

Empowering the World of Education



TRIBAL

Empowering the World of Education

A young man with dark hair, wearing a grey and white patterned long-sleeved shirt and dark trousers, is walking towards the camera. He has a black shoulder bag and is holding a white object in his left hand. The background is a bright, modern interior with large windows and a blue-tinted wall.

Tribal is a world-class, education focused company, providing the expertise, software and services that enable our customers to underpin student success. We operate internationally and serve hundreds of Higher Education, Further Education and Vocational institutions; thousands of schools; and many Government and State bodies, Training Providers and Employers; in over 55 countries. Tribal employs over 1,000 professionals with deep educational domain expertise, across our offices in the UK, Australia, New Zealand, Canada, US, Middle East, Philippines and Malaysia.

Highlights

Revenue

£90.3m

| | |
|------|---------|
| 2016 | £90.3m |
| 2015 | £106.7m |

↓ down 15%

Adjusted operating profit¹

£4.7m

| | |
|------|-------|
| 2016 | £4.7m |
| 2015 | £2.5m |

↑ up 88%

Statutory operating profit/(loss)

£0.1m

| | |
|------|------------------|
| 2016 | £0.1m |
| 2015 | Loss of £(45.2)m |

↑ up 100%

¹ Adjusted operating profit is in respect of continuing operations and is stated excluding "Other items" charge of £4.6m (2015: charge of £47.8m). Statutory loss for the year is £(1.2)m (2015: loss of £(45.5)m).

Financial performance

5.2%

Adjusted Operating Margin¹
2015: 2.3%

0%

Statutory Operating Margin¹
2015: (42.4)%

1.9p

Adjusted Earnings per Share¹
2015: 0.9p

(0.7)p

Statutory Loss per Share
2015: (48.1)p

£8.8m

Net Cash
2015: net debt £(32.5)m

115%

Cash Conversion²
2015: (442)%

¹ Adjusted Operating Profit, Adjusted Operating Margin and Adjusted Earnings per Share is in respect of continuing operations which excludes "Other Items" charges of £4.6m (2015: charge of £47.8m).

² Cash Conversion is calculated as net cash from operating activities before tax from continuing operations, less expenditure on intangible assets and property, plant and equipment, as a proportion of adjusted operating profit.

From 2016, Share-based payments charges/(credits) are shown in "Other Items" and no longer part of the adjusted operating results. 2015 has been restated to reflect this change.

Operational performance

£32.4m

Annually Recurring Revenues¹
2015: £30.3m

£114m

Backlog²
2015: £121m

¹ Annually Recurring Revenues is defined as the software related maintenance fees from the Student Management Systems segment in the current year.

² Backlog refers to the Total Contract Value of booked sales orders which have not yet been delivered (including 2 years Support & Maintenance, where it is contracted on an annually recurring basis).

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At a glance

Our Student Management Systems have a significant market share across Higher, Further and Vocational Education in the UK, Australia and New Zealand. Our education services for quality assurance, training, benchmarking and education improvement are sought after worldwide. Our student satisfaction barometer, for national and international students, is the leading global benchmark for student experience.

We state our vision simply:
to empower the world of education.

We strive to research, develop and deliver the products, services and solutions needed by education institutes across the world to support their primary goals of educating their students, providing optimum learning experiences and ultimately delivering successful outcomes. Our vision leads to a simple mission to guide our business.

Our mission:
to provide the expertise, software and services required by education and business organisations worldwide to underpin student success.

From easing the administrative and student management activities of Universities, to partnering with schools and colleges to improve their performance, we look to offer the products and services that will enable education institutes to maintain their focus on the quality of learning and development offered to their students.

Our Key strengths



Extensive and long-standing customer relationships

We enjoy deep and long-term relationships with our customers across all education sectors.



Broad, complementary portfolio

We offer an extensive portfolio of Student Management software that is uniquely complemented with a wide range of Education Services, including quality assurance, assessment and benchmarking.



Educational expertise and focus

Our deep educational domain expertise has been developed through a long and successful history of working with, and focusing on, the education market, and our team includes many previous education practitioners.

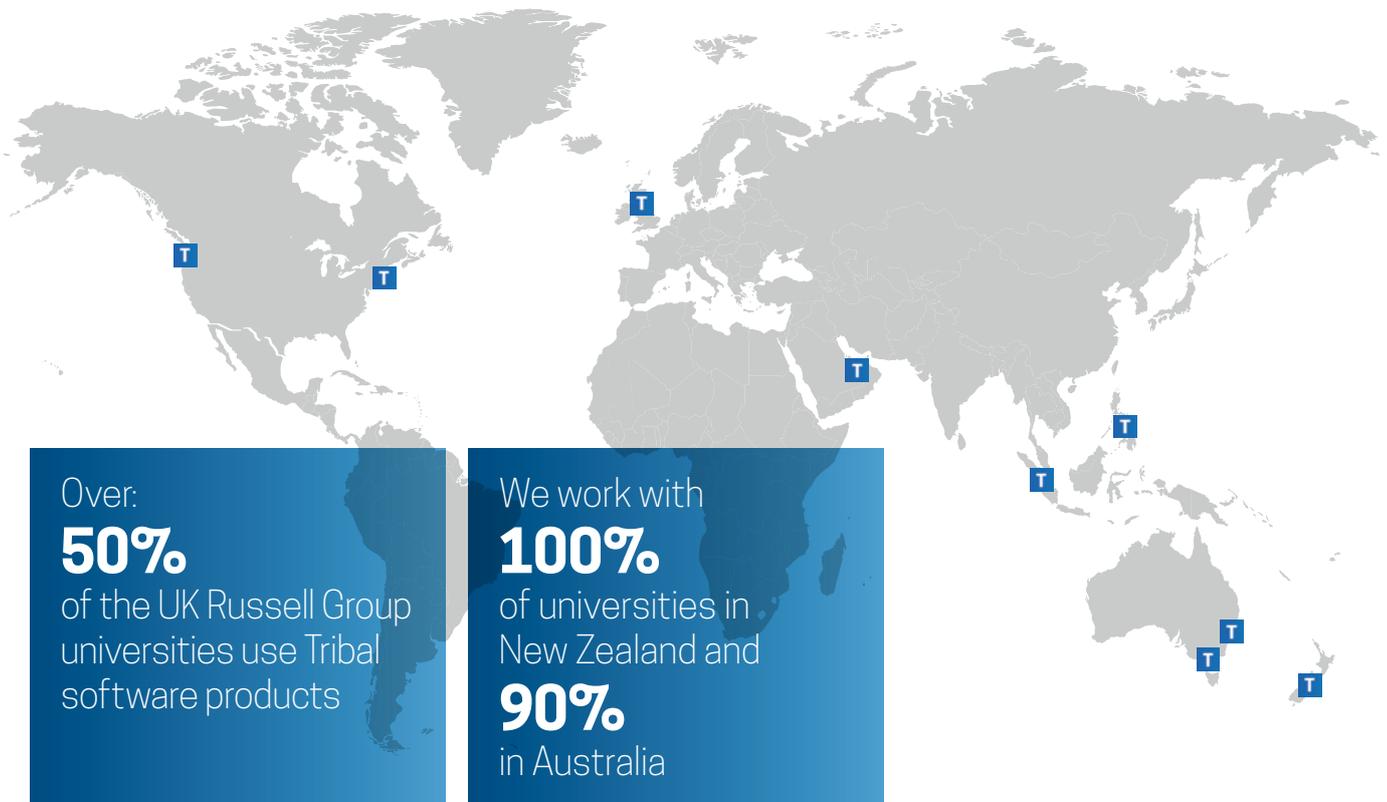


International delivery and insight

Our business operates globally, and actively collects and shares best practice and market insight with our worldwide customer base.

