategy. We continued to use a 'green' electricity supplier and confirmed our carbon footprint remains below the threshold required by the Carbon Reduction Commitment scheme.

As part of our cost reduction programme, we actively sought to minimise our use of energy through property rationalisation, which has sustainability benefits as well as generating savings. The use of our virtual meetings service is now embedded in the business, and saved time and money spent by staff travelling to meetings, and also reduced our carbon emissions.

In 2011, we built on existing sustainability good practice across Tribal and continued with incentive schemes such as the Cycle to Work scheme. These formed part of the broader Wellness programme for all staff launched in 2011.

We continue to see our role as a leader on focusing on the promotion of good governance and sustainable practice. We apply this approach in our organisation to our supply chain and in the competitive marketplace. We continue to work with our suppliers to ensure that we can demonstrate environmental and social sustainability in all our activities.

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

## Tribal Foundation

Tribal's charity, the Tribal Foundation, supports sustainable projects in the UK and the developing world which reflect Tribal's expertise in education.

Through both financial aid and sharing our skills and knowledge, we aim to make a positive difference in communities all over the world. The Foundation is a registered charity and is funded by staff fundraising initiatives, our payroll-giving scheme and donations from Tribal's profits.

We are currently supporting a range of programmes overseas, including micro-credit schemes, entrepreneurship training and clean water supply projects in the developing world.

In the past year, we have helped a number of charities through our local giving initiative, where Tribal offices nominated a local charity to receive a £1,000 donation. The charities benefiting include Andover District Mencap, Kidz Club Leeds, Children in Crossfire, Bluebell Wood Hospice, and Childhood First.

We hold 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 63

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

### Keith Evans

#### Chief Executive – Age 53

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 Group PLC.

### Steve Breach

#### Group Finance Director – Age 43

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.

### Simon Ball

#### Non-Executive Director – Age 51

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 Banks plc. Simon was Group Finance Director for 3i Group plc until November 2008 and has considerable experience of both the private and public sectors.

### Katherine Innes Ker

#### Non-Executive Director – Age 51

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.

### Mathew Masters

#### Non-Executive Director – Age 38

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

---

## Directors' report

### Introduction

The directors present their Annual Report on the affairs of the Group, which includes the Business review, corporate governance report and audited financial statements for the year ended 31 December 2011. Pages 1 to 55 of this Annual Report comprise a Directors' Report which has 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, together with details of the movements in the Company's issued share capital during the year, 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 33,164,134 new ordinary shares. This authority expires at the conclusion of the AGM in 2012.

### Acquisition of the company's own shares

At the end of 2011, 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 2012.

### Directors

The directors of the Company are listed on page 40. 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](http://www.tribalgroup.com) or on request from the company secretariat, and in the Corporate Governance statement on pages 43 to 49.

### Directors' interests

Each director's interest in the Company's shares is detailed on page 54.

### 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. 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 38.

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.

## Directors' report continued

### 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 2011 was approximately 25 days (2010: 29 days).

### 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 £13,950 (2010: £60,003). The work of Tribal's charity, the Tribal Foundation, is described in more detail on page 39. The Group made no political donations during the year (2010: £nil).

### Health and safety

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

### Substantial shareholdings

At 21 March 2012, the following voting interests (other than those of the directors) in the ordinary share capital of the Company had been notified to the Company:

|                                | Ordinary shares of 5p each | %     |
|--------------------------------|----------------------------|-------|
| Hermes Pensions Management     | 23,739,733                 | 25.34 |
| Caledonia Investments          | 10,336,232                 | 11.03 |
| Henderson Global Investors     | 6,680,548                  | 7.13  |
| Schroder Investment Management | 4,727,402*                 | 5.05* |
| JP Morgan Asset Management     | 4,716,425*                 | 5.03* |
| Crystal Amber Fund             | 4,135,000                  | 4.41  |

\* Last notification: 8 February 2012

### Annual General Meeting

The Annual General Meeting (AGM) will be held at 10.00 am on 16 May 2012 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.

### 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 2012 AGM on 16 May.

On behalf of the Board



**Steve Breach**  
Company Secretary  
22 March 2012

## Corporate Governance

### “The board is responsible for the sustainable success of the Group, implemented through the day-to-day leadership of the executive team”

John Ormerod Chairman

The Group's strategy and vision originate from the board, together with the clarity of purpose, values and drive to achieve them. The board needs the skills, experience, structure and procedures to ensure that the Group's strategy is appropriate to its circumstances, and that its operations deliver the results to achieve our strategic aims without exposing the Group to unacceptable risks. We are accountable to our shareholders for our standards of governance.

The board is committed to achieving high standards of corporate governance, integrity and business ethics in the Group's operations, and we support the principles of corporate governance contained in the UK Corporate Governance Code (the Code). I am pleased to report that throughout 2011 the Group has complied with the provisions set out in the Code. Whilst we work hard to ensure that our approach to governance is not seen as a box ticking exercise, the board is also mindful of the need to be proportionate. Tribal has evolved during 2011 into a smaller, leaner organisation with a new strategic focus and the composition and functioning of the board must support the needs of the business. The key areas of focus for the board will continue to be strategy, performance, value creation and accountability.

I believe that the board continued to function well notwithstanding a set of particularly challenging circumstances and immense change during 2011. Key actions the board has taken during 2011 include:

- Approving the sale of the Group's Government and Health businesses,
- Agreeing a new strategic plan focusing on our core skills of providing services and technology products to the education sector,
- Appointing a new Chief Executive with the necessary skills to drive the successful implementation of this new strategy,
- Ensuring robust talent management, succession planning and development programmes are in place for our key people, to support the delivery of our strategy,
- Beginning the search for a new Non-Executive Director to strengthen the board's ability to challenge and support the executives, particularly focused on individuals with operational experience in technology-based businesses, and
- Undertaking a critical evaluation of its own performance and adopting an action plan to address any weaknesses and improve our effectiveness.

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, Mathew Masters and John Ormerod. The terms and conditions of all directors are available for inspection on request from the company secretary and will be available for inspection at the forthcoming AGM.

On 22 February 2011, Keith Evans was appointed Chief Operating Officer. He was subsequently appointed as Chief Executive on 25 November 2011.

On 30 April 2011, Peter Martin stood down from the Board.

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

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

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 49 to 54.

Each director is required to submit himself/herself for re-election at least every three years. New directors are subject to election at the first opportunity following appointment. Steve Breach, Mathew Masters and John Ormerod were re-elected at the 2010 AGM, and Simon Ball and Keith Evans were re-elected at the 2011 AGM, in each case having confirmed that they were able to allocate sufficient time to meet the expectations of their roles. All directors will be seeking re-election at the 2012 AGM on 16 May.

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

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

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

The roles of the chairman and chief executive are separate and clearly defined. The chairman is primarily responsible for the running of the Board and the chief executive for the running of the Group. Information is provided to the Board on a timely basis. In advance of each Board meeting, directors receive a board pack including 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 at the end of 2011 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 company secretariat through a series of one-to-one interviews, the results of which were reported to the Board in December. Interviews focussed 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.

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 2012 AGM.

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

### Nomination Committee

The Nomination Committee is chaired by John Ormerod. Its members are Simon Ball and Katherine Innes Ker. Mathew Masters and the chief executive attend 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 2011, the Committee met four times and recommended to the Board the appointment of Keith Evans as Chief Operating Officer and subsequently as Chief Executive. A search for an additional non-executive director has also been initiated, focused on finding an individual with operational experience in technology-based businesses.

### 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 secretariat and takes advice as appropriate from external advisers. The Remuneration report is set out on pages 49 to 54.

## Attendance at Board and Committee meetings during 2011

| Board/Committee name                   | Board committee | Audit committee | Nomination committee | Remuneration committee | Role  |
|--|-----------------|-----------------|----------------------|------------------------|---|
| Number of meetings in period           | 23              | 6               | 4                    | 6                      |   |
| Number of meetings attended by members |                 |                 |                      |                        |   |
| John Ormerod                           | 23              | 6               | 4                    | 6                      | Chairman of Board and Nomination Committee  |
| Peter Martin <sup>1</sup>              | 12              | -               | -                    | -                      | Chief Executive   |
| Keith Evans <sup>2</sup>               | 18              | -               | -                    | -                      | Chief Operating Officer, Chief Executive  |
| Steve Breach                           | 23              | -               | -                    | -                      | Group Finance Director  |
| Simon Ball                             | 22              | 6               | 4                    | 6                      | Non-executive director, Chairman of Audit Committee                                     |
| Katherine Innes Ker                    | 21              | 4               | 3                    | 6                      | Non-executive director, Senior independent director, Chairman of Remuneration Committee |
| Mathew Masters <sup>3</sup>            | 28              | -               | -                    | -                      | Non-executive director  |

### Notes

- 1 Peter Martin stood down as Chief Executive on 30 April 2011  
 2 Keith Evans was appointed Chief Operating Officer on 22 February 2011 and Chief Executive on 25 November 2011  
 3 Mathew Masters is not a member of any of the Committees but is invited to attend all Committee meetings

Between January and April 2011, the Board's agenda was dominated by the discussions that led to the sale of the Health and Government divisions to Capita Group PLC. This required a number of additional Board meetings during this period.

### Shareholder relations

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

The Group provides financial statements to all shareholders twice a year when its half year and full year results are announced and provides interim management statements as required. The AGM is attended by all directors and private investors are encouraged to participate in the meeting.

These results and all other Stock Exchange announcement information are available on the Group's website [www.tribalgroup.com](http://www.tribalgroup.com). We are aware that a growing number of shareholders are taking advantage of improvements in technology and accessing the wealth of information on corporate websites. Recent changes in legislation and the necessary authority having been passed at our 2007 AGM mean that we are able to offer electronic copies of the report and accounts, notice of AGM and other documents addressed to shareholders.

## Audit committee

**“During a period of significant change, the Audit Committee has monitored closely the integrity of Tribal’s financial reporting.”**

**Simon Ball** Chairman of the Audit Committee

During a period of significant change, the Audit Committee has monitored closely the integrity of Tribal’s financial reporting, key accounting judgements, and its risk management and internal control environment. We have also been careful to ensure our external auditor’s independence remains intact. Our corporate activities during 2011 led us to seek input from our auditor, resulting in higher non-audit fees. We believe this was the right course of action in the circumstances, but now expect non-audit fees to return to more normal levels.

As Tribal has emerged as a simplified and more focused business, the emphasis of the Audit Committee’s work is increasingly directed towards continual improvement in the quality of our risk management and control framework. Good progress has been made during 2011, with the establishment of an upgraded risk management system, and the appointment of RSM Tenon as internal auditor. We aim to sustain this good momentum.

### 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. Kathenne Innes Ker and John Ormerod are also members. The Group Finance Director attends all meetings at the invitation of the Committee. Mathew Masters and the Chief Executive also attend by invitation. The Committee met six times during 2011.

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

During the year, the Audit Committee has

- reviewed the December 2010 report and financial statements, the June 2011 half year results and the interim management statements issued in May and October. As part of this review, the Committee reviewed significant accounting policies, financial reporting issues and judgements and reports from the external auditor on their audit of the annual report and financial statements and review of the half year results,
- reviewed the effectiveness of the external audit process, the external auditor’s strategy and plan for the audit and the qualifications, expertise, resources and independence of the external auditor;
- reviewed the effectiveness of the group’s internal controls and approach to risk management, including a review of the group’s whistle blowing policy, 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 2010 financial statements and review of the June half year results, and
- reviewed its own effectiveness.

Amongst the key judgements and decisions that the Audit Committee reviewed during the year were

- the appointment of RSM Tenon as internal auditor;
- the appropriate accounting treatment for discontinued business streams, and in particular how the Government and Health divisions’ results should be treated in the 2010 report and accounts when negotiations for their sale were at an advanced stage,
- monitoring closely the financial robustness of the business, and careful consideration of the applicability of the going concern assumption,
- the classification of certain costs as exceptional items,
- the revenue recognition policies in view of the increasing complexity of the Group’s contracts,
- the appropriate segmental reporting structure for the Group following the disposal of the Government and Health businesses,
- the quality of internal forecasting,
- the level of goodwill on the Group’s balance sheet following the sale of the Government and Health businesses, and
- the Group’s exposure to foreign exchange and interest rate risks and the appropriate level of hedging to mitigate those risks.

## External auditor

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

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

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

As disclosed on page 73, fees payable to Deloitte LLP for non-audit work during 2011 considerably exceeded the audit fee, due principally to its work as reporting accountant on the sale of the Government and Health businesses. The Audit Committee believes that these circumstances were exceptional and expects the level of non-audit fees payable to Deloitte LLP during 2012 to return to more normal levels. In order to protect further against non-audit fees exceeding audit fees, during 2011 the Group appointed KPMG LLP to provide tax advice, a role previously held by Deloitte LLP

## Audit committee continued

---

### **Maintenance of a sound system of internal control and review of effectiveness of internal control**

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

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

The Group's assessment includes a review of the major financial and non-financial risks to the business and the corresponding internal controls. The output is continuously reviewed by the executive directors to enhance further the internal control and risk management culture of the Group throughout its subsidiaries. Clear responsibilities have been allocated for key risk areas such as acquisitions, human resources, treasury, capital expenditure, insurance and information technology. Other risks fall within the scope of the Audit, Remuneration and Nomination Committees as appropriate. Where weaknesses or opportunities for improvement are identified, clear action plans are put in place and implementation is monitored by the Board.

The executive directors review these action plans on a regular basis to ensure that the Board's plans for improvement are being implemented and that the outputs of the strategic risk assessments remain relevant to the Group. The action plans and their on-going review form a process for identifying, evaluating and managing risks faced by the Group. Such a process has been in place for the year under review and up to the date of approval of the audited financial statements and conforms to the requirements of the Turnbull guidance.

### **Summary of internal controls**

#### ***Control environment***

The directors are committed to maintaining a control-conscious culture across the Group whilst allowing each division sufficient autonomy to manage and develop their business. This is communicated to all employees by way of regular management briefings, training and mentoring.

An organisational structure is in place within which the business can be planned, controlled and monitored. This structure includes appropriate written delegation of authority, physical controls and procedures such as authorisation limits and segregation of duties. The business stream managing directors regularly review their responsibilities and compliance with the Group's policies and procedures.

The Group operates a quarterly letter of representation reporting framework for each business stream's managing directors and finance directors to assess and report on the adequacy of internal financial controls and completeness and accuracy of the management accounts. The format of this representation letter was reviewed by the Audit Committee during 2011 and updated as a result.

At Group level, the control environment is monitored by the Group Risk Manager and the Internal Audit function. Each reports to the Group Finance Director, and independently to the Audit Committee.