Where we work

Tribal operates globally, with offices in the UK, Australia, New Zealand, Philippines, Malaysia, Middle East, Canada and the USA. We employ over 1,000 people worldwide, serving customers in over 55 countries. We have customers in Higher Education (HE), Further and Vocational Education (FE), Schools, Government and State bodies, training providers and employers.



Who are our customers

600+

Universities

100's

of colleges

1,000's

of schools

Training providers,
employers,
Government and
state departments

Market Position

#1

Provider

to HE

in UK, Australia &
New Zealand

to FE

in UK, Australia &
New Zealand

to UK Training
providers

Chairman's statement

Reflecting on my first full year as Chairman, I am pleased to report that the Group is on a sound financial footing, and has addressed many of its operational challenges. Shareholder value is now being rebuilt in a sustainable manner.



For the year to 31 December 2016, Tribal Group achieved an adjusted Operating Profit, of £4.7m on a revenue of £90.3m (2015: operating profit of £2.5m profit on a revenue of £106.7m).

The combined impact in 2016 of the expiry of the Ofsted Schools contract, the closure of the SLS business, and the disposal of Synergy was a reduction in revenue of £16.4m, and reduced profit contribution of £3.3m compared with 2015. Furthermore, capitalised development costs are significantly lower in 2016 at £1.1m (2015: £4.1m). This reflects the Group's revised product strategy and capitalisation predominantly in respect of new product and platform redevelopment, with all other product development costs being expensed.

However, annualised operational efficiencies of £9.0m have been realised, of which £5.8m are in-year savings, which has driven

improved financial performance without impacting the Group's ability to serve its customers or drive its business forward.

Adjusted Earnings per Share increased to 1.9p (2015: 0.9p), despite a rights issue and other fund-raising activity during the year. Overall, the Company made a Statutory Loss of £1.2m (2015: loss of £45.5m), mainly due to "Other Items" of costs related to previous acquisitions and ongoing restructuring.

In March 2016, I was delighted to confirm Ian Bowles' appointment as Chief Executive Officer, followed by Mark Pickett's appointment as CFO in June 2016. They have swiftly evaluated the business capabilities and markets, and developed a strategic plan that reflects our ambitions for the business. With a refreshed management team, this strategy is being implemented, and will drive efficiencies and meet customers' aspirations for next-generation, cloud-based applications.

Tribal is a leading international provider of Student Management Systems to universities, colleges and schools in the UK, Australia and New Zealand markets as well as elsewhere in the world. We serve a large installed customer base, including many of the world's leading universities and colleges, from which we generate significant recurring annual support revenues; in 2016, there was a 7% increase in recurring revenue to £32.4m, which now represents more than half of the revenues from our Student Management Systems business. In Quality Assurance Services (QAS) we have focussed on optimising delivery efficiencies as we move to the successful conclusion of the Ofsted Early Years contract which concludes in March 2017; our other quality assurance contracts, including North America and the Middle East, continue to trade well.

Following a challenging year in 2015, the new Board and executive management team undertook the rebuilding of the Group. The Group's financial position has been restored, providing both financial stability and the funds to invest in the growth of the business. A review of the Group's operations and strategy confirmed that Tribal's software and services portfolio and its market leading position and international customer base provide a strong platform around which to build sustainable shareholder value.

In 2016, the Company secured a number of significant contract wins in the Higher Education sector, including, in the UK, the University of the Arts London and Massey and Waikato universities in New Zealand, as well as in newer markets for Tribal, including Malaysia, Canada and Hungary.

Looking to the Future

In 2017, I expect Tribal to continue to secure new clients in Student Management Systems, with a strong pipeline of new opportunities in Higher Education, and the prospect of continued improvement in sales performance.

Revenues will be lower in 2017, as the Early Years contract, performed by our QAS business, will end in March 2017, to be taken back in-house by Ofsted. This will have a significant impact on 2017 outturn, but the adverse effect will, in part, be mitigated by opportunities that exist in other markets for QAS, such as the Middle East and Asia Pacific. In addition, the Group has a sales order backlog of £113.8m (2015: £121.3m), of which £58.1m is expected to be delivered and recognised in 2017.

We expect to realise further cost efficiencies in 2017, which, accretive to the cost efficiencies achieved in 2016, will continue to drive improvements in the overall profitability. At the same time, Tribal is developing a next generation, cloud-based platform for Student Management Systems and is well positioned to leverage its full suite of offerings as it develops data analytic products to provide greater student insight to improve student engagement.

Although there remains much to do, I see the momentum built in 2016 continuing into 2017 and beyond, as the Group continues to drive cost efficiencies in the business and increasingly looks to take advantage of an international market for Student Management Systems.

“After an extensive review, we decided to invest more heavily in SITS:Vision. We will be working closely with Tribal to implement a new, integrated system that supports academic staff and students in a way that we have not been able to do before.”

University of Bristol
UK

Dividends

The Board believes that the payment of dividends is important. It has pursued a progressive dividend policy in recent years, and it is our intention to continue this policy in the future once financial performance supports the payment of a dividend. However, as 2016 has been a year of inward focus to rebuild the Company finances, the Board has concluded that no dividend will be declared in respect of 2016.

Board Changes

Ian Bowles joined the Group as Chief Executive Officer on 1 March 2016, having become a Board member on 17 February. Mark Pickett joined the Group as the Chief Financial Officer, being appointed to the Board on 30 June 2016.

Steve Breach, who had been Group Finance Director since his appointment in January 2010, stood down at the end of June 2016 after many years' valuable service. At the end of October 2016, David Egan stood down, having served as a Non-Executive Director and Chairman of the Audit Committee, for 2 years. Since his appointment in April 2014, David guided the Company through intensely challenging times. The Board would like to thank David for his contribution to the Company and wishes him well for the future.

It was with great sadness that we lost Duncan Lewis, who acted as a Non-Executive Director from June 2015 to the time of his death in March last year.

I would also like to thank all our employees for their hard work and commitment to the Company. The Group has undergone significant change in 2016 and new leadership inevitably brings uncertainty. The support of the employees has been invaluable in bringing the Company through this challenging period.

Outlook and Current Trading

We expect overall market conditions and demand for student management systems to remain stable in 2017. While the timing of deal closures and achievement of implementation milestones remains difficult to predict, we are well positioned to continue to benefit from the demand for student systems and upgrades. We have already secured several software and service contract wins in the early part of 2017. We will continue the focus on reducing our cost base and improving operating efficiency.

Given the factors described above, I expect continued improvement in our profitability during the current year.

Approved by the Board of Directors on 30 March 2017



Richard Last
Chairman

Chief Executive's Q&A

Ian Bowles started as Chief Executive Officer in early 2016, coming on board to reverse the decline of the business. Ian looks back at the year, the challenges overcome, the progress made, and the clear direction the Company is now headed in.



You started as CEO early in 2016, what did you find in Tribal?

I assumed the role of CEO on 1 March 2016 having joined the Board on the 17 February 2016 with the understanding of it being a turnaround situation. My own due diligence with customers and investors prior to joining the Company had given me some idea of what to expect. My very first interactions with customers, the Executive Management and broader team, reinforced my initial thoughts: Tribal had all of the fundamental ingredients you would expect to find in a successful software company.

- Products and services valued by a large, long-standing and growing customer base.
- A stable market segment that is experiencing change.
- A talented and passionate team who can drive the Company forward.

My statements in the H1 results summed up the scale and depth of the problems the Company faced, but in my opinion all of the issues were within the control of the business. I told everyone in March 2016 that I believed Tribal had a great future ahead and reassured the team that together we would overcome the challenges evident in the 2015 results.

What impressed you most in your initial reviews?