#### ***Financial reporting***

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

Budgets are prepared at the individual business unit level and summarised at business stream and group level. Key operational performance indicators, including weekly cash flow forecasts and daily cash balances, are continuously monitored by the executive and business stream managing directors and reviewed by the Board.

#### ***Going concern***

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 across the forecast period. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Remuneration report

**“On behalf of the board I am pleased to present the Directors’ Remuneration Report for the year ended 31 December 2011, for which the Company will be seeking approval at the AGM on 16 May 2012.”**

Katherine Innes Ker Chairman of the Remuneration Committee

### This Report

- explains the policy under which the Directors are remunerated,
- gives details of the Directors’ remuneration, fees and interests in the Company’s shares, including share awards, and
- informs you of some important decisions made in respect of the remuneration of Keith Evans and Steve Breach

As described elsewhere in this Annual Report, 2011 was a year of great change for Tribal. In April we announced the sale of our Government and Health businesses to Capita, following which Peter Martin stepped down as Chief Executive. Prior to his appointment as Chief Executive at the end of November, Keith Evans ran the Company as Chief Operating Officer so there has been a smooth transition. Keith’s package was adjusted on his promotion. Despite adopting a new long term incentive plan at the 2010 AGM, the Company was unable to make any share awards during 2010 as a result of a takeover approach. Accordingly a double award has been made in 2011 so as to keep the executives whole. We have also made a larger award in 2012, recognising very stretching performance targets linked to our Group strategy.

It was against this background of challenging and exceptional circumstances that the Remuneration Committee had to make decisions about the structure of the executive directors’ remuneration packages. We believe that the decisions we made during 2011 were necessary and appropriate in the circumstances, consistent with our remuneration policy, and in the best interests of shareholders. We ask shareholders to support our decisions by voting in favour.

### Introduction

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.

### Information not subject to audit

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

The Remuneration Committee is chaired by Katherine Innes Ker. Simon Ball and John Ormerod are also members. Mathew Masters and Keith Evans attend 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](http://www.tribalgroup.com), or on request from the Company Secretary. The terms of reference will be reviewed during 2012.

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

The Committee met six times during 2011 to discuss key remuneration issues.

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, 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

## Remuneration report continued

strategy, a significant proportion of the package has been based on performance and dependent upon the achievement of growth in adjusted diluted earnings per share

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

### Chairman and non-executive directors

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

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

The Chairman, 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.

### Executive directors

#### Summary of executive director remuneration packages

For the performance period 1 January 2011 to 31 December 2011, the following table shows a breakdown of the executive director packages

| Element                                    | Peter Martin <sup>1</sup><br>Former Chief Executive         | Keith Evans <sup>2</sup><br>Chief Executive<br>(formerly Chief Operating Officer) | Steve Breach<br>Group Finance Director                      |
|--|---|---|---|
| Basic Salary                               | £300,000  | £210,000 - £300,000   | £210,000  |
| Maximum Annual Bonus (% of Salary)         | 100%  | 100%  | 100%  |
| Bonus paid                                 | -   | £189,019  | £153,696  |
| LTIP Award (% of Salary)                   | -   | 200%  | 200%  |
| Annual Pension Contributions (% of Salary) | 12%   | 12%   | 12%   |
| Other Benefits                             | Car Allowance, Private Medical Insurance and Life Assurance | Car Allowance, Private Medical Insurance and Life Assurance                       | Car Allowance, Private Medical Insurance and Life Assurance |

#### Notes

<sup>1</sup> Peter Martin left the board and the Company on 30 April 2011

<sup>2</sup> Keith Evans was appointed to the Board as Chief Operating Officer on 22 February 2011 at which time his salary was £210,000. He was subsequently appointed as Chief Executive on 25 November at which time the following elements of his remuneration package were changed to those set out above and his salary set at £300,000

## Balance between fixed and variable compensation

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

### Basic salaries and benefits

Basic salaries and benefits are determined by reference to market levels for similar jobs in comparable companies and sectors based on independent surveys. Salaries are reviewed annually and when an individual changes position or responsibility. The Committee will also consider the skills and experience of the individual and their on-going 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 salary will remain at the 2008 level of £300,000. The Finance Director's salary will also remain unchanged for 2012.

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 2011, 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 Peter Martin and Steve Breach. In respect of Keith Evans, the contribution was 10% of basic contribution for the period up to 25 November 2011, and 12% thereafter.

### 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 Chief Operating Officer and Group Finance Director. Bonus payments do not form part of salary for pension purposes.

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

Given the strong financial and personal performance during the year, the Committee awarded annual bonus payments equivalent to 87% and 73% for Keith Evans and Steve Breach respectively. This reflected a financial adjusted operating profit performance which was between threshold and target, cash flow performance which was below threshold, and between target and maximum levels of personal objectives achieved.

For Keith Evans this meant a total annual bonus of £189,019 for financial and personal performance which included payments on account of £90,000 made in January 2012 and an additional £25,000 in January 2012 to reflect his performance during the period where he provided chief executive cover.

For Steve Breach this meant a total bonus of £153,696 for financial and personal performance, which included a payment on account of £90,000 made in January 2012.

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

## Current share incentive schemes

### 1 LTIP

At the 2010 AGM, shareholders approved the introduction of a new long-term incentive plan to replace the previous plan which came to the end of its ten year life. The new plan is similar to the previous plan, although it has been updated to reflect current market practice. Under the new plan awards are structured as a nil cost option over ordinary shares which participants will be able to acquire on a fully vested basis at the end of a three year performance period, subject to satisfying the performance target. The performance target is linked to the growth in adjusted diluted earnings per share over the three-year period of the grant. Under the LTIP scheme rules, alternative or additional performance targets may be applied. However, 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. The Company was unable to make any LTIP awards during 2010 due to a takeover approach and accordingly the Committee made awards equal to 200% of salary to each of Keith Evans and Steve Breach in June 2011 to reflect an usual award for both years. These awards are subject to stretching cumulative earnings per share growth targets of 28 Op for 25% vesting, 31 5p for 50%, with full vesting for 40 Op.

Subsequently, in January 2012, an exceptional grant equal to 200% of salary was also made in relation to the 2012 financial year. 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. These awards are subject to particularly stretching performance targets linked to growth in adjusted earnings per share over a three year vesting period. These cumulative targets are 29 Op for 20% vesting, 36 Op for 50% vesting and full vesting at 42 8p. Therefore to achieve the threshold, target and maximum vesting, EPS levels would require annual 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

## Remuneration report continued

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. It is the Committee's intention to return to a normal grant policy of 100% of salary in 2013.

### 2 SAYE

At the 2010 AGM, shareholders approved the introduction of a new SAYE scheme to replace the previous plan which came to the end of its ten year life. The new plan is similar to the previous plan, although it has been updated to reflect changes in legislation.

The scheme is open to all employees and directors who have been in continuous service for such minimum period as is determined by the Committee. Eligible employees may save up to £250 per month under a fixed term SAYE contract and then apply the savings to buy shares in the Company.

No SAYE schemes were offered in 2011.

### 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.

#### 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, whilst attempting to limit compensation. The service agreements make allowance for specific amounts of compensation that may become payable in the event of early termination of contracts in order to enable the Committee to respond appropriately to particular circumstances. 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                | 12                                 | 12                                   |
| S D Breach       | 01 01 2010                 | Ongoing                | 12                                 | 12                                   |

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

#### Non-executive directors' letters of appointment

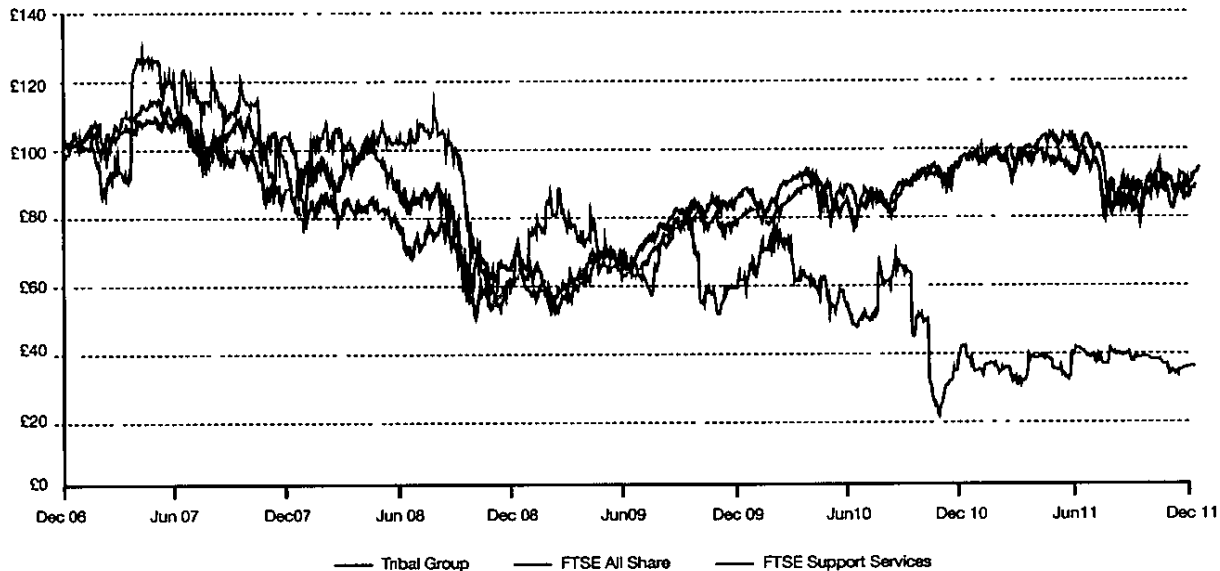
Non-executive directors have a three-month notice period and no compensation or other benefits are payable. Details of their agreements and notice periods are as follows:

| 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                 | 2012 AGM               | 3                                  | 3                                    |
| J Ormerod        | 21 10 2009                 | 2012 AGM               | 3                                  | 3                                    |
| M Masters        | 21 10 2009                 | 2012 AGM               | 3                                  | 3                                    |
| S Ball           | 01 06 2010                 | 2012 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 2006 to 31 December 2011

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 2006 would have been worth £34.40 on 31 December 2011, compared to £88.70 for the FTSE All Share Index and £93.80 for the FTSE Support Services Index

### Information subject to audit

#### Directors' remuneration

The remuneration of individual directors was as follows

|   | Salary<br>£'000 | Compensation<br>for loss of<br>office<br>£'000 | Bonus<br>£'000 | Benefits<br>£'000 | Pension<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Total<br>£'000 |
|---|-----------------|--|----------------|-------------------|------------------|------------------------|------------------------|
| <b>Executive directors</b>                  |                 |  |                |                   |                  |                        |                        |
| P J Martin <sup>1</sup>                     | 100             | -  | -              | 3                 | 13               | 116                    | 697                    |
| S D Breach                                  | 210             | -  | 154            | 16                | 25               | 405                    | 218                    |
| K M Evans <sup>2</sup>                      | 219             | -  | 189            | 10                | 25               | 443                    | -                      |
| <b>Non-executive chairman and directors</b> |                 |  |                |                   |                  |                        |                        |
| KCM Innes Ker                               | 45              | -  | -              | -                 | -                | 45                     | 58                     |
| J Ormerod                                   | 110             | -  | -              | -                 | -                | 110                    | 84                     |
| M Masters                                   | 35              | -  | -              | -                 | -                | 35                     | 45                     |
| S Ball                                      | 40              | -  | -              | -                 | -                | 40                     | 33                     |
| <b>Total</b>                                | <b>759</b>      | <b>-</b>                                       | <b>343</b>     | <b>29</b>         | <b>63</b>        | <b>1,194</b>           | <b>1,135</b>           |

#### Notes

1 Full disclosure regarding Peter Martin's compensation for loss of office was made in the Company's report and accounts for the year ended 31 December 2010

2 Keith Evans was appointed a director of the Company on 22 February 2011 and was subsequently appointed as Chief Executive on 25 November 2011

## Remuneration report continued

The interests of directors in share options were as follows

|                               | At<br>31 December<br>2010 | Granted   | Lapsed  | Exercised           | At<br>31 December<br>2011 | Exercise<br>price<br>£ | 5 day<br>average<br>Market price<br>on date of<br>grant | Date<br>from which<br>exercisable | Expiry<br>date |
|-------------------------------|---------------------------|-----------|---------|---------------------|---------------------------|------------------------|---|-----------------------------------|----------------|
| <b>P J Martin</b>             |                           |           |         |                     |                           |                        |   |                                   |                |
| PLC scheme                    | -                         | -         | -       | -                   | -                         | -                      | -   | -                                 | -              |
| LTIP                          | 320,056                   | -         | 227,648 | 92,408 <sup>3</sup> | -                         | nil                    | 155 0p  | -                                 | -              |
| SAYE scheme                   | -                         | -         | -       | -                   | -                         | -                      | -   | -                                 | -              |
| <b>S D Breach</b>             |                           |           |         |                     |                           |                        |   |                                   |                |
| PLC scheme                    | -                         | -         | -       | -                   | -                         | -                      | -   | -                                 | -              |
| LTIP – June 2011 <sup>2</sup> | -                         | 1,019,400 | -       | -                   | 1,019,400                 | nil                    | 41 2p   | March 2014 <sup>1</sup>           | June 2021      |
| SAYE scheme                   | -                         | -         | -       | -                   | -                         | -                      | -   | -                                 | -              |
| <b>K M Evans</b>              |                           |           |         |                     |                           |                        |   |                                   |                |
| PLC scheme                    | -                         | -         | -       | -                   | -                         | -                      | -   | -                                 | -              |
| LTIP – June 2011 <sup>2</sup> | -                         | 1,019,400 | -       | -                   | 1,019,400                 | nil                    | 41 2p   | March 2014 <sup>1</sup>           | June 2021      |
| SAYE scheme                   | -                         | -         | -       | -                   | -                         | -                      | -   | -                                 | -              |

### Notes

- <sup>1</sup> The date on which the Company's results for the year ending 31 December 2013 are announced
- <sup>2</sup> 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% vestings for EPS of 31 5p and 100% vests 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
- <sup>3</sup> On 31 May 2011 Peter Martin exercised 92,408 LTIP awards at a market price of 42 13p for an aggregate gain of £38,962.87

The closing share price at 31 December 2011 was 43 38p and during the year ranged from 36 25p to 51 00p

There have been no variations to the terms and conditions or performance criteria for share options during the financial year. Options granted under the SAYE schemes are not subject to performance criteria

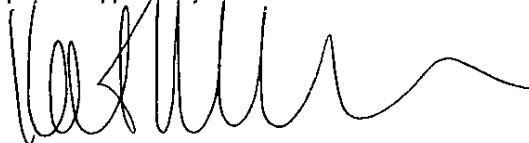
### Directors' interest in shares of Tribal Group plc