If you join a business in a turnaround situation you need to assimilate information quickly as you do not have the luxury of time. Several things immediately struck me. Tribal had a deep domain expertise; a suite of applications with very significant market leading functionality; and a number of service lines that were complimentary to the application suite. Also impressive was the way the teams responded in giving their time to bring me up to speed about the various operations we had, the customer base and their challenges. The team also had a genuine desire to see change take place, to ensure the continued success of the business in supporting its customers.

What key initiatives did you start in 2016 and how have they progressed?

I believe that if you spoke to the Executive, Senior Management and the broader team, they would agree that I began my tenure with a very open and honest appraisal of the issues facing the business, my key priorities and a clear understanding of how we would address the opportunities available to us.

My first action was to initiate open dialogue with the entire team by visiting as many of the Tribal offices as possible. I laid out my approach to turning Tribal in to a world class software and services company. As part of the process a clear set of objectives for 2016 was discussed with everyone.

“We needed a supplier with commercial strength and experience combined with product viability and a proven track record in successfully implementing a new SMS.”

University of Waikato
New Zealand

They were to:

- 1) Restore confidence in the team, customers and investors
- 2) Create a new single operating model supported by;
 - a. Creation of a coherent single go to market strategy
 - b. Create cohesive Company & solutions message
- 3) Drive operational efficiencies
- 4) Reduce operating costs

One Team, One Culture, One Objective

We also refreshed the Executive Management with a new CFO, Marketing Director, Managing Director for EMEA, Managing Director for APAC, and Support and a Cloud Services Director joined. Very talented members of the existing Executive Board were retained and for one or two the roles they held were modified to better reflect their skills and to ensure the Company made the most of their experience and capability.

As a team we designed a new operating model, reaffirmed our commitment to the education sector and set about the task of agreeing a future product strategy for the application suite.

How would you summarise the performance of the business across 2016?

As I stated in the year end trading statement and in this report I am pleased with the progress Tribal has made in 2016. The Executive, Management and broader team have all responded positively to the initiatives outlined. It has been made clear to investors, the team and our customers that I believe it is a three year task to put Tribal back on top, 2016 was the foundation, 2017 will see significant progress and 2018 will be the year all of the initiatives will really begin to deliver.

The customers have responded positively to the product strategy we announced. Prospective customers have reaffirmed my belief that the applications are still best of breed and shown their faith in the future of Tribal by signing long-term contracts to deploy our applications. And finally the team have a clear direction, believe in our future and are committed to ensuring our customers, possibly the most important stakeholder in Tribal, derive value for money from their investment with us.

Chief Executive's Q&A continued

What are some of the key highlights from 2016 that you are encouraged by?

That is a difficult question to answer given the positive progress made in 2016.

The very warm and supportive reception given to me by customers in the UK, Australia and New Zealand. I have yet to visit our customers in other countries such as Canada, Malaysia or the Middle East.

The faith shown by numerous Higher Education and Further Education customers as well as the performance of our services businesses, i-graduate and QAS, both of which performed very well against expectations in 2016.

In the H1 results presentations, you announced the development of a Next Generation platform for Student Information Systems – how is that progressing?

From my perspective, well. The first and most fundamental challenge was convincing the broader business and especially our talented development community that there was a need to build such a platform. Given we have several well respected, very functional Student Management Systems, the question I was most asked was why?

“We trusted that Tribal would be capable of designing and implementing a nationally hosted managed service and they delivered. We successfully transitioned from a long-established way of working to a transformed solution, which was achieved within four months through the utilisation of a highly experienced team under excellent project management by Tribal.”

**Skills Funding Agency
UK**

Given the systems we provide are often referred to as Generational, i.e. deployed for 10–20 years, it was clear to me that unless we began the investment in a single next generation platform that embraced the technology advances of the past few years, we would not be able to sustain our market leading position. Investing in multiple platforms would not deliver to customers' expectations quickly and effectively whilst also being an unacceptable financial burden on the Company.

It was also critical in my view to show our current, new and prospective customers that they could invest in our applications safe in the knowledge that we would protect that investment for at least the next 10 to 15 years. As we have discussed our strategy with our customers their response has been very positive. One CIO described it as the “Perfect Strategy” given that customers on all of our current applications will be able to migrate to the HE & FE/TAFE applications on the new platform, on a like for like basis, as long as they have a valid support and maintenance agreement.

Evidence of the progress on the new platform will be demonstrable next calendar year with the planned release of two new modules being launched in to the market. These modules will not only work with our Student Management Systems but with any deployed student management system, broadening our addressable market.

In rebuilding Tribal, there is a need to bring the employees with you. How have you been addressing that?

For me the team are critical to the success of the business, but that is true of any software application and services business, not just those in turn around. We have had to make difficult decisions about the size of the team given our revenue and we were sorry to see very good and capable people leave the business through no fault of their own.

We are on a journey and the team remaining with Tribal are critical to our long-term success. Communication is key and we have a clear strategy, consistent reinforcement of what we are trying to achieve, open and honest two-way communication and regular cross Company communications.

We also discussed and agreed a new set of values which we are all committed to be measured by. We ran a values program to engage with the entire team so that everyone could discuss what those values meant and how they apply in their roles.

Overall, we have made great progress and the changes we have made will help us move the Company forward. I believe Tribal has a great future ahead and that we have the right team and business model in place to deliver against expectations.

Case Study

Creating a better experience for staff and students at Regents University London

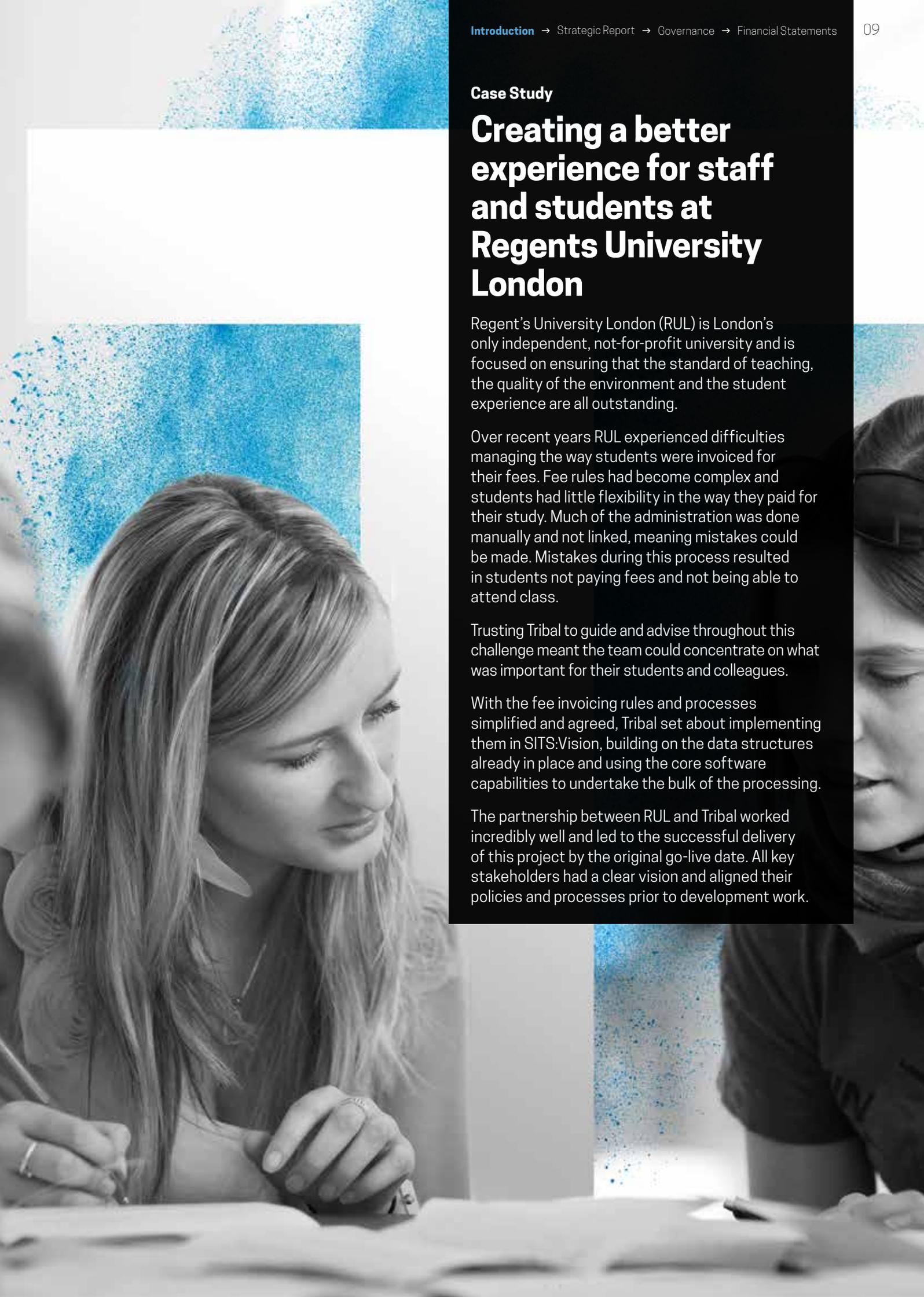
Regent's University London (RUL) is London's only independent, not-for-profit university and is focused on ensuring that the standard of teaching, the quality of the environment and the student experience are all outstanding.