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<br>at end of<br>period | Interest<br>at start of<br>period | Interest<br>at 21 March<br>2012 |
|-----------|---------------------------------|-----------------------------------|---------------------------------|
| S Breach  | 32,144                          | 77,611                            | 145,154                         |
| K Evans   | -                               | 203,130                           | 370,941                         |
| J Ormerod | 50,000                          | 219,157                           | 219,157                         |
| M Masters | -                               | 6,500                             | 6,500                           |
| S Ball    | -                               | 100,000                           | 100,000                         |

### Approval

This report was approved by the Board of directors on 22 March 2012 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, 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 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



**Kerth Evans**  
Chief Executive Officer  
22 March 2012



**Steve Breach**  
Group Finance Director

## 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 2011 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 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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

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

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review

- the directors' statement contained within the Corporate governance report in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 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 2011 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  
22 March 2012

## 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 2011 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 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

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

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

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review

- the directors' statement contained within the Corporate governance report in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 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 2011 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  
22 March 2012

## Consolidated income statement for the year ended 31 December 2011

|  | Note | Before<br>exceptional<br>and<br>amortisation<br>costs<br>£'000 | Exceptional<br>and<br>amortisation<br>costs<br>£'000 | Year<br>ended<br>31 December<br>2011<br>Total<br>£'000 | Before<br>exceptional<br>and<br>amortisation<br>costs<br>£'000 | Exceptional<br>and<br>amortisation<br>costs<br>£'000 | Year<br>ended<br>31 December<br>2010<br>Total<br>£'000 |
|--|------|--|--|--|--|--|--|
| <b>Continuing operations</b>                                 |      |  |  |  |  |  |  |
| Revenue  | 3    | 108,231  | -  | 108,231  | 104,097  | -  | 104,097  |
| Cost of sales  |      | (66,516)   | -  | (66,516)   | (67,180)   | -  | (67,180)   |
| <b>Gross profit</b>  |      | <b>41,715</b>  | <b>-</b>   | <b>41,715</b>  | <b>36,917</b>  | <b>-</b>   | <b>36,917</b>  |
| Other administrative expenses                                | 6    | (30,403)   | (5,349)  | (35,752)   | (28,642)   | (6,257)  | (34,899)   |
| Amortisation of IFRS 3 intangibles                           | 16   | -  | (218)  | (218)  | -  | (314)  | (314)  |
| <b>Total administrative expenses</b>                         |      | <b>(30,403)</b>  | <b>(5,567)</b>                                       | <b>(35,970)</b>  | <b>(28,642)</b>  | <b>(6,571)</b>                                       | <b>(35,213)</b>  |
| <b>Operating profit/(loss)</b>                               |      | <b>11,312</b>  | <b>(5,567)</b>                                       | <b>5,745</b>   | <b>8,275</b>   | <b>(6,571)</b>                                       | <b>1,704</b>   |
| Investment income  | 8    | 50   | -  | 50   | 143  | -  | 143  |
| Other gains and losses                                       | 9    | -  | (145)  | (145)  | -  | (625)  | (625)  |
| Finance costs  | 10   | (1,910)  | -  | (1,910)  | (1,634)  | -  | (1,634)  |
| <b>Profit/(loss) before tax</b>                              |      | <b>9,452</b>   | <b>(5,712)</b>                                       | <b>3,740</b>   | <b>6,784</b>   | <b>(7,196)</b>                                       | <b>(412)</b>   |
| Tax  | 11   | (2,066)  | 1,651  | (415)  | (1,484)  | 1,439  | (45)   |
| <b>Profit/(loss) for the year from continuing operations</b> |      | <b>7,386</b>   | <b>(4,061)</b>                                       | <b>3,325</b>   | <b>5,300</b>   | <b>(5,757)</b>                                       | <b>(457)</b>   |
| <b>Discontinued operations</b>                               |      |  |  |  |  |  |  |
| (Loss)/profit from discontinued operations                   | 13   | (1,113)  | (24,651)   | (25,764)   | 401  | (62,048)   | (61,647)   |
| <b>Profit/(loss) for the year</b>                            | 5    | <b>6,273</b>   | <b>(28,712)</b>                                      | <b>(22,439)</b>  | <b>5,701</b>   | <b>(67,805)</b>                                      | <b>(62,104)</b>  |
| <b>Attributable to</b>                                       |      |  |  |  |  |  |  |
| Equity holders of the parent                                 |      |  |  | (22,439)   |  |  | (62,104)   |
| <b>Earnings per share</b>                                    |      |  |  |  |  |  |  |
| <b>From continuing operations</b>                            |      |  |  |  |  |  |  |
| Basic  | 14   | 7.9p   | (4.4)p   | 3.5p   | 5.7p   | (6.2)p   | (0.5)p   |
| Diluted  | 14   | 7.9p   | (4.4)p   | 3.5p   | 5.6p   | (6.1)p   | (0.5)p   |
| <b>From continuing and discontinued operations</b>           |      |  |  |  |  |  |  |
| Basic  | 14   | 6.7p   | (30.6)p  | (23.9)p  | 6.1p   | (72.4)p  | (66.3)p  |
| Diluted  | 14   | 6.7p   | (30.6)p  | (23.9)p  | 6.1p   | (72.4)p  | (66.3)p  |

## Consolidated statement of comprehensive income for the year ended 31 December 2011

|   | Note | Year<br>ended<br>31 December<br>2011<br>£'000 | Year<br>ended<br>31 December<br>2010<br>£ 000 |
|---|------|---|---|
| Loss for the year   |      | (22,439)                                      | (62,104)                                      |
| Actuarial (loss)/gain on defined benefit plans  | 34   | (175)   | 969   |
| Transfer from/(to) cash flow hedge reserve  |      | 234   | (618)   |
| Deferred tax  | 26   | (121)   | (98)  |
| Exchange differences on translation of foreign operations                                   |      | 4   | 63  |
| <b>Total comprehensive income for the year attributable to equity holders of the parent</b> |      | <b>(22,497)</b>                               | <b>(61,788)</b>                               |

**Consolidated balance sheet at 31 December 2011**

|  | Note | 2011<br>£'000   | 2010<br>£ 000   | 2009<br>£ 000    |
|--|------|-----------------|-----------------|------------------|
| <b>Non-current assets</b>  |      |                 |                 |                  |
| Goodwill   | 15   | 72,616          | 95,116          | 158,050          |
| Other intangible assets  | 16   | 5,655           | 7,801           | 8,797            |
| Property, plant and equipment                                    | 17   | 2,576           | 6 188           | 7,936            |
| Investments  | 18   | 1               | 1               | 38               |
| Deferred tax assets  | 26   | 1,661           | 3 256           | 3,191            |
|  |      | <b>82,509</b>   | <b>112,362</b>  | <b>178,012</b>   |
| <b>Current assets</b>  |      |                 |                 |                  |
| Inventories  | 19   | 333             | 610             | 954              |
| Trade and other receivables                                      | 20   | 23,323          | 34,885          | 62 457           |
| Cash and cash equivalents  | 21   | 6,524           | 14,659          | 9,370            |
| Assets held for sale   | 13   | -               | 4,319           | -                |
|  |      | <b>30,180</b>   | <b>54,473</b>   | <b>72,781</b>    |
| <b>Total assets</b>  |      | <b>112,689</b>  | <b>166,835</b>  | <b>250,793</b>   |
| <b>Current liabilities</b>                                       |      |                 |                 |                  |
| Trade and other payables   | 23   | (8,781)         | (16,915)        | (26,436)         |
| Accruals and deferred income                                     |      | (28,271)        | (33,856)        | (40 285)         |
| Tax liabilities  |      | (2,671)         | (2,227)         | (5,002)          |
| Bank loans and loan notes  | 24   | -               | -               | (381)            |
| Provisions   | 25   | (2,419)         | (525)           | (435)            |
| Liabilities held for sale  | 13   | -               | (5 382)         | -                |
|  |      | <b>(42,142)</b> | <b>(58,905)</b> | <b>(72 541)</b>  |
| <b>Net current (liabilities)/assets</b>                          |      | <b>(11,962)</b> | <b>(4 432)</b>  | <b>240</b>       |
| <b>Non-current liabilities</b>                                   |      |                 |                 |                  |
| Bank loans   | 24   | (22,503)        | (33,157)        | (36,780)         |
| Retirement benefit obligations                                   | 34   | (540)           | (1,159)         | (2,143)          |
| Deferred tax liabilities   | 26   | (178)           | (1,024)         | (1 881)          |
| Derivative financial instruments                                 | 22   | -               | (2,173)         | (931)            |
| Provisions   | 25   | (1,439)         | -               | -                |
| Other payables   |      | -               | (662)           | -                |
|  |      | <b>(24,660)</b> | <b>(38,175)</b> | <b>(41,735)</b>  |
| <b>Total liabilities</b>   |      | <b>(66,802)</b> | <b>(97,080)</b> | <b>(114,276)</b> |
| <b>Net assets</b>  |      | <b>45,887</b>   | <b>69,755</b>   | <b>136,517</b>   |
| <b>Equity</b>  |      |                 |                 |                  |
| Share capital  | 28   | 4,685           | 4,685           | 4,685            |
| Share premium account  | 29   | -               | -               | 78,723           |
| Other reserves   | 30   | 26,245          | 26,246          | 31,597           |
| Retained earnings  | 31   | 14,957          | 38,824          | 21,512           |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>45,887</b>   | <b>69,755</b>   | <b>136 517</b>   |

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 22 March 2012 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 2011

|   | Share capital<br>£ 000 | Other reserves<br>£ 000 | Retained earnings<br>£ 000 | Total equity<br>£'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<br>£ 000 | Share premium<br>£ 000 | Other reserves<br>£ 000 | Retained earnings<br>£ 000 | Total equity<br>£'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                |

### For the year ended 31 December 2009

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

**Consolidated cash flow statement for the year ended 31 December 2011**

|   | Note | Year ended<br>31 December<br>2011<br>£'000 | Year ended<br>31 December<br>2010<br>£ 000 |
|---|------|--|--|
| <b>Net cash from operating activities</b>                   | 35   | <b>(408)</b>                               | 15 871                                     |
| <b>Investing activities</b>                                 |      |  |  |
| Interest received   |      | 49   | 143  |
| Proceeds on disposal of discontinued operations             |      | 12,786                                     | 8,217                                      |
| Proceeds on disposal of property, plant and equipment       |      | 160  | 185  |
| Disposal of investments                                     |      | -  | 1  |
| Purchases of property, plant and equipment                  |      | (836)                                      | (2 588)                                    |
| Expenditure on product development and business systems     |      | (3,804)                                    | (3,203)                                    |
| Acquisitions and deferred consideration                     |      | (70)                                       | (839)                                      |
| Cash and cash equivalents disposed                          |      | (408)                                      | (2,932)                                    |
| <b>Net cash inflow/(outflow) from investing activities</b>  |      | <b>7,877</b>                               | (1,016)                                    |
| <b>Financing activities</b>                                 |      |  |  |
| Interest paid   |      | (1,606)                                    | (1,496)                                    |
| Equity dividend paid  |      | (980)                                      | (4 284)                                    |
| Repayment of borrowings                                     |      | (11,500)                                   | (3,843)                                    |
| Settlement of interest rate swap                            |      | (2,086)                                    | -  |
| New bank loans  |      | 542  | -  |
| <b>Net cash used in financing activities</b>                |      | <b>(15,630)</b>                            | (9,623)                                    |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(8,161)</b>                             | 5,232                                      |
| <b>Cash and cash equivalents at beginning of year</b>       |      | <b>14,659</b>                              | 9,370                                      |
| Effect of foreign exchange rate changes                     |      | 26   | 57   |
| <b>Cash and cash equivalents at end of year</b>             |      | <b>6,524</b>                               | 14,659                                     |

## Notes to the financial statements

### 1 Accounting policies

#### Basis for accounting

The financial statements on pages 57 to 105 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)

|                    |   |
|--------------------|---|
| IFRS 7             | Financial Instruments Disclosures   |
| 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             | Recovery of deferred tax assets   |
| IAS 19             | Employee Benefits – amended standard resulting from the Post –Employment Benefits and Termination Benefits projects           |
| IAS 24 (amended)   | Related Party Disclosures   |
| IAS 27             | Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011)        |
| IAS 32             | Financial Instruments Presentation – Amendments to application guidance on the offsetting of financial assets and liabilities |
| IFRIC 14 (amended) | Prepayments of a minimum funding requirement  |

#### 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

## 1 Accounting policies (continued)

### Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Corporate governance report on page 48.

### 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 (including Measurement, Compliance and Delivery 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 labour costs incurred to date as a percentage of total estimated project costs required to complete the project.
- Revenue from contracts for maintenance and support is recognised on a pro-rata basis over the contract period.
- Revenue from implementation, consultancy and other services is recognised when the service has been provided, and
- 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. To the extent that they are expected to be recovered over the contract term, bid costs are capitalised from this point, and amortised over the life of the contract.

The following revenue streams related entirely to discontinued operations in the year:

- Permanent recruitment – on completion of the related stage of the recruitment service,
- Temporary recruitment – when the recruit joins the organisation, and
- Recruitment advertising – when the advertisement is placed.

### Business combinations

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

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

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

## Notes to the financial statements continued

### 1. Accounting policies (continued)

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

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

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

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

#### Goodwill

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

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

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

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

#### Merger reserve

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

#### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## 1. Accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Business systems

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

### Internally generated intangible assets – research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

Internally generated intangible assets are amortised on a straight-line basis over their useful lives of 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

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

### Leases

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

Operating lease rentals are charged against income on a straight line basis over the period of the lease. Benefits received and receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

### Borrowing costs

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

### Investment properties

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

---

## Notes to the financial statements continued

---

### 1. Accounting policies (continued)

#### Investments

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

#### Inventories

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

#### Exceptional items

Exceptional items are material items which derive from events or transactions that fall outside the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. This includes any entries in relation to hedge ineffectiveness of interest rate swaps.

#### 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.

## 1 Accounting policies (continued)

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

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

### Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. This is expensed on a straight-line basis over the vesting periods of the instruments. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Fair value is measured by use of a stochastic model which produces similar results to the Black-Scholes model but is also able to value the options subject to market based performance conditions. There is no effective liability in relation to national insurance on share options at the year end as the Company has obtained tax indemnities from employees in relation to employers' national insurance.

### Tax

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

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax in the income statement is charged or credited, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

### Financial instruments

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

#### Financial assets

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

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

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

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

## Notes to the financial statements continued

### 1. Accounting policies (continued)

#### *Effective interest method*

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

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

#### *Loans and receivables*

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

#### *Impairment of financial assets*

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

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

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand which have a right of offset against cash balances. These instruments are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

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

#### *Derecognition of financial assets*

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

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

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

#### *Equity instruments*

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

#### *Financial liabilities*

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

## 1 Accounting policies (continued)

### *Other financial liabilities*

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

### *Financial assets/liabilities at FVTPL*

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

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

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

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

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

Note 37 sets out the details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in note 30.

## Notes to the financial statements continued

### 1 Accounting policies (continued)

#### Cash flow hedge

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

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

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

### 2. Critical accounting judgements

In the process of applying the Group's accounting policies, which are described in note 1, management 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 (2010: £95.1m, 2009: £158.1m). 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 £5.7m (2010: £7.8m, 2009: £8.8m). Judgement is required to assess the need for any 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.

#### Tax

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

### 3. Revenue

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

|                                | 2011<br>£'000  | 2010<br>£'000  |
|--------------------------------|----------------|----------------|
| <b>Continuing operations</b>   |                |                |
| Sales of services              | 108,231        | 104,097        |
| Investment income              | 50             | 143            |
|                                | <b>108,281</b> | <b>104,240</b> |
| <b>Discontinued operations</b> |                |                |
| Sales of services              | 23,216         | 97,829         |
| <b>Total revenue</b>           | <b>131,497</b> | <b>202,069</b> |

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

Approximately 85% (2010: 90%) of the Group revenues arose from sales to the UK public sector and as such the UK Government is deemed to be the Group's largest customer.

#### 4. Business segments

Following the sale of our Health and Government businesses, the Group is now organised into two business segments – Services and Technology. These segments were previously reported together as “Education”. In view of the relevance to future reporting, the business segment information for the year to 31 December 2011 has been reported under this structure and the comparative segment information for the year ended 31 December 2010 has been restated to reflect the changes.

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:

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

#### Year ended 31 December 2011

|   | Technology<br>£'000 | Services<br>£'000 | Eliminations<br>£'000 | Consolidated<br>£'000 |
|---|---------------------|-------------------|-----------------------|-----------------------|
| <b>Revenue</b>                                    |                     |                   |                       |                       |
| External sales                                    | 44,042              | 64,189            | -                     | 108,231               |
| Inter-segment sales                               | 2,520               | 104               | (2,624)               | -                     |
| <b>Total revenue</b>                              | <b>46,562</b>       | <b>64,293</b>     | <b>(2,624)</b>        | <b>108,231</b>        |
| <b>Segment operating profit</b>                   | <b>9,343</b>        | <b>5,442</b>      | <b>-</b>              | <b>14,785</b>         |
| Unallocated corporate expenses                    |                     |                   |                       | (3,473)               |
| <b>Adjusted operating profit</b>                  |                     |                   |                       | <b>11,312</b>         |
| Amortisation of IFRS 3 intangibles                |                     |                   |                       | (218)                 |
| Exceptional costs                                 |                     |                   |                       | (5,349)               |
| Goodwill impairment                               |                     |                   |                       | -                     |
| <b>Operating loss</b>                             |                     |                   |                       | <b>5,745</b>          |
| Investment income                                 |                     |                   |                       | 50                    |
| Other gains and losses                            |                     |                   |                       | (145)                 |
| Finance costs                                     |                     |                   |                       | (1,910)               |
| <b>Profit before tax</b>                          |                     |                   |                       | <b>3,740</b>          |
| Tax   |                     |                   |                       | (415)                 |
| Loss for the year from discontinued operations    |                     |                   |                       | (25,764)              |
| <b>Loss after tax and discontinued operations</b> |                     |                   |                       | <b>(22,439)</b>       |

Inter-segment sales are charged at prevailing market prices.

## Notes to the financial statements continued

### 4 Business segments (continued)

Year ended 31 December 2010

|   | Technology<br>£ 000 | Services<br>£ 000 | Eliminations<br>£ 000 | Consolidated<br>£ 000 |
|---|---------------------|-------------------|-----------------------|-----------------------|
| <b>Revenue</b>                                    |                     |                   |                       |                       |
| External sales                                    | 42,388              | 61,709            | -                     | 104,097               |
| Inter-segment sales                               | 1,949               | 802               | (2,751)               | -                     |
| <b>Total revenue</b>                              | <b>44,337</b>       | <b>62,511</b>     | <b>(2,751)</b>        | <b>104,097</b>        |
| <b>Segment operating profit</b>                   | <b>10,733</b>       | <b>1,607</b>      | <b>-</b>              | <b>12,340</b>         |
| Unallocated corporate expenses                    |                     |                   |                       | (4,065)               |
| <b>Adjusted operating profit</b>                  |                     |                   |                       | <b>8,275</b>          |
| Amortisation of IFRS 3 intangibles                |                     |                   |                       | (314)                 |
| Exceptional costs                                 |                     |                   |                       | (6,257)               |
| <b>Operating profit</b>                           |                     |                   |                       | <b>1,704</b>          |
| Investment income                                 |                     |                   |                       | 143                   |
| Other gains and losses                            |                     |                   |                       | (625)                 |
| Finance costs                                     |                     |                   |                       | (1,634)               |
| <b>Loss before tax</b>                            |                     |                   |                       | <b>(412)</b>          |
| Tax   |                     |                   |                       | (45)                  |
| Loss for the year from discontinued operations    |                     |                   |                       | (61,647)              |
| <b>Loss after tax and discontinued operations</b> |                     |                   |                       | <b>(62,104)</b>       |

### Geographical information

#### Revenue from external customers

|                   | 2011<br>£'000  | 2010<br>£ 000  |
|-------------------|----------------|----------------|
| UK                | 95,162         | 94,010         |
| Australasia       | 7,498          | 6,853          |
| Rest of the world | 5,571          | 3,234          |
|                   | <b>108,231</b> | <b>104,097</b> |

## 5 Profit/(loss) for the year

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| <b>Profit/(loss) for the year is stated after charging/(crediting)</b>   |               |               |
| Depreciation and other amounts written off property, plant and equipment | 1,892         | 2,830         |
| Restructuring costs  | 10,519        | 9,307         |
| Staff costs (see note 7)   | 68,215        | 104,120       |
| Amortisation of acquired IFRS 3 intangible assets                        | 455           | 1,052         |
| Amortisation and write down of business systems                          | 344           | 2,144         |
| Goodwill impairment  | -             | 56,360        |
| Cost of inventories recognised as an expense                             | 773           | 324           |
| Write-down of inventories recognised as an expense                       | 266           | 220           |
| Impairment loss recognised on trade receivables                          | 888           | 264           |
| Research and development expenditure                                     | 771           | 766           |
| Amortisation of development costs  | 1,354         | 997           |
| Grant income received  | (3,412)       | (819)         |
| Net foreign exchange (gains)/losses                                      | (62)          | 225           |

### The analysis of auditor's remuneration is as follows

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Fees payable to the company's auditor for the audit of the company's annual report             | 80            | 92            |
| Fees payable to the company's auditor and their associates for the other services to the Group |               |               |
| – the audit of the Company's subsidiaries pursuant to legislation                              | 56            | 124           |
|  | 136           | 216           |
| – audit related assurance  | 21            | 30            |
| – other assurance  | 5             | -             |
| – tax services compliance  | -             | 53            |
| – tax services other   | 79            | 91            |
| – corporate finance services   | 359           | 131           |
| – other services   | 10            | 100           |
| Total non-audit fees   | 474           | 405           |
| Total auditor's remuneration   | 610           | 621           |

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

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

See page 47 for the Group policy on use of auditor for non-audit work

## Notes to the financial statements continued

### 6. Exceptional administrative expenses

|                                   | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------------------|---------------|---------------|
| <b>Restructuring costs</b>        |               |               |
| – Redundancy                      | 3,327         | 1,151         |
| – Property related                | 1,773         | 1,161         |
| – Other restructuring costs       | 913           | 626           |
| Release of deferred consideration | (664)         | -             |
| Write-down of business system     | -             | 1,888         |
| China business development        | -             | 770           |
| Other                             | -             | 661           |
|                                   | <b>5,349</b>  | <b>6,257</b>  |

Exceptional costs have arisen throughout the year, which are not part of the Group's normal trading activities. As explained in the Financial Review, significant restructuring costs of £6.0m have been incurred to reduce headcount and property capacity, and certain assets have been impaired, following the disposal of the Group's Health and Government businesses and the subsequent refocusing of the continuing business. Also included within exceptional items is the release of deferred consideration in respect of acquisitions which are no longer expected to meet the criteria required to trigger these payments and have therefore been credited to the income statement in line with IFRS 3 (Revised 2008) "Business Combinations".

### 7 Staff numbers and costs

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

|                                   | 2011<br>No   | 2010<br>No   |
|-----------------------------------|--------------|--------------|
| Selling, operations and marketing | 1,163        | 1,762        |
| Finance and administration        | 293          | 311          |
|                                   | <b>1,456</b> | <b>2,073</b> |

The aggregate payroll costs of these persons were as follows

|                         | 2011<br>£'000 | 2010<br>£'000  |
|-------------------------|---------------|----------------|
| Wages and salaries      | 54,719        | 83,905         |
| Social security costs   | 5,603         | 9,407          |
| Pension costs           | 3,839         | 5,729          |
| Redundancy costs        | 4,277         | 5,769          |
| Share option credit     | (223)         | (690)          |
|                         | <b>68,215</b> | <b>104,120</b> |
| Discontinued operations | (11,396)      | (56,106)       |
| Continuing operations   | <b>56,819</b> | <b>48,014</b>  |

**8 Investment income**

|   | 2011<br>£'000 | 2010<br>£ 000 |
|---|---------------|---------------|
| Interest on bank deposits                                 | 42            | 87            |
| Net interest receivable on retirement benefit obligations | 1             | -             |
| Other interest receivable                                 | 7             | 56            |
|   | <b>50</b>     | <b>143</b>    |

**9 Other gains and losses**

|   | 2011<br>£'000 | 2010<br>£ 000 |
|---|---------------|---------------|
| Hedge ineffectiveness in the cash flow hedges | 84            | 625           |
| Charge on settlement of interest rate swap    | 61            | -             |
|   | <b>145</b>    | <b>625</b>    |

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

**10. Finance costs**

|  | 2011<br>£'000 | 2010<br>£ 000 |
|--|---------------|---------------|
| <b>Finance charges</b>                                 |               |               |
| Interest on bank overdrafts and loans                  | 1,910         | 1,563         |
| Net interest payable on retirement benefit obligations | -             | 71            |
|  | <b>1,910</b>  | <b>1 634</b>  |

## Notes to the financial statements continued

### 11. Tax

|  | Continuing operations |               | Discontinued operations |                | Total         |                |
|--|-----------------------|---------------|-------------------------|----------------|---------------|----------------|
|  | 2011<br>£'000         | 2010<br>£'000 | 2011<br>£'000           | 2010<br>£'000  | 2011<br>£'000 | 2010<br>£'000  |
| <b>Current tax</b>                             |                       |               |                         |                |               |                |
| UK corporation tax                             | -                     | 2,408         | -                       | (2,239)        | -             | 169            |
| Overseas tax                                   | 506                   | -             | -                       | -              | 506           | -              |
| Adjustments in respect of prior years          | (567)                 | (1,328)       | (168)                   | -              | (735)         | (1,328)        |
|  | (61)                  | 1,080         | (168)                   | (2,239)        | (229)         | (1,159)        |
| <b>Deferred tax</b>                            |                       |               |                         |                |               |                |
| Current year                                   | (215)                 | (1,035)       | 43                      | -              | (172)         | (1,035)        |
| Adjustments in respect of prior years          | 691                   | -             | (150)                   | -              | 541           | -              |
|  | 476                   | (1,035)       | (107)                   | -              | 369           | (1,035)        |
| <b>Tax charge/(credit) on profits/(losses)</b> | <b>415</b>            | <b>45</b>     | <b>(275)</b>            | <b>(2,239)</b> | <b>140</b>    | <b>(2,194)</b> |

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

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Profit/(loss) before tax                                  | 3,740         | (412)         |
| Tax charge/(credit) at standard rate of 26.5% (2010: 28%) | 991           | (115)         |
| <i>Effects of</i>   |               |               |
| Intangible amortisation and impairment                    | 63            | 100           |
| Expenses not deductible for tax purposes                  | 389           | 1,542         |
| Adjustments in respect of prior periods                   | 125           | (1,328)       |
| Group relief claimed from discontinued operations         | (928)         | -             |
| Release of deferred consideration                         | (176)         | -             |
| Share based payments and discounting charges              | (49)          | (154)         |
| <b>Tax expense for the year</b>                           | <b>415</b>    | <b>45</b>     |

In addition to the amount charged to the income statement, a deferred tax charge of £121,000 (2010: £98,000) has been taken directly to equity (see consolidated statement of comprehensive income on page 58)

The reduction in the corporation tax rate from 26% to 25%, from 1 April 2012, will affect the future tax charge accordingly

## 12 Dividends

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Amounts recognised as distributions to equity holders in the period  |               |               |
| Final dividend for the year ended 31 December 2010 of 0.65 pence (year ended 31 December 2009 2.75 pence) per share          | 606           | 2,562         |
| Interim dividend for the year ended 31 December 2011 of 0.40 pence (year ended 31 December 2010 1.85 pence) per share        | 373           | 1,722         |
|  | <b>979</b>    | <b>4,284</b>  |
| Proposed final dividend for the year ended 31 December 2011 of 0.60 pence (year ended 31 December 2010 0.65 pence) per share | 562           | 615           |

The interim dividend for 2011 was approved by the Board on 15 August 2011 and was paid on 21 October 2011 to ordinary shareholders who were on the register on 23 September 2011

The Board is recommending a final dividend of 0.60p per share. This dividend will be paid on 13 July 2012 to shareholders on the register at 15 June 2012.

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

## Notes to the financial statements continued

### 13 Discontinued operations

The Group disposed of its Health and Government businesses on 28 April 2011. The maximum gross sale proceeds are £15.9 million payable as follows:

- (i) initial consideration at completion of £13.4m, and
- (ii) further deferred consideration of up to £2.5m payable on the satisfaction of certain conditions such as assigning key contracts and framework agreements. Of this, £2.0m had been received by 31 December 2011.

The total consideration estimated in determining the loss on disposal is £15.8 million which represents management's best view of the likely outcome.