Over recent years RUL experienced difficulties managing the way students were invoiced for their fees. Fee rules had become complex and students had little flexibility in the way they paid for their study. Much of the administration was done manually and not linked, meaning mistakes could be made. Mistakes during this process resulted in students not paying fees and not being able to attend class.

Trusting Tribal to guide and advise throughout this challenge meant the team could concentrate on what was important for their students and colleagues.

With the fee invoicing rules and processes simplified and agreed, Tribal set about implementing them in SITS:Vision, building on the data structures already in place and using the core software capabilities to undertake the bulk of the processing.

The partnership between RUL and Tribal worked incredibly well and led to the successful delivery of this project by the original go-live date. All key stakeholders had a clear vision and aligned their policies and processes prior to development work.



Market overview

Tribal's Student Management Systems have a strong market position in their established geographic markets in the UK, Australia and New Zealand. The key elements of the Group's installed Student Management System customer base, which includes customers which are using some or all of the functionality offered by Tribal's systems, provides a substantial reference base for prospective new customers. Our market share for Student Management Systems includes:

Higher Education

56%

market share in the UK

Further/Vocational Education

55%

market share in New Zealand

Schools*

44%

market share in Australia

* The customer base includes all schools and colleges covered by the SALM and TAFE contracts including those in delivery phase.



Key strategic wins

Higher Education

- University of the Arts London, UK*
- Universiti Teknologi PETRONAS (UTP), Malaysia
- University of Bristol, UK (renewal)
- University of Wales, Trinity Saint David, UK
- World Maritime University, Sweden
- Massey University, New Zealand
- University of Waikato, New Zealand
- Carleton University, Canada

* Revenue recognition will commence in 2017

Further/Vocational Education

- Hillingdon Adult Education, UK
- Auckland Institute of Studies, New Zealand
- Nelson Marlborough Institute of Technology, New Zealand
- Intueri Group, New Zealand

Employers and Training Providers

- Gateshead Council Learning & Skills, UK
- John Lewis, UK
- Boots, UK
- Wolseley UK Ltd

Schools and School bodies

- Muskegon City Public Schools, US
- American Promise Schools, US

Government and State bodies

- NHS Tavistock & Portman Foundation Trust, UK
- Skills Funding Agency, UK
- Ministry of Education, New Zealand



Case Study

A best fit solution for Nelson Marlborough Institute of Technology

Nelson Marlborough Institute of Technology (NMIT) on New Zealand's South Island is the region's largest education and training provider.

NMIT identified the need for a new student management system to better serve its student community. Tribal Group was identified as a provider and its endorsement by Tertiary Accord New Zealand allowed NMIT to closely follow other institution members' experiences with the provider and adopt solutions that would be the best fit for NMIT's ambitions.

Tribal's ebs solution was a natural response to NMIT's need to record and manage information throughout the student journey. The scalable technology has made a massive difference to the way NMIT manage their apprenticeship programmes from the recording of learner workload to the generating of personalised progress reports. In the future, NMIT hopes to further harness ebs's data analytics capabilities and extend the presence across the institution.



Strategic Report

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Our business model

We provide world-class educational management software and services to customers in selected markets across the world, using our resources and expertise to create value that is shared with our stakeholders, and empowering educators to help produce the next generation of leaders.

Our Business Units

We operate three Business Units:



Operations
Our development and support teams are in the UK and Australia, complemented with a development centre in the Philippines.

Our Resources

-  Leading market shares for Student Management Systems 
-  Trusted brand respected in education worldwide 
-  Education services capability complementing student management software 
-  Market insight from long standing customer relationships 
-  Fresh leadership bringing clear business focus 
-  Highly skilled people with deep domain expertise 
-  Culture that places customers at the heart of what we do 

 Underpinning how we operate:

Our Values See page 34

 How we maximise value creation

Our Software



Our cloud-based and on-premise student management systems add value to education and business organisations throughout the student lifecycle.

Our modules span:

| | | | |
|----------------------------|-------------------------------------|-----------------------|--------------------------------|
| Marketing & Enquiries | Applications, Offers & Registration | Curriculum Management | Learning & Studying |
| Assessments & Examinations | Student Support | Learning Analytics | Graduation & Alumni Management |

Customers pay through a licence, implementation and maintenance model.

Our Education Services

Our education services are offered internationally and cover institutions from Early Years through to Higher Education, all focused on improving learning and student outcomes.

| | | | |
|--------------------------|----------------------------------|--------------------------------|--------------------------|
| Self-assessment & Review | Early Years & School Inspections | School Improvement | Professional Learning |
| Quality Mark | Student Experience Barometer | Destination of Leavers surveys | Operational Benchmarking |

Our Outputs



Generating returns and added value for all of our stakeholders:



Customers

Solutions to enable managers to enhance the quality of education and improve operational performance, to attract, engage and retain students throughout their learning journeys in a cost-effective and flexible manner.



Students

Supporting a student's life-long learning journey, through enhanced well-being, enriched experience beyond the academic curriculum, and seamless interaction with different learning channels (physical and virtual).



Shareholders

Shareholder value and returns from profitable, cash-generative growth with a high proportion of recurring revenue and progressive dividends.



Employees

Interesting and rewarding careers, with the opportunity to work with the leading educational institutes across the globe.



Government agencies/ education funders

Independent quality assurance services supporting the development of top class education provision.

Risk Management See page 17

Corporate Responsibility See page 34

Our strategy for profitable growth is outlined on page 16

Our strategy

To focus on international education sectors – Higher Education, Further Education and Vocational institutions, Schools, Government and State bodies, Training Providers, and Employers – and to underpin student success through the provision of expertise, software and services.

Strategic Priorities

Deliver the new Student Information framework

We will develop a new cloud-first Student Information framework that will enable us to offer a wider solution set than our traditional Student Management Systems. The Student Information framework will focus on creating the underlying interfaces, data structures and embedded analytics to deliver our first new modules to market in 2017. We will take a student centric approach, ensuring that educational institutes can offer an improved student experience and, ultimately, improved student outcomes. The first modules will look to offer an enhanced student information portal, improved engagement through private social networks, full lifecycle student support and outcomes based learning analytics; and will be available to integrate to all existing Tribal Student Management Systems, as well as those of third parties, be they on-premise or cloud-based.