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

|  | £ 000         |
|--|---------------|
| Goodwill                                   | 22,500        |
| Other intangible assets                    | 2,668         |
| Property, plant and equipment              | 653           |
| Trade and other receivables                | 18,490        |
| Cash and cash equivalents                  | 408           |
| Trade and other payables                   | (12,531)      |
| Retirement benefit obligations             | (933)         |
| Deferred tax                               | 461           |
| <b>Net assets disposed</b>                 | <b>31,716</b> |
| Loss on disposal                           | (18,390)      |
| <b>Consideration</b>                       | <b>13,326</b> |
| Satisfied by                               |               |
| Cash                                       | 15,372        |
| Deferred and contingent consideration      | 450           |
| Directly attributable costs                | (2,496)       |
|  | <b>13,326</b> |
| <b>Net cash flow arising from disposal</b> |               |
| Cash consideration                         | 15,372        |
| Cash disposed                              | (408)         |
| Directly attributable costs                | (2,459)       |
| <b>Cash inflow from disposal</b>           | <b>12,505</b> |

On 9 February 2011 we announced the sale of the trade and certain assets of our Resourcing business to TMP (UK) Limited for an estimated contingent consideration of £1.0m. A loss on disposal of £2.7m was recognised on the transaction, which completed on 1 March 2011. In the period we also recognised an additional profit on the disposal of our Architecture business which took place in June 2010. The increase in profit of £1.1m arises due to deferred contingent consideration exceeding the previous estimate.

The Group also closed its Treasury Services subsidiary during the year. This business has therefore been presented within discontinued operations.

**13. Discontinued operations (continued)**

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

|   | 2011<br>£'000 | 2010<br>£ 000 |
|---|---------------|---------------|
| Turnover  | 27,591        | 123,727       |
| Direct agency costs   | (4,275)       | (25,898)      |
| Revenue   | 23,316        | 97,829        |
| Operating (loss)/profit before amortisation of IFRS 3 intangibles and exceptional costs | (1,329)       | 555           |
| Exceptional restructuring costs   | (4,506)       | (6,369)       |
| Goodwill impairment   | -             | (56,360)      |
| Amortisation of IFRS 3 intangibles  | (237)         | (738)         |
| Operating loss  | (6,072)       | (62,912)      |
| Attributable tax credit   | 275           | 2,239         |
| Loss on disposal of discontinued operations   | (19,967)      | (974)         |
| Net loss attributable to discontinued operations  | (25,764)      | (61,647)      |
| Operating cash flows for discontinued operations  | (8,540)       | (6,605)       |
| Effect of foreign exchange rate changes   | -             | (9)           |
| Investing cash flows for discontinued operations  | 12,498        | 4,752         |
| Financing cash flows for discontinued operations  | (11,500)      | -             |
| Total cash flows for discontinued operations  | (7,542)       | (1,862)       |

## Notes to the financial statements continued

### 13. Discontinued operations (continued)

The major classes of assets and liabilities comprising the operations classified as held for sale are as set out below and related entirely to the Resourcing business in 2010. This business has been sold during 2011 and therefore there are no assets held for sale at 31 December 2011.

|  | 2011<br>£'000 | 2010<br>£ 000  |
|--|---------------|----------------|
| Property, plant and equipment                  | -             | 488            |
| Deferred tax asset                             | -             | 202            |
| Inventories                                    | -             | 82             |
| Trade and other receivables                    | -             | 3,547          |
| <b>Assets classified as held for sale</b>      | <b>-</b>      | <b>4,319</b>   |
| Trade and other payables                       | -             | (5,262)        |
| Tax liabilities                                | -             | (120)          |
| <b>Liabilities classified as held for sale</b> | <b>-</b>      | <b>(5,382)</b> |

### 14 Earnings per share

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

|   | 2011<br>thousands | 2010<br>thousands |
|---|-------------------|-------------------|
| Weighted average number of shares outstanding                           |                   |                   |
| Basic weighted average number of shares in issue                        | 93,696            | 93,696            |
| Employee share options  | -                 | 160               |
| Weighted average number of shares outstanding for dilution calculations | 93,696            | 93,856            |

The adjusted basic and adjusted diluted earnings per share figures shown on the consolidated income statement on page 57 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:

|   | 2011<br>£'000 | 2010<br>£ 000 |
|---|---------------|---------------|
| <b>Earnings</b>   |               |               |
| <b>From continuing operations</b>   |               |               |
| Profit/(loss) for the year  | 3,325         | (457)         |
| Minority interests  | -             | -             |
| Net profit/(loss) from continuing operations attributable to equity holders of the parent         | 3,325         | (457)         |
| <b>Earnings per share</b>   |               |               |
| Basic   | 3.5p          | (0.5)p        |
| Diluted   | 3.5p          | (0.5)p        |
| <b>From continuing and discontinued operations</b>  |               |               |
| Loss for the year   | (22,439)      | (62,104)      |
| Minority interests  | -             | -             |
| Net loss from continuing and discontinued operations attributable to equity holders of the parent | (22,439)      | (62,104)      |
| <b>Earnings per share</b>   |               |               |
| Basic   | (23.9)p       | (66.3)p       |
| Diluted   | (23.9)p       | (66.3)p       |

**14. Earnings per share (continued)**

|  | 2011<br>£'000   | 2010<br>£ 000   |
|--|-----------------|-----------------|
| <b>From discontinued operations</b>  |                 |                 |
| Loss for the year  | (25,764)        | (61,647)        |
| Minority interests   | -               | -               |
| <b>Net loss from continuing and discontinued operations attributable to equity holders of the parent</b> | <b>(25,764)</b> | <b>(61,647)</b> |
| <b>Earnings per share</b>  |                 |                 |
| Basic  | (27.5)p         | (65.8)p         |
| Diluted  | (27.5)p         | (65.8)p         |
| <b>Adjusted earnings</b>   |                 |                 |
| <b>From continuing operations</b>  |                 |                 |
| Net profit/(loss) from continuing operations attributable to equity holders of the parent                | 3,325           | (457)           |
| Amortisation of IFRS 3 intangibles (net of tax)  | 160             | 226             |
| Exceptional costs (net of tax)   | 3,756           | 5,081           |
| Financial instruments charge (net of tax)  | 145             | 450             |
| <b>Adjusted earnings</b>   | <b>7,386</b>    | <b>5,300</b>    |
| <b>Adjusted earnings per share</b>   |                 |                 |
| Basic  | 7.9p            | 5.7p            |
| Diluted  | 7.9p            | 5.6p            |
| <b>From continuing and discontinued operations</b>   |                 |                 |
| Net loss from continuing and discontinued operations attributable to equity holders of the parent        | (22,439)        | (62,104)        |
| Amortisation of IFRS 3 intangibles (net of tax)  | 338             | 757             |
| Goodwill impairment and associated tax adjustments   | -               | 55,777          |
| Exceptional costs (net of tax)   | 8,262           | 9,847           |
| Loss on disposal of discontinued operations and associated tax adjustments                               | 19,967          | 974             |
| Financial instruments charge (net of tax)  | 145             | 450             |
| <b>Adjusted earnings</b>   | <b>6,273</b>    | <b>5,701</b>    |
| <b>Adjusted earnings per share</b>   |                 |                 |
| Basic  | 6.7p            | 6.1p            |
| Diluted  | 6.7p            | 6.1p            |
| <b>From discontinued operations</b>  |                 |                 |
| Net loss from discontinued operations attributable to equity holders of the parent                       | (25,764)        | (61,647)        |
| Amortisation of IFRS 3 intangibles (net of tax)  | 178             | 531             |
| Goodwill impairment and associated tax adjustments   | -               | 55,777          |
| Exceptional costs (net of tax)   | 4,506           | 4,766           |
| Loss on disposal of discontinued operations and associated tax adjustments                               | 19,967          | 974             |
| <b>Adjusted earnings</b>   | <b>(1,113)</b>  | <b>401</b>      |
| <b>Adjusted earnings per share</b>   |                 |                 |
| Basic  | (1.2)p          | 0.4p            |
| Diluted  | (1.2)p          | 0.4p            |

## Notes to the financial statements continued

### 15 Goodwill

|                                      | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--------------------------------------|---------------|---------------|---------------|
| <b>Cost</b>                          |               |               |               |
| At beginning of year                 | 259,605       | 269,888       | 260,896       |
| Additions                            | -             | 926           | 13,859        |
| Disposals                            | (157,409)     | (11,209)      | (4,867)       |
| At end of year                       | 102,196       | 259,605       | 269,888       |
| <b>Accumulated impairment losses</b> |               |               |               |
| At beginning of year                 | 164,489       | 111,838       | 51,131        |
| Impairment charge – discontinued     | -             | 56,360        | 65,574        |
| Disposals                            | (134,909)     | (3,709)       | (4,867)       |
| At end of year                       | 29,580        | 164,489       | 111,838       |
| <b>Net book value</b>                |               |               |               |
| At end of year                       | 72,616        | 95,116        | 158,050       |
| At beginning of year                 | 95,116        | 158,050       | 209,765       |

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.

|                         | 2011<br>£ 000 | 2010<br>£ 000 | 2009<br>£ 000 |
|-------------------------|---------------|---------------|---------------|
| <b>Support Services</b> |               |               |               |
| Communications          | -             | -             | 2,250         |
| Architecture            | -             | -             | 7,500         |
| Resourcing              | -             | -             | 2,500         |
|                         | -             | -             | 12,250        |
| Health                  | -             | 9,351         | 24,759        |
| Government              | -             | 13,149        | 49,351        |
| <b>Technology</b>       | 42,430        | 42,430        | 42,430        |
| <b>Services</b>         | 30,186        | 30,186        | 29,260        |
|                         | 72,616        | 95,116        | 158,050       |

## 15 Goodwill (continued)

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

Following the sale of our Health and Government businesses, the Group is now organised into two business segments – Services and Technology. These segments were previously reported together as “Education”. These segments now represent individual CGUs for the purposes of goodwill impairment testing, and therefore the analysis of the total goodwill figure above has been restated accordingly.

The recoverable amounts of the Technology and Services CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, longer term growth rates and expected changes to selling prices, 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 management for the next two years and has extrapolated cash flows in perpetuity based on an estimated growth rate of 2%. This rate does not exceed the average long-term growth rate for the relevant markets and reflects the 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 headroom in the calculations is such that management does not believe there is a reasonably possible change in the key assumptions that would result in an impairment of either CGU.

## Notes to the financial statements continued

### 16 Other intangible assets

|   | Customer relationships, contract pipeline and brands<br>£'000 | Development costs<br>£'000 | Business systems<br>£'000 | Total<br>£'000 |
|---|---|----------------------------|---------------------------|----------------|
| <b>Cost</b>                             |   |                            |                           |                |
| At 1 January 2010                       | 7,147   | 6,782                      | 3,035                     | 16,964         |
| Additions                               | -   | 1,907                      | 1,296                     | 3,203          |
| Acquired on acquisition of subsidiaries | 117   | -                          | -                         | 117            |
| Disposals                               | (346)   | (21)                       | -                         | (367)          |
| 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)        |
| <b>At 31 December 2011</b>              | <b>2,446</b>  | <b>10,685</b>              | <b>4,349</b>              | <b>17,480</b>  |
| <b>Amortisation</b>                     |   |                            |                           |                |
| At 1 January 2010                       | 2,946   | 4,746                      | 475                       | 8,167          |
| Charge for the year – continuing        | 314   | 997                        | 256                       | 1,567          |
| – discontinued                          | 738   | -                          | -                         | 738            |
| Write-down                              | -   | -                          | 1,888                     | 1,888          |
| Disposals                               | (244)   | -                          | -                         | (244)          |
| At 1 January 2011                       | 3,754   | 5,743                      | 2,619                     | 12,116         |
| Charge for the year – continuing        | 218   | 1,354                      | 344                       | 1,916          |
| – discontinued                          | 237   | -                          | -                         | 237            |
| Disposals                               | (1,846)   | (452)                      | (146)                     | (2,444)        |
| <b>At 31 December 2011</b>              | <b>2,363</b>  | <b>6,645</b>               | <b>2,817</b>              | <b>11,825</b>  |
| <b>Carrying amount</b>                  |   |                            |                           |                |
| <b>At 31 December 2011</b>              | <b>83</b>   | <b>4,040</b>               | <b>1,532</b>              | <b>5,655</b>   |
| At 31 December 2010                     | 3,164   | 2,925                      | 1,712                     | 7,801          |
| At 31 December 2009                     | 4,201   | 2,036                      | 2,560                     | 8,797          |

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 2011 the total net book value is made up of £0.1m relating to customer relationships (2010: £2.8m, 2009: £3.5m), £nil relating to contract pipeline (2010: £0.2m, 2009: £0.5m) and £nil relating to brands (2010: £0.2m, 2009: £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

|  | Investment<br>property<br>£'000 | Freehold<br>buildings<br>£'000 | Leasehold<br>buildings<br>£'000 | Fixtures,<br>fittings<br>and other<br>equipment<br>£'000 | Total<br>£'000 |
|--|---------------------------------|--------------------------------|---------------------------------|--|----------------|
| <b>Cost or valuation</b>                       |                                 |                                |                                 |  |                |
| At 1 January 2010                              | 200                             | 781                            | 5,848                           | 14,934   | 21,763         |
| Additions                                      | -                               | -                              | 517                             | 2,091  | 2,608          |
| Acquired on acquisition of subsidiaries        | -                               | -                              | -                               | 9  | 9              |
| Disposals                                      | (200)                           | -                              | (743)                           | (2,406)  | (3,349)        |
| Included within assets held for sale           | -                               | -                              | (258)                           | (1,151)  | (1,409)        |
| At 1 January 2011                              | -                               | 781                            | 5,364                           | 13,477   | 19,622         |
| Additions                                      | -                               | -                              | 182                             | 654  | 836            |
| Disposals                                      | -                               | (781)                          | (3,792)                         | (7,528)  | (12,101)       |
| <b>At 31 December 2011</b>                     | <b>-</b>                        | <b>-</b>                       | <b>1,754</b>                    | <b>6,603</b>   | <b>8,357</b>   |
| <b>Accumulated depreciation and impairment</b> |                                 |                                |                                 |  |                |
| At 1 January 2010                              | 35                              | 12                             | 2,443                           | 11,337   | 13,827         |
| Charge for the year                            | -                               | 17                             | 692                             | 2,121  | 2,830          |
| Disposals                                      | (35)                            | -                              | (350)                           | (1,917)  | (2,302)        |
| Included within assets held for sale           | -                               | -                              | (79)                            | (842)  | (921)          |
| 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)        |
| <b>At 31 December 2011</b>                     | <b>-</b>                        | <b>-</b>                       | <b>996</b>                      | <b>4,785</b>   | <b>5,781</b>   |
| <b>Net book value</b>                          |                                 |                                |                                 |  |                |
| <b>At 31 December 2011</b>                     | <b>-</b>                        | <b>-</b>                       | <b>758</b>                      | <b>1,818</b>   | <b>2,576</b>   |
| At 31 December 2010                            | -                               | 752                            | 2,658                           | 2,778  | 6,188          |
| At 31 December 2009                            | 165                             | 769                            | 3,405                           | 3,597  | 7,936          |

## Notes to the financial statements continued

### 18. Investments

Available for sale investments carried at fair value

|                         | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 |
|-------------------------|---------------|---------------|---------------|
| <b>Cost</b>             |               |               |               |
| At beginning of period  | 1             | 38            | 7             |
| Additions               | -             | -             | 31            |
| Disposals               | -             | (37)          | -             |
| <b>At end of period</b> | <b>1</b>      | <b>1</b>      | <b>38</b>     |

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

|                                     | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 |
|-------------------------------------|---------------|---------------|---------------|
| Work in progress                    | 115           | 275           | 568           |
| Finished goods and goods for resale | 218           | 335           | 386           |
|                                     | <b>333</b>    | <b>610</b>    | <b>954</b>    |

### 20 Trade and other receivables

|   | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 |
|---|---------------|---------------|---------------|
| Amount receivable from sale of services | 12,024        | 17,714        | 44,207        |
| Allowance for doubtful debts            | (1,178)       | (860)         | (1,399)       |
|   | <b>10,846</b> | <b>16,854</b> | <b>42,808</b> |
| Amounts recoverable on contracts        | 228           | -             | -             |
| Other receivables                       | 3,605         | 3,608         | 2,351         |
| Prepayments and accrued income          | 8,644         | 14,423        | 17,298        |
|   | <b>23,323</b> | <b>34,885</b> | <b>62,457</b> |

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

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

#### Trade receivables

The average credit terms on sale of services is 30 days

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 £3.5m (2010: £6.1m, 2009: £12.5m) 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 these receivables is 34 days (2010 43 days)

**Ageing of past due but not impaired receivables**

|              | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--------------|---------------|---------------|---------------|
| 30-60 days   | 2,292         | 4,116         | 9,403         |
| 60-90 days   | 624           | 848           | 2,160         |
| 90-120 days  | 99            | 655           | 707           |
| 120+ days    | 490           | 442           | 193           |
| <b>Total</b> | <b>3,505</b>  | <b>6,061</b>  | <b>12,463</b> |

**Movement in the allowance for doubtful debts**

|  | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--|---------------|---------------|---------------|
| Balance at the beginning of the year       | 860           | 1 399         | 1,196         |
| Discontinued operations                    | (469)         | (147)         | -             |
| Amounts written off during the year        | (251)         | (506)         | (594)         |
| Recognised in the income statement         | 888           | 264           | 797           |
| Transferred from/(to) assets held for sale | 150           | (150)         | -             |
| <b>Balance at the end of the year</b>      | <b>1,178</b>  | <b>860</b>    | <b>1 399</b>  |

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**

|              | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--------------|---------------|---------------|---------------|
| 30-60 days   | 36            | 237           | 280           |
| 60-90 days   | 40            | 124           | 109           |
| 90-120 days  | 58            | 14            | 93            |
| 120+ days    | 1,044         | 485           | 917           |
| <b>Total</b> | <b>1,178</b>  | <b>860</b>    | <b>1,399</b>  |

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 £6.5m (2010 £14.7m, 2009 £9.4m) 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, £0.5m (2010 £1.2m, 2009 £2.7m) represents funds restricted in use by the relevant commercial terms of certain trading contracts. These terms have been complied with.

## Notes to the financial statements continued

### 22. Derivative financial instruments

|  | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--|---------------|---------------|---------------|
| <b>Non-current liabilities</b>   |               |               |               |
| Interest rate swaps that are designated and effective as hedging instruments carried at fair value | -             | 2,173         | 931           |

Further details of derivative financial instruments are provided in note 37

### 23 Trade and other payables

|                                    | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|------------------------------------|---------------|---------------|---------------|
| Trade payables                     | 4,241         | 4,864         | 13,255        |
| Other taxation and social security | 2,587         | 9,813         | 6,922         |
| Other payables                     | 1,953         | 2,166         | 5,630         |
| Deferred cash consideration        | -             | 72            | 631           |
|                                    | <b>8,781</b>  | <b>16,915</b> | <b>26,438</b> |

The average credit period taken for trade purchases is 25 days (2010 29 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**

|            | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|------------|---------------|---------------|---------------|
| Bank loans | 22,503        | 33,157        | 36,780        |
| Loan notes | -             | -             | 381           |
|            | 22,503        | 33,157        | 37,161        |

**Maturity of bank loans and loan notes**

|  | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--|---------------|---------------|---------------|
| Bank loans and loan notes can be analysed as falling due |               |               |               |
| On demand or within one year                             | -             | -             | 381           |
| In the second to fifth years inclusive                   | 22,503        | 33,157        | 36,780        |
|  | 22,503        | 33,157        | 37,161        |

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

|              | Fixed rate<br>2011<br>£'000 | Floating<br>rate<br>2011<br>£'000 | Total<br>2011<br>£'000 | Fixed rate<br>2010<br>£ 000 | Floating<br>rate<br>2010<br>£ 000 | Total<br>2010<br>£ 000 |
|--------------|-----------------------------|-----------------------------------|------------------------|-----------------------------|-----------------------------------|------------------------|
| Bank loans   | -                           | 22,503                            | 22,503                 | 25,000                      | 8,157                             | 33,157                 |
| <b>Total</b> | -                           | 22,503                            | 22,503                 | 25,000                      | 8,157                             | 33,157                 |

The weighted average interest rates paid were as follows

|            | 2011 | 2010 | 2009 |
|------------|------|------|------|
| Bank loans | 5.4% | 3.3% | 3.3% |
| Loan notes | 0.0% | 0.0% | 0.1% |

The interest rate swap was settled in July 2011 and therefore at 31 December 2011 all of the Group's debt is floating rate. The weighted average fixed rate is during 2010 was 3.8% and the weighted average period for which interest rates on fixed rate liabilities were fixed, taking into account the interest rate swap, was three years.

There are £6.5m (2010: £6.0m) undrawn committed borrowing facilities, which all expire in two to five years. The Group also has cash balances of £6.5m (2010: £14.7m) (see note 21), giving net debt at the year end of £16.0m (2010: £18.5m). In addition, at the year end there was a £5m undrawn overdraft facility giving underlying headroom of £19.0m.

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

|            | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|------------|---------------|---------------|---------------|
| Bank loans | 22,503        | 35,330        | 37,711        |
| Loan notes | -             | -             | 381           |
|            | 22,503        | 35,330        | 38,092        |

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 2011, the amount drawn down (net of bank arrangement fees) was £22.5m. The loan is secured by way of a fixed and floating charge over the assets of the Group.

## Notes to the financial statements continued

### 25 Provisions

|                                     | 2011  | 2010  | 2009  |
|-------------------------------------|-------|-------|-------|
| <b>Current liabilities</b>          |       |       |       |
| At beginning of year                | 525   | 435   | 655   |
| Additional provision in year        | -     | 315   | 90    |
| Reclassification to/(from) accruals | 1,911 | -     | (290) |
| Utilisation of provision            | (17)  | (225) | (20)  |
| At end of year                      | 2,419 | 525   | 435   |
| <b>Non-current liabilities</b>      |       |       |       |
| At beginning of year                | -     | -     | -     |
| Reclassification from accruals      | 1,439 | -     | -     |
| At end of year                      | 1,439 | -     | -     |

At 31 December 2011, there were provisions of £3.9m (2010: £0.5m, 2009: £0.4m). £3.4m of the December 2011 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. Of this, £1.9m is classified as non-current. The balance and the entire amount in each of the comparatives represent an estimate of the cost of settling potential litigation claims. These claims are expected to be resolved within one year and are therefore shown within current liabilities. However, it is possible that these claims may take longer to resolve, or the Group may not be promptly notified that the claim has been dropped. The claim may be settled at amounts higher or lower than that provided depending on the outcome of commercial or legal arguments. 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

|  | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 |
|--|---------------|---------------|---------------|
| <b>Deferred tax assets</b>                           |               |               |               |
| Retirement benefit schemes                           | 135           | 323           | 601           |
| Depreciation in excess of capital allowances         | 1,066         | 2,147         | 1,868         |
| Other timing differences                             | 53            | 451           | 380           |
| Share-based payments                                 | 153           | 16            | 197           |
| Derivative financial instruments                     | 254           | 319           | 145           |
|  | <b>1,661</b>  | <b>3,256</b>  | <b>3,191</b>  |
| <b>Deferred tax liabilities</b>                      |               |               |               |
| Intangible assets                                    | 33            | 865           | 1,694         |
| Fair value adjustment on investment property         | -             | -             | 24            |
| Leasehold property not qualifying for tax allowances | 145           | 159           | 163           |
|  | <b>178</b>    | <b>1,024</b>  | <b>1,881</b>  |

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

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

|  | Temporary<br>differences on<br>non-current<br>assets<br>£'000 | Retirement<br>benefit<br>schemes<br>£'000 | Derivative<br>financial<br>instruments<br>£'000 | Other<br>temporary<br>differences<br>£'000 | Total<br>£'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)          |
| <b>At 31 December 2011</b>                   | <b>921</b>  | <b>135</b>                                | <b>254</b>                                      | <b>173</b>                                 | <b>1,483</b>   |

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

### 27. Share-based payments

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

|                                | 2011<br>£'000 | 2010<br>£ 000 |
|--------------------------------|---------------|---------------|
| <b>Continuing operations</b>   |               |               |
| LTIP                           | (122)         | (561)         |
| SAYE                           | (7)           | 10            |
|                                | (129)         | (551)         |
| <b>Discontinued operations</b> |               |               |
| LTIP                           | (11)          | (146)         |
| Acquired schemes               | (82)          | -             |
| SAYE                           | (1)           | 7             |
|                                | (94)          | (139)         |
| <b>Total</b>                   | <b>(223)</b>  | <b>(690)</b>  |

#### Employee Share Option Scheme (ESOS)

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

#### LTIP

Awards made to eligible employees under the LTIP are nil cost options with an award period of four years. There are two types of LTIP awards. Generally the extent to which an award vests is measured by reference to the growth of the Group's adjusted diluted earnings per share over the performance period of three financial years. However, the extent to which two awards granted on 1 May 2007 and 20 June 2008 vest was measured by reference to the market performance of the Group's share price following the announcement of the Group's results for the years ended 31 December 2009 and 31 December 2010 respectively.

#### SAYE

The SAYE scheme provides for a purchase price equal to mid market value at date of grant. For grants prior to January 2005, a discount to market value of 20% was applied. All schemes prior to 2008 are three year saving schemes. The 2008 SAYE scheme was granted at a discount to market value of 20% and was available as a three, five or seven year scheme. There have not been any SAYE grants in the current or prior year.

## 27. Share-based payments (continued)

### Acquired schemes

The acquired schemes relate to share option schemes existing when the Group acquired certain businesses. These option schemes have rolled into Tribal options and have no performance criteria.

Options outstanding during the year are as follows:

|   | ESOS                        |                                 | LTIP                        |                                 | SAYE                        |                                 | Acquired schemes            |                                 |
|---|-----------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
|   | Number of options thousands | Weighted average exercise price | Number of options thousands | Weighted average exercise price | Number of options thousands | Weighted average exercise price | Number of options thousands | Weighted average exercise price |
| Outstanding at 1 January 2011                       | 426                         | £2.45                           | 929                         | £nil                            | 263                         | £1.08                           | 178                         | £1.39                           |
| Exercised during the year                           | -                           | -                               | (110)                       | £nil                            | -                           | -                               | -                           | -                               |
| Granted during the year                             | -                           | -                               | 3,264                       | £nil                            | -                           | -                               | -                           | -                               |
| Lapsed during the year                              | (293)                       | £2.44                           | (819)                       | £nil                            | (137)                       | £1.08                           | (178)                       | £1.39                           |
| Outstanding at 31 December 2011                     | 133                         | £2.46                           | 3,264                       | £nil                            | 126                         | £1.08                           | -                           | -                               |
| Exercisable at 31 December 2011                     | 133                         | £2.46                           | -                           | £nil                            | 85                          | £1.08                           | -                           | -                               |
| Weighted average remaining contractual life (years) | 0.6                         | -                               | 9.5                         | -                               | 2.4                         | -                               | -                           | -                               |
| Weighted average share price at date of exercise    | -                           | -                               | £0.41                       | -                               | -                           | -                               | -                           | -                               |

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

For the year ended 31 December 2011, 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<br>31 December<br>2011 | LTIP<br>31 December<br>2010 |
|-------------------------|-----------------------------|-----------------------------|
| Date of grant           | June 2011                   | April 2010                  |
| Share price             | £0.49                       | £0.77                       |
| Exercise price          | £nil                        | £nil                        |
| Expected dividend yield | 5.3%                        | 4.70%                       |
| Risk free interest rate | 1.30%                       | 1.84%                       |
| Expected volatility     | 62.3%                       | 41.0%                       |
| Term (years)            | 3.0                         | 3.0                         |
| Option fair value       | £0.42                       | £0.66                       |

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

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

|  | 2011<br>thousands | ESOS<br>2010<br>thousands | Acquired schemes<br>2011<br>thousands | 2010<br>thousands |
|--|-------------------|---------------------------|---------------------------------------|-------------------|
| Options granted before 7 November 2002 | 133               | 426                       | -                                     | 62                |

### 28. Share capital

|   | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|---|---------------|---------------|---------------|
| <b>Authorised</b>   |               |               |               |
| 125,000,000 (2010: 125,000,000, 2009: 125,000,000) ordinary shares of 5p each | 6,250         | 6,250         | 6,250         |

|   | 2011<br>number | 2011<br>£'000 | 2010<br>number | 2010<br>£ 000 | 2009<br>number | 2009<br>£ 000 |
|---|----------------|---------------|----------------|---------------|----------------|---------------|
| <b>Allotted, called up and fully paid</b> |                |               |                |               |                |               |
| At beginning of the year                  | 93,695,985     | 4,685         | 93,695,985     | 4,685         | 87,880,565     | 4,394         |
| Issued as consideration for acquisitions  | -              | -             | -              | -             | 5,815,420      | 291           |
| At 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

|   | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|---|---------------|---------------|---------------|
| At beginning of the year                  | -             | 78,723        | 78,749        |
| Premium on share issues (net of expenses) | -             | -             | (26)          |
| Capital reduction                         | -             | (78,723)      | -             |
| At end of the year                        | -             | -             | 78,723        |

### 30. Other reserves

|  | Capital<br>reserve<br>£'000 | Merger<br>reserve<br>£'000 | Own<br>share<br>reserve<br>£'000 | Share-based<br>payment<br>reserve<br>£'000 | Hedging<br>reserve<br>£'000 | Total<br>£'000 |
|--|-----------------------------|----------------------------|----------------------------------|--|-----------------------------|----------------|
| At 31 December 2008                                | 9,545                       | 55,551                     | (1,590)                          | 1,334                                      | (354)                       | 64,486         |
| Net expense recognised directly in equity          | -                           | -                          | -                                | -  | (21)                        | (21)           |
| Premium on share issues                            | -                           | 4,326                      | -                                | -  | -                           | 4,326          |
| Movement in relation to share-based payment charge | -                           | -                          | -                                | 412  | -                           | 412            |
| Transfers (see note 31)                            | -                           | (37,518)                   | 42                               | (130)                                      | -                           | (37,606)       |
| At 31 December 2009                                | 9,545                       | 22,359                     | (1,548)                          | 1,616                                      | (375)                       | 31,597         |
| Net expense recognised directly in equity          | -                           | -                          | -                                | -  | (445)                       | (445)          |
| Movement in relation to share-based payment credit | -                           | -                          | 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 expense recognised directly in equity          | -                           | -                          | -                                | -  | 169                         | 169            |
| Movement in relation to share-based payment credit | -                           | -                          | 216                              | (386)                                      | -                           | (170)          |
| At 31 December 2011                                | 9,545                       | 18,033                     | (768)                            | 86   | (651)                       | 26,245         |

The capital reserve of £9.5m (2010: £9.5m) resulted from a share exchange when Tribal Group plc was listed in February 2001.