Key measures: Revenue (sales of new modules to existing or new customers)

Increase Annual Recurring Revenue

We will look to exploit the market direction of Software as a Service (SaaS) and cloud based solutions, both with the introduction of new solutions and in the provision of SaaS and cloud for existing products. This will enable an on-going higher value, service provision and a smoother income flow from those customers on SaaS. The move of existing systems into the cloud will also enable a more rapid adoption of modules in our new Student Information framework.

Key measures: Annual Recurring Revenue; percentage of Revenue annually recurring

Grow market share in established and new territories

A four-prong growth strategy:

- **Product penetration** – with cross-selling and upselling opportunities for our large installed base of customers across both systems and services;
- **Market penetration** – ensuring a pro-active approach to new business in existing territories, and selling add-on solutions to sites without a Tribal Student Management System;
- **Geographical expansion** – continuing our international sales development in regions such as the Middle East and US and reviewing target geographies including Canada, Singapore and Malaysia;
- **Mergers and acquisitions** – that broaden our applications or services portfolio; or increases our geographical footprint.

Key measures: Backlog

Drive improved margin

With a clear focus on operational efficiency, and managing our overall cost base against the expected revenue, we will continue to improve upon our margins. A series of business process improvements have been established to improve our sales and delivery capability, standardising practices across the Group, and ensuring faster time to revenue. Continued margin improvement will ultimately increase value to shareholders.

Key measures: Adjusted Operating Profit Margin

Principal risks and uncertainties

The Group is exposed to a number of risks and uncertainties which could have a material impact on the future performance of the Group. The table below summarises the key risks that the Directors consider the business faces and how the Group seeks to mitigate them. In addition to these, other risks of a financial nature are addressed in the Financial review.

| Risk area | Cause and Effect | Mitigation |
|----------------------------------|---|---|
| Reputation | <p>Cause: Failure to deliver contractual commitments. Failure to meet investor expectations.</p> <p>Effect: Adverse publicity relating to contract and solution delivery with associated reputational damage and financial risk.</p> | <p>The Group maintains strong controls to ensure successful project delivery.</p> <p>The Board engages with investors on a regular basis.</p> |
| Contract tendering | <p>Cause: Poor commercial negotiation and documentation on major contracts. Failure to adapt to local legal framework on international projects. Penetration in new markets increases risk of omissions and mistakes.</p> <p>Effect: Contract delivery failure, risk of legal claims or onerous financial contract terms.</p> | <p>The Group maintains a formal Delegation of Authority matrix to ensure appropriate visibility and approval of all potential contracts.</p> |
| Project delivery | <p>Cause: Failure to meet project milestones and other contractual requirements; customer subject to own internal pressures.</p> <p>Effect: Non-payment or application of contractual penalty clauses by customers.</p> | <p>The Group reviews project progress on a monthly basis at Executive Management level.</p> |
| Innovation and technology | <p>Cause: Increasing emergence and demand for cloud-architected solutions for some legacy technology platforms and core products.</p> <p>Effect: Technically obsolete platform and products.</p> | <p>The Group is investing in a new Student Management Systems product strategy with a Cloud Operations (hosting) focus. This will move functionality from existing platforms to newer technology. The existing Tribal Campus product provides a step up towards a cloud-architected solution.</p> |
| Information security | <p>Cause: Data loss or system security breach. Increasing regulatory data protection and information security requirements including health related controls over student management data.</p> <p>Effect: Losses of reputation with customers and in market. Risk of regulatory penalty.</p> | <p>The Group operates a Secure Data Centre and continues to roll out ISO 27001 certification across the business, and invest in security software and training for all staff.</p> |
| People | <p>Cause: Key employees leave the Group.</p> <p>Effect: Detrimental effect on customer relationships and development pipeline.</p> | <p>The Group has incentive schemes designed to attract, motivate and retain key employees, whilst encouraging appropriate behaviours. We aim to provide competitive remuneration packages for all staff.</p> |

Business review

Building our future

over:

1,000

people serving customers in over

55

countries worldwide

600+

Universities

#1

SMS Provider

Significant changes and a renewed strategy has maintained Tribal as a market leader.



Find out more

Read more about our financial performance in 2016

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Understand more about the key performance indicators we use to track our progress

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Significant changes to the Board, a refreshed management structure, and a renewed strategic direction has continued to maintain Tribal as a market leader. Sales momentum has returned, we have gained new customers, and the future development of a next generation, cloud-based platform for Student Management Systems (SMS) will provide a long-term roadmap for new and existing customers.

As a result of the 2015 performance, the Group faced significant financial and operational challenges. In 2016 we have taken decisive action to address these challenges.

The rights issue and Directors' share subscription in March and the sale of the Synergy business, completed in April, raised a total of £38.5m (net of costs), and restored the Group's financial position, providing both financial stability and the funds to invest in the growth of the business.

In May, the listing of Tribal's ordinary shares on the Official List was cancelled and the shares were admitted to the Alternative Investment Market (AIM). This followed the Board's decision that AIM is a more appropriate market on which to develop Tribal, bringing the benefit of lower costs, and administration and regulatory requirements that are more appropriate to the Group's size.

Following the appointment of Richard Last as Chairman, and Roger McDowell as Senior Independent Director in November 2015, Ian Bowles was appointed to the Board in February 2016 and became the new Chief Executive Officer on 1 March, and Mark Pickett joined the Board as Chief Financial Officer on 30 June.

The impact of these actions began to materialise through the year, and we can report that financial stability has been successfully restored, coupled with a significantly improved trading performance for 2016 which has left the Group in a stronger, net cash position at the end of the financial year.

Though there remains much to do, the Group is becoming increasingly well positioned to take advantage of the international market for Student Management Systems & Services.

2016 in summary

In the first half of the year, the Group's operations and strategy were reviewed; this reaffirmed that Tribal's software and services portfolio, market leading position and international customer base provide a strong platform around which to build long-term shareholder value. A revised strategy was implemented, building a new vision and mission for the Group, a new operating model and

product strategy for Student Management Systems, refreshed management team, and a revised organisational structure which provides clear lines of accountability and responsibility.

We also identified areas where we can more effectively align the Group's resources to deliver material cost efficiencies and improve margin without impacting the Group's ability to serve our customers or drive our business forward. We implemented a cost reduction plan and achieved £5.8m of in-year savings, and annualised cost savings of £9.0m by the end of 2016. This has been a key factor in achieving improved profits in 2016, despite the anticipated fall in revenue. We continue to drive further operational efficiencies, and expect further cost savings to be delivered in 2017.

We have made good progress in the year, but there remains a great deal of work to do to ensure we execute our strategy effectively and develop ever closer customer relationships, which will deliver value for all of our stakeholders.

In our chosen regional markets and sectors, overall activity levels for the replacement or enhancement of Student Management Systems remain stable and we continue to see a steady stream of new customer opportunities in the Higher Education sector.

Following the UK Government's decision to permit universities, subject to certain conditions, to increase student numbers, we anticipate that the trend of Higher Education institutions becoming more commercially-focused will continue, and expect future market opportunities to develop in the area of data analytics as universities seek competitive advantage through improvement of the Student Experience. We believe Tribal Group is well positioned to take advantage of this shift in market focus due to its experience in data analytics and Student Barometers gained in its i-graduate line of business.

Fiscal pressures and the need for efficiencies in the Further Education, Vocational Learning and Schools sectors, coupled with initiatives to reform and restructure these areas, will continue to drive demand over the longer term.

Business review continued

Product & Services Strategy

Tribal has a broad portfolio of functionally-rich Student Management Systems at the core of our business, and we will continue to deliver market-leading solutions.

In 2016, we commenced development of a next generation, cloud-based platform for Student Management Systems in the Higher Education and Further Education & Colleges sectors. We are building modular applications using a common architecture and industry standard technology stack, that we will sell to existing and new customers. We will continue to support and invest in all our current product set and safeguard our customers' investment in their existing systems. We have also continued with the development of a new product for schools (SchoolEdge), and sustained our market-leading product for employers and training providers (Maytas), as well as developing complementary service offerings on our Data & Analytics tools, particularly focussed on the Student Experience.