The merger reserve of £18.0m (2010: £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 (2010: £52.0m) in respect of related acquisitions now deemed to be impaired.

The own share reserve of £0.8m (2010: £1.0m) represents the cost of 392,892 shares (2010: 503,274) 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 2011, 110,382 shares (2010: 288,669) were disposed of on exercise of options.

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

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

### 31. Retained earnings

|  | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 |
|--|---------------|---------------|---------------|
| At beginning of the year                           | 38,824        | 21,512        | 45,945        |
| Loss for the year                                  | (22,439)      | (62,104)      | (57,401)      |
| Dividends  | (980)         | (4,284)       | (4,055)       |
| Net (expense)/income recognised directly in equity | (448)         | 651           | (583)         |
| Capital reduction                                  | -             | 78,723        | -             |
| Transfers (see note 30)                            | -             | 4,326         | 37,606        |
| At end of the year                                 | 14,957        | 38,824        | 21,512        |

## Notes to the financial statements continued

### 32 Minority interest

|                           | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|---------------------------|---------------|---------------|---------------|
| At beginning of the year  | -             | -             | 1,829         |
| Profit for the year       | -             | -             | 828           |
| Dividends                 | -             | -             | (319)         |
| New minorities            | -             | -             | -             |
| Sale to minorities        | -             | -             | 6             |
| Purchase of minorities    | -             | -             | (2,344)       |
| <b>At end of the year</b> | <b>-</b>      | <b>-</b>      | <b>-</b>      |

### 33 Capital and other commitments

There are capital commitments at 31 December 2011 of £nil (2010 £nil)

|  | 2011<br>£'000 | 2010<br>£ 000 |
|--|---------------|---------------|
| <b>The Group as lessee</b>   |               |               |
| Minimum lease payments under operating leases recognised as an expense in the year | 3,258         | 3,809         |

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

|  | 2011<br>£'000 | 2010<br>£ 000 |
|--|---------------|---------------|
| Within one year                        | 322           | 187           |
| In the second to fifth years inclusive | 3,894         | 8,736         |
| After five years                       | 6,203         | 404           |
|  | <b>10,419</b> | <b>9,327</b>  |

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

#### The Group as lessor

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

|  | 2011<br>£'000 | 2010<br>£ 000 |
|--|---------------|---------------|
| Within one year                        | 13            | -             |
| In the second to fifth years inclusive | 791           | -             |
|  | <b>804</b>    | <b>-</b>      |

### 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 2011 was £3,839,000 (2010 £5,729,000), of which £1,868,000 (2010 £4,883,000) related to defined contribution schemes and £1,971,000 (2010 £846,000) to defined benefit schemes.

Contributions amounting to £343,000 (2010 £587,000) were payable to the funds at the year end and are included in current liabilities.

#### Defined benefit schemes

At 31 December 2011 the Group operated three defined benefit pension schemes for the benefit of certain employees of its subsidiaries in the UK. A fourth scheme, the LPFA Pension Fund, transferred as part of the sale of the Health and Government businesses.

##### *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 £20,000 were paid in the year ended 31 December 2011. These accounting figures have been calculated using the valuation as at 31 March 2009, updated to 31 December 2011 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 £26,000 were paid in the year ended 31 December 2011. The accounting figures have been updated on an approximate basis to 31 December 2011 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 203 active members at the year end. Employer contributions amounting to £1,785,000 were paid in the year ended 31 December 2011. The accounting figures have been updated on an approximate basis to 31 December 2011 by a qualified independent actuary.

## Notes to the financial statements continued

### 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

|                              | 2011<br>% per annum | 2010<br>% per annum | 2009<br>% per annum |
|------------------------------|---------------------|---------------------|---------------------|
| Inflation                    | 2.50 – 3.00         | 3.50                | 3.50                |
| Salary increases             | 3.50 – 4.00         | 4.50                | 4.50                |
| Rate of discount             | 4.70                | 5.40                | 5.70                |
| Pension in payment increases | 2.50 – 3.00         | 3.00 – 3.50         | 3.50                |

The mortality assumptions adopted at 31 December 2011 imply the following life expectations

|                            | Males | Females |
|----------------------------|-------|---------|
| Retiring at age 65 in 2010 | 23    | 25.7    |
| Retiring at age 65 in 2030 | 25.2  | 27.7    |

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

|                                   | 2011<br>% | 2011<br>£'000 | 2010<br>% | 2010<br>£'000 | 2009<br>% | 2009<br>£'000 |
|-----------------------------------|-----------|---------------|-----------|---------------|-----------|---------------|
| Equities                          | 7.18      | 2,102         | 7.25      | 3,008         | 6.90      | 2,835         |
| Target return portfolio           | -         | -             | 5.90      | 385           | 6.20      | 350           |
| Alternative assets                | -         | -             | 6.40      | 490           | 6.70      | 500           |
| Corporate Bonds                   | 4.21      | 1,051         | 5.36      | 301           | 4.71      | 205           |
| Gilts                             | 2.50      | 25            | 4.00      | 12            | 4.45      | 3             |
| Cash                              | -         | -             | 0.90      | 435           | 5.70      | 24            |
| Total fair value of scheme assets |           | 3,178         |           | 4,631         |           | 3,917         |

The overall expected rate of return on assets is calculated as the weighted average of the expected return of each asset class. The expected long-term return on cash is equal to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The long-term expected return on equities is based on the rate of return on gilts with an allowance for out-performance.

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

| Assumption            | Change in assumption | Impact on scheme liabilities |
|-----------------------|----------------------|------------------------------|
| Discount rate         | Increase by 0.5%     | Decrease by 10%              |
| Rate of inflation     | Increase by 0.5%     | Increase by 8%               |
| Rate of salary growth | Increase by 0.5%     | Increase by 4%               |
| Rate of mortality     | Increase by one year | Increase by 3%               |

**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

|  | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--|---------------|---------------|---------------|
| Present value of defined benefit obligations | (3,718)       | (5,790)       | (6,060)       |
| Fair value of scheme assets                  | 3,178         | 4,631         | 3,917         |
| Deficit in schemes                           | (540)         | (1,159)       | (2,143)       |
| Liability recognised in the balance sheet    | (540)         | (1,159)       | (2,143)       |

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

|  | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--|---------------|---------------|---------------|
| Fair value of scheme assets at beginning of year | 4,631         | 3,917         | 3,383         |
| Expected return on assets                        | 129           | 285           | 219           |
| Actuarial (losses)/gains                         | (5)           | (160)         | 398           |
| Contributions by employer                        | 1,831         | 861           | 365           |
| Contributions by scheme participants             | 143           | 83            | 40            |
| Benefits paid                                    | (53)          | (355)         | (488)         |
| Sale of subsidiary                               | (3,498)       | -             | -             |
| Fair value of scheme assets at end of year       | 3,178         | 4,631         | 3,917         |

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

|   | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|---|---------------|---------------|---------------|
| Defined benefit obligation at beginning of year | 5,790         | 6,060         | 4,808         |
| Current service cost                            | 1,971         | 775           | 105           |
| Interest cost                                   | 128           | 356           | 281           |
| Contributions by scheme participants            | 143           | 83            | 40            |
| Actuarial losses/(gains)                        | 170           | (1,129)       | 1,208         |
| Past service cost                               | -             | -             | 106           |
| Benefits paid                                   | (53)          | (355)         | (488)         |
| Sale of subsidiary                              | (4,431)       | -             | -             |
| Defined benefit obligation at end of year       | 3,718         | 5,790         | 6,060         |

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

## Notes to the financial statements continued

### 34 Retirement benefit schemes (continued)

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

|   | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|---|---------------|---------------|---------------|
| Current service cost                              | 1,971         | 775           | 105           |
| Past service cost                                 | -             | -             | 106           |
| Recognised in arriving at operating profit/(loss) | 1,971         | 775           | 211           |
| Other finance costs                               |               |               |               |
| Interest on pension scheme liabilities            | 128           | 356           | 281           |
| Expected return on pension scheme assets          | (129)         | (285)         | (219)         |
| Net finance charge                                | (1)           | 71            | 62            |
| Total charge to income statement                  | 1,970         | 846           | 273           |

Analysis of actuarial loss in the consolidated statement of comprehensive income

|  | 2011<br>£'000 | 2010<br>£ 000 | 2009<br>£ 000 |
|--|---------------|---------------|---------------|
| Actual return less expected return on pension scheme assets                                  | (5)           | (160)         | 398           |
| Experience gains and losses arising on the scheme liabilities                                | (151)         | 553           | 8             |
| Changes in assumptions underlying the present value of scheme liabilities                    | (19)          | 576           | (1,216)       |
| Total actuarial gain/(loss) recognised in the consolidated statement of comprehensive income | (175)         | 969           | (810)         |

Cumulative actuarial loss recognised in the consolidated statement of comprehensive income since 1 April 2004 is £133,000 (2010 £309,000)

The history of experience adjustments is as follows

|   | 31 December<br>2011<br>£'000 | 31 December<br>2010<br>£ 000 | 31 December<br>2009<br>£ 000 | 31 December<br>2008<br>£ 000 | 31 December<br>2007<br>£ 000 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Present value of defined benefit obligations              | (3,718)                      | (5,790)                      | (6,060)                      | (4,808)                      | (5,009)                      |
| Fair value of scheme assets                               | 3,178                        | 4,631                        | 3,917                        | 3,383                        | 3,781                        |
| Deficit in the scheme                                     | (540)                        | (1,159)                      | (2,143)                      | (1,425)                      | (1,228)                      |
| Experience adjustments arising on scheme assets           |                              |                              |                              |                              |                              |
| Amount  | 5                            | (160)                        | 398                          | (1,089)                      | (654)                        |
| Percentage of the scheme assets                           | (0%)                         | (3%)                         | 10%                          | (32%)                        | (17%)                        |
| Experience adjustments arising on scheme liabilities      |                              |                              |                              |                              |                              |
| Amount  | 151                          | 569                          | 8                            | 4                            | 563                          |
| Percentage of the present value of the scheme liabilities | 4%                           | 10%                          | 0%                           | (0%)                         | 4%                           |

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

**35 Notes to the cash flow statement**

|  | 2011<br>£'000  | 2010<br>£ 000 |
|--|----------------|---------------|
| Operating profit from continuing operations                  | 5,745          | 1 704         |
| Operating loss from discontinued operations                  | (6,072)        | (62,912)      |
| Depreciation and impairment of property, plant and equipment | 3,310          | 2,830         |
| Impairment of goodwill                                       | -              | 56,360        |
| Amortisation of other intangible assets                      | 2,153          | 4,192         |
| Net pension charge/(credit)                                  | 102            | (157)         |
| Loss on disposal of property, plant and equipment            | 1,590          | 413           |
| Loss/(gain) on sale of investments                           | -              | 5             |
| Share-based payments   | (223)          | (690)         |
| Release of deferred consideration                            | (664)          | -             |
| Operating cash flows before movements in working capital     | 5,941          | 1,745         |
| Decrease/(increase) in inventories                           | 359            | (363)         |
| (Increase)/decrease in receivables                           | (4,310)        | 21,816        |
| Decrease in payables   | (3,116)        | (5 888)       |
| <b>Net cash from operating activities before tax</b>         | <b>(1,126)</b> | <b>17,310</b> |
| Tax received/(paid)  | 718            | (1,439)       |
| <b>Net cash from operating activities</b>                    | <b>(408)</b>   | <b>15,871</b> |

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

|   | 2011<br>£'000 | 2010<br>£ 000 |
|---|---------------|---------------|
| Continuing operations (excluding restricted cash) | 8,110         | 25,426        |
| Decrease in restricted cash                       | (696)         | (1,511)       |
|   | 7,414         | 23,915        |
| Discontinued operations                           | (8,540)       | (6,605)       |
|   | (1,126)       | 17,310        |

---

## Notes to the financial statements continued

---

### 36. Contingent liabilities

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

A provision of £0.5m (2010: £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 £19.0m (2010: £20.8m).

### 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**

|   | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 |
|---|---------------|---------------|---------------|
| <b>Financial assets</b>   |               |               |               |
| Loans and receivables (including cash and cash equivalents)         |               |               |               |
| Cash  | 6,524         | 14,659        | 9,370         |
| Trade receivables   | 10,846        | 16,854        | 42,808        |
|   | <b>17,370</b> | <b>31,513</b> | <b>52,178</b> |
| <b>Financial liabilities</b>  |               |               |               |
| Derivative instruments in designated hedge accounting relationships |               |               |               |
|   | -             | 2,173         | 931           |
| At amortised cost   |               |               |               |
| Trade payables  | 4,241         | 4,864         | 13,255        |
| Bank loans and loan notes   | 22,503        | 33,157        | 37,161        |
|   | <b>26,744</b> | <b>40,194</b> | <b>51,347</b> |

**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. There has been no significant change 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 will enter into forward foreign exchange contracts where appropriate.

**Interest rate sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year. A 1.0% increase or decrease is used when reporting interest rate risk internally to the Board and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 1.0% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease/increase by £170,000 (2010 increase/decrease by £48,000). In 2010 and for the first half of 2011, this increase/decrease is mainly attributable to the Group's cash balances which attract a variable rate of interest and reflects the fact that interest rates on borrowings were fixed by an interest rate swap up to 1 July 2011.