Notwithstanding the expiry of the Ofsted contracts, Quality Assurance Solutions continues to have opportunities to grow and develop its business both in the UK and, more widely, to build on our existing contracts in the Middle East and the USA. We have broadened the offerings beyond School Inspections to include Performance Benchmarking and Professional Development & Training.

We will also seek to bring our services to market more cohesively across our chosen education sectors and geographic markets.

Organisational Structure

Tribal's organisational structure has been simplified to drive improved customer focus, more agile management, responsiveness to local needs, and clear accountability across our business. The beneficial impact of these changes is beginning to materialise, with the new regional organisation

structure enabling us to drive efficiencies in our business, reduce overlap and duplication in our development activities, and achieve better multi-product skilling of our implementation resources to simplify and reduce our overheads.

Our UK regional management team has been realigned, and a leadership team has been appointed in APAC. We have also enhanced our sales and marketing leadership. Tribal will continue to go to market globally in the Higher Education sector, reflecting the fundamental characteristics of the university market, but delivery of customer projects will be driven regionally to retain close customer focus.

Our sales capability was rebuilt in 2016, following the loss of sales momentum during 2015, and as a result we secured a number of new customer wins during the year. Our task now is to sustain our new business trajectory, whilst also re-establishing effective account management practices. At the end of 2016 and the early part of 2017 we have secured new contract wins with the University of the Arts London and the University of Sheffield.

We have managed the business through three segments, which are split between UK, APAC and the Rest of the World (RoW):

- The Student Management Systems business focuses on the following market sectors: Higher Education, Further Education Colleges & Employers (referred to in Australia as VET), and Schools, and across 3 main markets, UK, Australia and New Zealand. Product/Offerings are split between License, Support & Maintenance, Implementation, and Hosting & Cloud Operations;
- i-graduate relates to student surveys and analytics, and includes i-graduate, Performance Benchmarking, Specialist Learning Solutions (non-core, and closed in 2015) and Careers Advice (non-core, and closed in 2015);
- Quality Assurance Solutions, including inspection and review services which support the assessment of educational delivery, and includes the Ofsted Schools (ended in August 2016) and Early Years inspection contracts (ending in March 2017).

“Tribal Campus offers a compatible solution that works with our current business practices and requirements. As a large, reputable company, we trust Tribal to deliver robust support services and look forward to further developing our partnership.”

Auckland Institute of Studies
New Zealand

Cost Reduction

Our overall workforce has reduced by almost 18% to a total headcount of 1,089, down from 1,323 at 31 December 2015.

Of these reductions, around 30% resulted from both the disposal and closure of businesses and winding down of the Ofsted contract, the remaining 70% being the result of specific actions taken to further reduce our costs during the first half of the year, in part to reinvest in the business. The cost savings relating to the cost reduction program achieved £5.8m of in-year savings in 2016, with annualised cost savings, including other, non-headcount related reductions, of £9.0m.

In addition, we have identified further opportunities for cost savings which will drive continued margin improvement in 2017 and beyond.

Divisional Performance

As detailed above, we managed the business through three segments, being Student Management Systems (SMS), i-graduate and QAS, which are split between UK, APAC and RoW. Towards the end of 2016, management reporting began to align with the new organisational structure.

The Student Management Systems segment comprises the previous Product Development and Customer Services (PD&CS) and Implementation Lines of Business, and relates to all SMS software products that are sold across the market sectors in which we operate.

The i-graduate (previously Professional & Business Solutions) segment was renamed in 2016 as Specialist Learning Solutions (SLS) and Careers Advice had closed in 2015. The QAS segment remained as before.

The operating profit of these three segments has previously been calculated by aggregating all central overhead costs (excluding Group costs), using a general allocation methodology to calculate a central cost allocation for each division which, when applied to the gross margin, resulted in a divisional operating profit. Group costs include Board costs and global roles, and are shown as unallocated corporate expenses of £3.5m (2015: £3.8m).

From the beginning of 2017, we have changed the basis of cost allocation for each of the Lines of Business. We determined that the previous methodology allocated Central costs (which include Finance, HR, Legal, IT, Corporate Services, Marketing and Office costs) in a way that did not represent the level of resource utilised by that business, and accordingly did not provide

“Carleton University is a student-centred university with a strong commitment to helping students realize their potential. With the new tools available through the Tribal CRM, we will continue to enhance the student experience together and support our student's complete university experience from their first point of contact through to graduation and beyond.”

Carleton University
Canada

sufficient insight into the underlying profitability of the Line of Business. We have therefore implemented the following change:

- The segmental analysis of Adjusted Operating Profit will allocate all directly attributable and controllable direct and overhead costs to its business segment; this includes sales costs, attributable office costs, management costs relating to those individuals working directly in that line of business, and product development costs
- Central & Group costs will be the cost of all supporting services which are not attributable to a particular line of business. Central/Group costs include Finance, HR, Legal, IT, General (non-Line of Business specific) Marketing costs, Corporate Services, attributable offices costs and Board of Director costs.

The Central & Group costs will therefore represent the aggregate of all costs which support the Lines of Business, and which are not directly and specifically attributable to each Line of Business. This provides greater transparency into the underlying profitability of each business.

As we have formally moved to this reporting from 1 January 2017, the segmental reporting below is shown in the previous format. For comparison purposes, the analysis is shown by market sector, below, using the existing cost allocation methodology, and the 2016 numbers are also shown using the cost allocation approach in effect from 1 January 2017.

Business review continued

| | Revenue £'000 | | Adjusted Operating Profit (original) ¹ £'000 | | Adjusted Operating Profit (revised) ² £'000 |
|----------------------------------|------------------|---------|---|---------|--|
| | 2016 | 2015 | 2016 | 2015 | 2016 |
| Student Management Systems | 61,007 | 62,701 | 4,724 | 3,163 | 12,021 |
| i-graduate | 8,534 | 13,622 | 901 | 229 | 1,007 |
| Quality Assurance Solutions | 20,714 | 30,402 | 2,532 | 2,900 | 6,537 |
| Total Lines of Business | 90,255 | 106,725 | 8,157 | 6,292 | 19,565 |
| Central/Group costs ³ | - | - | (3,469) | (3,758) | (14,877) |
| | 90,255 | 106,725 | 4,688 | 2,534 | 4,688 |

¹ Adjusted Operating Profit (original) represents the original costs allocation methodology used for accounts to 31 December 2016

² Adjusted Operating Profit (revised) represents the cost allocation methodology used from 1 January 2017

³ Central/Group: for Adjusted Operating Profit (original), these are costs previously described as Unallocated Corporate expenses. For Adjusted Operating Profits (revised), this represents all costs which are not directly attributable or controllable by the Line of Business. Costs include Finance, HR, Legal, IT, General (non-Line of Business specific) Marketing costs, Corporate Services and Board of Director costs including all attributable office costs.

Student Management Systems

The SMS division delivers software (licence and development fees), implementation services and related software support (maintenance fees).

Software and related support includes the enhancement and development of existing and new software products. The principal revenues generated are either delivery and development of software licenses or annually recurring support and maintenance revenues associated with the installed software.

Implementation services delivers the technical implementation of our software products at customer sites, typically working alongside customer teams. Implementation projects vary in length, and range from a small number of days, to more than two years for more complex projects. Revenues are typically based on day rate fees, although we sometimes operate under fixed fee contracts for defined implementation scopes.

“Working with Tribal and the functionality available in SITS:Vision enables us to turn our attention fully to driving the quality of the student experience.”

Massey University
New Zealand

| | Revenue £'000 | |
|---|------------------|--------|
| | 2016 | 2015 |
| Licence and development fees | 10,840 | 14,090 |
| Implementation | 12,430 | 12,472 |
| Maintenance fees | 32,420 | 30,304 |
| Other | 5,317 | 5,835 |
| Revenue | 61,007 | 62,701 |
| Of which: | | |
| Higher Education | 28,771 | 28,558 |
| Further Education | 16,221 | 18,677 |
| Schools | 16,015 | 15,466 |
| | 61,007 | 62,701 |
| Of which: | | |
| UK | 47% | 57% |
| International | 53% | 43% |
| | 100% | 100% |
| Adjusted Segment Operating Profit | 4,724 | 3,163 |
| Adjusted Operating Profit Margin | 7.7% | 5.0% |
| Capitalised Product Development Expenditure | 1,098 | 4,083 |

Student Management Systems revenues decreased by 3.2% to £61.0m (2015: £63.0m).

Adjusted operating profit was £4.7m (2015: £3.2m) and the adjusted operating margin was 7.7% (2015: 5.0%).

The capitalised development costs were £1.1m in 2016 (2015: £4.1m). In 2016, limited capitalisation has taken place, in light of the significant impairments arising in 2015. Reflecting the Group's revised product strategy, it is considered appropriate that the cost of development work relating to statutory/regulatory updates, local requirements of new territories entered when undertaking work for the first time, bespoke/one-off projects, and Support & Maintenance work is now expensed as incurred, with capitalisation taking place predominantly in respect of new product/platform redevelopment. Accordingly, the capitalised development cost of £1.1m in 2016 relates only to the redevelopment of the SchoolEdge platform (2015: £4.1m, of which £0.7m related to SchoolEdge development).

Higher Education

Within the Higher Education sector, there were significant new customer wins; these include Massey University and the University of Waikato in New Zealand; the University of the Arts London (UAL) whose revenue will start to be recognised in 2017; Tavistock & Portman NHS Trust in the UK; Universiti Teknologi Petronas (UTP) and Institut Teknologi Petroleum Petronas (INSTEP) in Malaysia; Carleton University, Canada; and Central European University in Hungary, a private university based in Budapest.

We also moved to Preferred Bidder status at the University of Sheffield, a major UK Russell Group university, and the contract was signed in early 2017.

In Australia, we continue to benefit from the acquisition, in March 2015, of Callista, which is performing ahead of our expectations.

Across our university customer base, retention rates remained high, and as a result, our Annual Recurring Revenue base has continued to grow. Maintenance fees in the period were £32.4m (2015: £30.3m), an increase of 7%.

As a result of delayed deal closures at the end of 2015, our Higher Education implementation services activities experienced a slow start to 2016. However, university deal closure momentum has improved over the year, and utilisation levels have improved, enhancing operating margins later in the year. We won a significant implementation contract at Bristol University to upgrade the existing SITS implementation, and Massey University has moved to the next stage of its implementation programme with a major software licence drawdown in the period.

Further Education and Schools

In the Further Education (referred to as VET in Australia/New Zealand) and Schools sectors, the New South Wales Student Administration and Learning Management (SALM) programme has continued to deploy successfully, covering both TAFEs (Further Education colleges) and Schools in New South Wales. Currently, over 1,000 schools are now live on the system (from 229 at 31 December 2015), and work is continuing on the planning for the remaining 1,100 locations. All 138 TAFE campus locations are successfully deployed and are live on our EBS Student Management system. However, in June 2016, the NSW Government made a public announcement that they will be reviewing their student enrolment system and will look to implement a new, cloud-based solution for 2018 enrolments. Tribal continues to discuss the future solution with TAFE NSW but, regardless, TAFE NSW will be a customer through into 2018, and the schools' element of SALM will continue as planned.

Business review continued

Our other schools Student Management product, SchoolEdge (previously called HumanEdge, when acquired by Tribal) is performing well and exhibiting good customer retention rates. We are now well advanced in bringing a refreshed, Cloud-based architected schools management system to this market.

Within our Campus business in the Further Education sector, we are pleased to have recently extended our work with the British Council and have commenced implementation at both UTP and Instep in Malaysia.

Work Based Learning, which provides education software to employers for Professional Learning, had a number of notable contract wins in 2016 including John Lewis, Boots and Wolseley.

i-graduate

| | Year ended 31 December £'000 | |
|-----------------------------------|------------------------------------|--------|
| | 2016 | 2015 |
| Analytics | 4,976 | 4,865 |
| Career advice and guidance | – | 808 |
| Other | 3,558 | 8,098 |
| Revenue | 8,534 | 13,771 |
| Of which: | | |
| UK | 75% | 88% |
| International | 25% | 12% |
| | 100% | 100% |
| Adjusted segment operating profit | 901 | 229 |
| Adjusted operating margin | 11% | 2% |

The i-graduate division provides a range of services for managers of universities, colleges and schools, so they are able to assess and enhance the quality of the education they provide, and improve their operational performance. Services provided by this division are:

Analytics:

- Student experience analytics (including the international student barometer survey)

Other:

- Operational benchmarking and analytics
- Transformation and change advisory services
- Information management services
- Specialist learning management solutions
- Specialist support services to enhance the provision of education and training.

This division's activities have increasingly focused on those skills and tools that closely relate to our student management systems. Increasingly, we integrate these activities with our software offerings.

i-graduate revenue in the period was £8.5m (2015: £13.8m), a reduction of 38% as we closed our Specialist Learning Solutions and Careers Advice businesses during 2015. International revenues represented 25% (2015: 12%) of total income. i-graduate adjusted operating profit was £0.9m (2015: £0.2m), and adjusted operating margins were 11% (2015: 2%).

Our analytics work comprising student experience analytics and performance benchmarking, on which our strategic focus for this segment is based, performed well, supported by a NZD \$5m contract extension to our benchmarking work in the New Zealand college sector, and a contract with the Lancaster Group of Universities.

“We’ve chosen to extend our contract with Tribal year on year. We have a great working relationship with the staff that run our MIS department and continue to receive an excellent, diligent service.”

Milton Keynes Council
UK

Quality Assurance Solutions

| | Year ended 31 December £'000 | |
|-----------------------------------|------------------------------------|--------|
| | 2016 | 2015 |
| Ofsted contract revenues | 11,620 | 19,610 |
| Other | 9,094 | 10,872 |
| Revenue | 20,714 | 30,482 |
| Of which: | | |
| UK | 70% | 80% |
| International | 30% | 20% |
| | 100% | 100% |
| Adjusted segment operating profit | 2,532 | 2,900 |
| Adjusted operating margin | 12% | 10% |

The QAS division provides inspection services used by the Office of Standards in Education, Children's Services and Skills (Ofsted), the UK government agency responsible for monitoring quality in settings such as colleges, schools and nurseries. These services have also been purchased by government agencies in the US and Middle East. Typically, we provide these services under multi-year contracts, with fixed and variable pricing elements. We also provide complementary services including training for prospective quality assurance inspectors, training and software tools for school leaders to prepare for inspections, online professional development tools for teachers to enhance their professional development, and other similar offerings.

Our Quality Assurance Solutions revenue declined in the period, as previously indicated. Revenue was £20.7m (2015: £30.5m), a reduction of 32%. International revenues represented 30% (2015: 20%) of total income. QAS adjusted operating profit was £2.5m (2015: £2.9m), and adjusted operating margins were 12% (2015: 10%). Non-Ofsted revenues fell to £9.1m (2015: £10.9m), mostly due to lower revenues during the retendering of the NCETM contract (National Centre for Excellence in the Teaching of Maths), in which we were successful in the award of the new contract.

The reduction in Ofsted contract revenues reflects the successful conclusion of our schools assurance work during 2015. Our "Early Years" assurance work will continue until March 2017 at which point the contract will revert back to Ofsted. We have continued to focus on optimising delivery efficiencies during this run off period, which is reflected in our improved operating margins in that area of the business. Our other work includes quality assurance contracts in North America and the Middle East, which continue to trade well.