**Interest rate swap contracts**

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

## Notes to the financial statements continued

### 37. Financial instruments (continued)

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

|              | Average contract fixed interest rate |           | Notional principal amount |               | Fair value    |               |
|--------------|--------------------------------------|-----------|---------------------------|---------------|---------------|---------------|
|              | 2011<br>%                            | 2010<br>% | 2011<br>£'000             | 2010<br>£'000 | 2011<br>£'000 | 2010<br>£'000 |
| 2 to 5 years | -                                    | 4.90      | -                         | 25,000        | -             | (2,173)       |

The interest rate swap was settled on 1 July 2011 for a cash payment of £2.1m

#### Credit risk management

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

#### Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities and by continuously monitoring forecast and actual cash flows. The Group has access to committed financing facilities, the total unused amount is £6.5m at the balance sheet date. In addition at the year end, there was a £5.0m (2010: £8.0m) undrawn overdraft facility. The Group expects to meet its obligations from operating cash flows. The Group also had cash balances at 31 December 2011 of £6.5m (2010: £14.7m) as detailed in note 21. Net debt at the year end was £16.0m (2010: £18.5m), giving underlying headroom at the balance sheet date of £19.0m (2010: £29.5m).

#### 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<br>£'000 | Total<br>£'000 | Less than 1<br>month<br>£'000 | 1-3<br>months<br>£'000 | 3 months<br>to 1 year<br>£'000 | 1-5<br>years<br>£'000 |
|----------------------------------|-------------------------|----------------|-------------------------------|------------------------|--------------------------------|-----------------------|
| <b>31 December 2011</b>          |                         |                |                               |                        |                                |                       |
| 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                |
| <b>31 December 2010</b>          |                         |                |                               |                        |                                |                       |
| Trade payables                   | 4,864                   | 4,864          | 2,350                         | 1,170                  | 1,344                          | -                     |
| Bank loans                       | 33,157                  | 40,099         | 139                           | 278                    | 1,250                          | 38,433                |
| Derivative financial instruments | 2,173                   | 2,173          | -                             | -                      | -                              | 2,173                 |
|                                  | 40,194                  | 47,136         | 2,489                         | 1,448                  | 2,594                          | 40,606                |

### 37 Financial instruments (continued)

Fair value measurements recognised in the balance sheet

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

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

All of the Group's financial instruments fell to be categorised as Level 2

### 38. Related party disclosures

No material contract or arrangement has been entered into during the year, nor subsisted at 31 December 2011, 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'

|                              | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 881           | 1,272         |
| Share-based payment          | (76)          | (159)         |
|                              | <b>805</b>    | <b>1,113</b>  |

Included within directors' emoluments are pension costs of £63,000 (2010 £58,000) in respect of payments made to three (2010 two) directors' individual defined contribution pension schemes

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

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

### 39. Principal subsidiary undertakings

The principal subsidiary undertakings at 31 December 2011 are shown below. The subsidiary undertakings are registered in the United Kingdom and prepare accounts to 31 December each year

|                          | Principal activity                                     | Holding |
|--------------------------|--|---------|
| Tribal Education Limited | Education consultancy, training and Ofsted inspections | 100%    |
| Tribal Holdings Limited  | Holding company  | 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 2011 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 2011,
- 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 2011.



**John Clennett (Senior Statutory Auditor)**  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Bristol, United Kingdom  
22 March 2012

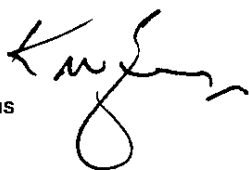
## Company balance sheet at 31 December 2011

|   | Note | 2011<br>£'000 | 2010<br>£'000 |
|---|------|---------------|---------------|
| <b>Fixed assets</b>   |      |               |               |
| Investments   | 2    | 64,045        | 96,562        |
| <b>Current assets</b>   |      |               |               |
| Debtors amounts falling due within one year                   | 3    | 3,194         | 3,102         |
| Cash at bank and in hand                                      |      | 100           | 100           |
|   |      | 3,294         | 3,202         |
| <b>Creditors</b> amounts falling due within one year          | 4    | (23,359)      | (19,358)      |
| <b>Net current liabilities</b>                                |      | (20,065)      | (16,156)      |
| <b>Total assets less current liabilities</b>                  |      | 43,980        | 80,406        |
| <b>Creditors</b> amounts falling due after more than one year | 5    | (15,503)      | (35,330)      |
| <b>Net assets</b>   |      | 28,477        | 45,076        |
| <b>Capital and reserves</b>                                   |      |               |               |
| Called up share capital                                       | 6    | 4,685         | 4,685         |
| Merger reserve  | 7    | 18,032        | 18,032        |
| Hedging reserve   | 7    | (651)         | (820)         |
| Own share reserve   | 7    | (768)         | (984)         |
| Share based payment reserve                                   | 7    | 86            | 472           |
| Profit and loss account                                       | 7    | 7,093         | 23,691        |
| <b>Equity shareholders' funds</b>                             |      | 28,477        | 45,076        |

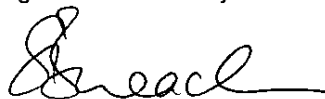
Notes 1 to 8 form part of these financial statements

The financial statements of Tribal Group plc (registered number 4128850) were approved by the Board of directors and authorised for issue on 22 March 2012. 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 loss for the Company amounted to £15.6m (2010: £68.5m)

The auditor's remuneration for audit services to the Company was £80,000 (2010: £92,000)

#### 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 49 to 54 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 the Tribal Group plc

## 2 Fixed asset investments

|   | Shares in<br>subsidiary<br>undertakings<br>£'000 | Long<br>term loans<br>£'000 | Total<br>£'000 |
|---|--|-----------------------------|----------------|
| <b>Cost</b>   |  |                             |                |
| At 1 January 2010                                     | 108,662  | 94,975                      | 203,637        |
| Disposals   | (66)   | -                           | (66)           |
| Impairment  | (78,716)   | (10,264)                    | (88,980)       |
| Capital contribution relating to share-based payments | (580)  | -                           | (580)          |
| Movement in long-term loans                           | -  | (17,449)                    | (17,449)       |
| 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)       |
| <b>At 31 December 2011</b>                            | <b>23,899</b>                                    | <b>40,146</b>               | <b>64,045</b>  |

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

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

## Notes to the company balance sheet continued

### 3. Debtors

|                                    | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | 1,929         | 2,267         |
| Corporation tax                    | 54            | -             |
| Other debtors                      | 912           | 459           |
| Deferred taxation                  | 299           | 376           |
|                                    | <b>3,194</b>  | <b>3,102</b>  |

|                                | 2011<br>£'000 | 2010<br>£'000 |
|--------------------------------|---------------|---------------|
| <b>Deferred taxation</b>       |               |               |
| At start of year               | 376           | 202           |
| Charge to income statement     | (12)          | -             |
| Items taken directly to equity | (65)          | 174           |
| At end of year                 | <b>299</b>    | <b>376</b>    |

The deferred tax asset is analysed as follows

|                                  | 2011<br>£'000 | 2010<br>£'000 |
|----------------------------------|---------------|---------------|
| Derivative financial instruments | 254           | 319           |
| Other timing differences         | 45            | 57            |
|                                  | <b>299</b>    | <b>376</b>    |

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

|                                    | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | 22,287        | 18,183        |
| Other creditors                    | 88            | -             |
| Accruals                           | 984           | 1,175         |
|                                    | <b>23,359</b> | <b>19,358</b> |

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

|                                   | 2011<br>£'000 | 2010<br>£'000 |
|-----------------------------------|---------------|---------------|
| Bank loan                         | 15,503        | 33,157        |
| Fair value of interest rate swaps | -             | 2,173         |
|                                   | <b>15,503</b> | <b>35,330</b> |

#### Matunty of bank and loan notes

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Bank and loan notes can be analysed as falling due |               |               |
| In one year or less, or on demand                  | -             | -             |
| Between two and five years                         | 15,503        | 33,157        |
|  | <b>15,503</b> | <b>33,157</b> |

The bank loan (which has primary security) is at market rates of interest and is secured by way of a fixed and floating charge over the assets of the Company and its subsidiary undertakings. For further details see note 24 to the Group financial statements

## 6. Called up share capital

|   | 2011<br>£'000  | 2010<br>£'000 |                |               |
|---|----------------|---------------|----------------|---------------|
| <b>Authorised</b>   |                |               |                |               |
| 125,000,000 ordinary shares of 5p each (2010 125,000,000) | 6,250          | 6,250         |                |               |
|   |                |               |                |               |
|   | 2011<br>number | 2011<br>£'000 | 2010<br>number | 2010<br>£'000 |
| <b>Allotted, called up and fully paid</b>                 |                |               |                |               |
| <b>At beginning and end of the year</b>                   | 93,695,985     | 4,685         | 93,695,985     | 4,685         |

Details of options in respect of shares outstanding at 31 December 2011 are as follows

| Employee share option schemes                      | Number<br>outstanding | Price<br>payable | Date from which<br>exercisable |
|--|-----------------------|------------------|--------------------------------|
| PLC scheme   | 133,111               | £2.46            | 30.06.2005                     |
|  | 133,111               |                  |                                |
| LTIP   | 3,263,800             | Nil              | 31.03.2014                     |
|  | 3,263,800             |                  |                                |
| Savings related option scheme                      |                       |                  |                                |
| SAYE   | 84,915                | £1.08            | 01.12.2011                     |
|  | 26,360                | £1.08            | 01.12.2013                     |
|  | 14,672                | £1.08            | 01.12.2015                     |
|  | 125,947               |                  |                                |
| <b>Total Tribal Group plc share option schemes</b> | <b>3,522,858</b>      |                  |                                |

## 7 Share premium and reserves

|  | Merger<br>reserve<br>£'000 | Hedging<br>reserve<br>£'000 | Own share<br>reserve<br>£'000 | Share-based<br>payment<br>reserve<br>£'000 | Profit and<br>loss<br>account<br>£'000 |
|--|----------------------------|-----------------------------|-------------------------------|--|--|
| At beginning of the year                     | 18,032                     | (820)                       | (984)                         | 472  | 23,691                                 |
| Loss for the year                            | -                          | -                           | -                             | -  | (15,618)                               |
| Dividends                                    | -                          | -                           | -                             | -  | (980)                                  |
| Fair value movement on cash flow hedges      | -                          | 169                         | -                             | -  | -                                      |
| Movement in relation to share-based payments | -                          | -                           | 216                           | (386)                                      | -                                      |
| <b>At end of the year</b>                    | <b>18,032</b>              | <b>(651)</b>                | <b>(768)</b>                  | <b>86</b>                                  | <b>7,093</b>                           |

The merger reserve of £18.0m (2010 £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 (2010 £1.0m) represents the cost of 392,892 (2010 503,274) 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 £19.0m (2010 £20.8m)

## Five year summary

### Summarsed consolidated Group income statement

|   | Year ended<br>31 December<br>2011<br>£'000 | Year ended<br>31 December<br>2010<br>£ 000 | Year ended<br>31 December<br>2009<br>£ 000 | Year ended<br>31 December<br>2008<br>£ 000 | Nine months<br>ended<br>31 December<br>2007<br>£ 000 |
|---|--|--|--|--|--|
| Revenue   | 108,231                                    | 104,097                                    | 193,654                                    | 226,737                                    | 153,299  |
| Profit before interest, amortisation and impairment on goodwill and intangibles and exceptional items | 11,312                                     | 8,275                                      | 14,926                                     | 18,963                                     | 11,173   |
| Exceptional costs   | (5,349)                                    | (6,257)                                    | -  | -  | -  |
| Amortisation and impairment on goodwill and intangibles   | (218)                                      | (314)                                      | (31,694)                                   | (556)                                      | (9,240)  |
| Interest  | (2,005)                                    | (2,116)                                    | (1,045)                                    | (1,315)                                    | (749)  |
| Taxation  | (415)                                      | (45)                                       | (2,992)                                    | (4,569)                                    | (3,002)  |
| Minority interests  | -  | -  | (828)                                      | (910)                                      | (402)  |
| Dividends   | (980)                                      | (4,284)                                    | (4,055)                                    | (3,957)                                    | (2,031)  |
| <b>Retained profit/(loss)</b>   | <b>2,345</b>                               | <b>(4,741)</b>                             | <b>(25,688)</b>                            | <b>7,656</b>                               | <b>(4,251)</b>                                       |
| Adjusted diluted earnings per share   | 7.9p                                       | 5.6p                                       | 10.7p                                      | 13.9p                                      | 8.4p   |
| Dividend per ordinary share   | 1.00p                                      | 2.50p                                      | 4.60p                                      | 4.35p                                      | 2.95p  |

### Summarsed consolidated Group balance sheet

|                          |               |               |                |                |                |
|--------------------------|---------------|---------------|----------------|----------------|----------------|
| Intangible assets        | 78,271        | 102,917       | 166,847        | 217,505        | 191,245        |
| Other non-current assets | 4,238         | 9,445         | 11,165         | 11,259         | 9,087          |
| Current assets           | 30,180        | 54,473        | 72,781         | 80,889         | 79,618         |
| Current liabilities      | (42,142)      | (58,905)      | (72,541)       | (77,195)       | (74,274)       |
| Non-current liabilities  | (24,660)      | (38,175)      | (41,735)       | (37,055)       | (24,434)       |
| <b>Net assets</b>        | <b>45,887</b> | <b>69,755</b> | <b>136,517</b> | <b>195,403</b> | <b>181,242</b> |

The amounts disclosed above for the year ended 31 December 2011 and 31 December 2010 are for continuing operations only

## Company information

### Tribal Group plc

Registered in England and Wales  
Company number 4128850

### Registered office

1-4 Portland Square  
Bristol BS2 8RR  
T 0845 123 6001  
E [info@tribalgroup.com](mailto:info@tribalgroup.com)  
[www.tribalgroup.com](http://www.tribalgroup.com)

### Company secretary

Steve Breach

### Stockbroker

Canaccord Genuity Limited  
88 Wood Street  
London EC2V 7QR

### Joint financial adviser

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

### Principal bankers

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

### Auditors

Deloitte LLP  
3 Rivergate  
Temple Quay  
Bristol BS1 6GD

### Solicitors

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

### Registrars

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

### E-communications

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

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

### Duplicate accounts

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

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

### Financial calendar

|                             |              |
|-----------------------------|--------------|
| Ex-dividend date            | 13 June 2012 |
| Record date                 | 15 June 2012 |
| Annual General Meeting      | 16 May 2012  |
| Final dividend payment date | 13 July 2012 |

Tribal Group plc  
1-4 Portland Square  
Bristol  
BS2 0PR

T: 0945 123 6001  
E: [info@tribalgroup.com](mailto:info@tribalgroup.com)  
[www.tribalgroup.com](http://www.tribalgroup.com)