Geographic performance

Revenues generated in Tribal's key geographic markets were as follows:

| | Revenue £'000 | |
|-------------------------------------|------------------|---------|
| | 2016 | 2015 |
| UK | 46,469 | 72,350 |
| Asia Pacific | 31,819 | 23,699 |
| North America and rest of the world | 11,967 | 10,676 |
| | 90,255 | 106,725 |

Tribal's revenues in the UK have reduced in scale due to two main factors: the expiry of contracted work for Ofsted Schools, revenue of £0.2m (2015: £3.5m), and the disposal/closure of non-core business, including Synergy, Specialist Learning Solutions (SLS) and Careers Advice in 2015, which had revenue of £1.6m and £0.2m respectively in 2016 (2015: £6.3m and £3.5m).

In the Asia Pacific (APAC) region, revenues increased mainly as a result of new contracts in New Zealand (Massey University and University of Waikato), strong performance from Callista and the SALM contract. Reported sterling revenue also benefited positively by approximately £600k due to exchange rate movements.

Business review continued

Consistent with the increasing scale of activities in Australia, the headcount in the APAC region has grown during 2016. As UK service activities have been scaled back, headcount has been adjusted accordingly.

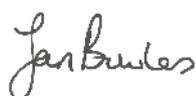
| | Headcount As at 31 December | |
|-------------------------------------|--------------------------------|-------|
| | 2016 | 2015 |
| UK | 741 | 996 |
| Asia Pacific | 323 | 309 |
| North America and rest of the world | 25 | 18 |
| | 1,089 | 1,323 |

Reporting in 2017

In 2017 our products and services in respect of Student Management Systems will be split between License, Support & Maintenance (which were previously combined in PD&CS), Implementation and Hosting/Cloud Services (separating Hosting and other related services from Implementation); they will continue to be reported against the three market sectors described on page 23.

In respect of i-graduate (previously Professional & Business Solutions) division, Performance Benchmarking will move to QAS in 2017.

The QAS division will remain as before, but with the addition of Performance Benchmarking in 2017.



Ian Bowles

Chief Executive Officer

“The structure of ActionPlan+ ensures that we can continue to provide specific detail to support all of our key judgement statements, as well as individual framework items. We can be assured that the Ofsted framework remains current and updated timely, and we can be proactive in providing the necessary information and evidence of the outstanding support, teaching and learning we provide for all of our learners.”

Derwen College
UK

Case Study

Costs halved at the Skills Funding Agency

The Skills Funding Agency (SFA) is an executive agency, sponsored by the Department of Education to provide £3.7 billion of funding to skills training in further education in England each year. The SFA had been running a digital cataloguing service which detailed information from around 1000 learning providers on the training courses available across the country.

The SFA contracted Tribal to radically overhaul the legacy service in order to improve efficiency and data accuracy while driving down cost. As a result of Tribal transforming the solution design, costs were almost halved and the SFA were able to save more money. Data quality was improved as Tribal set up a Quality Assurance team to review the timeliness and quality of the data being uploaded by providers.

“Tribal successfully implemented service improvement without disruption while simplifying and improving processes.” said Dan Richardson, National Careers Service Manager, Skills Funding Agency.



Financial review

The Group achieved a significantly improved trading result on lower revenue. Financial stability was restored, following a fully subscribed rights issue and the disposal of Synergy. Annually recurring revenues increased to £32.4m compared to £30.3m in 2015. A program of cost reduction delivered £9.0m of annualised cost efficiencies. Net cash improved by £41.3m.

over:

**50% of the
UK Russell Group
use Tribal Student
Management Systems**

100's

Colleges worldwide

1,000's

Australian Schools

£8.8m

Net Cash
2015: net debt £(32.5)m

**Financial stability
was restored and
higher margin,
annual recurring
revenues increased**

Revenue**£90.3m**

| | |
|------|----------------|
| 2016 | £90.3m |
| 2015 | £106.7m |

↓ down 15%

Adjusted operating profit¹**£4.7m**

| | |
|------|--------------|
| 2016 | £4.7m |
| 2015 | £2.5m |

↑ up 88%

Statutory operating profit/(loss)**£0.1m**

| | |
|------|-------------------------|
| 2016 | £0.1m |
| 2015 | Loss of £(45.2)m |

↑ up 100%

Overview

In the year ending 31 December 2016, the Group's revenue from continuing operations was £90.3m (2015: £106.7m). Adjusted Operating Profit increased by 88% to £4.7m (2015: £2.5m) and adjusted operating profit margin improved to 5.2% (2015: 2.3%). To improve understanding of the underlying performance of the business, these numbers are adjusted for certain items, including Share-based Payments, as detailed below.

Adjusted profit before tax was £4.2m (2015: £1.5m) and adjusted diluted earnings per share were 1.9p (2015: 0.9p). The Company made a statutory loss after tax of £1.2m (2015: loss of £45.5m).

At the end of the year the Group had net cash of £8.8m (2015: net debt of £32.5m).

Results of Operations**Revenue**

| | Year ended 31 December £m | |
|---------|---------------------------------|-------|
| | 2016 | 2015 |
| Revenue | 90.3 | 106.7 |

Revenue as expected was lower by 15% at £90.3m in the year (2015: £106.7m). The key factors were: QAS revenue reduced to £20.7m (2015: £30.5m) mostly due to the expiry of the Ofsted schools inspection contract in August 2015 which contributed revenues of £8.4m in 2015; revenues from Synergy, disposed of in March 2016, fell to £1.6m (2015: £6.3m); revenues following the closure of the SLS and Careers Advice business in 2015 fell to £0.2m in 2016 (2015: £3.5m).

Across our university and college customer base, retention rates remained high, and as a result, our Annual Recurring Revenue base has increased by 7% in 2016, to £32.4m (2015: £30.3m). Software licences and development fees reduced in the year to £10.8m (2015: £14.2m). Annually Recurring Revenues now represent 53% of the total revenue from our Student Management Systems business (2015: 48%).

International revenues continued to increase; in 2016, revenue from outside the UK was £43.8m (2015: £34.4m), and increase of 27%, and representing 48% of our total revenues (2015: 32%).

Adjusted Operating Profit

| | Year ended 31 December £m | |
|---------------------------|---------------------------------|------|
| | 2016 | 2015 |
| Adjusted operating profit | 4.7 | 2.5 |

The Adjusted Operating Profit was £4.7m (2015: £2.5m). Higher margin recurring revenues and improved operational efficiencies drove an increase in Gross Profit Margin to 43% (2015: 36%), and a program of headcount reduction and other cost savings was implemented during the year which delivered £5.8m of in-year savings. This will benefit future periods with annualised cost savings of £9.0m.

There was a negative impact of £5.8m on earnings in 2016 compared to 2015, as a combined result of the expiry of the Ofsted contract in 2015, the closure of the non-core SLS and Careers Advice business, and the disposal of Synergy in March 2016.

Additionally, the improved Adjusted Operating Profit is after a reduction in capitalised development costs compared to the prior year which materially impacted 2016 performance. Capitalised development costs are significantly lower in 2016 at £1.1m (2015: £4.1m), reflecting the Group's revised product strategy and capitalisation treatment, with the majority of development costs expensed in the current year (see Development Costs below).

The impact on Adjusted Operating Profit of foreign exchange movement was a gain of £0.7m (2015: gain of £0.2m).

Items excluded from adjusted profit figures

Certain items not directly related to the trading business or regarded as exceptional in nature have been removed from the adjusted profit figure and disclosed as "Other Items" on the Income Statement. The main adjustments are as follows:

- **Share-based Payments**

In 2016, Share-based payment charges (including employer related taxes) of £1.0m (2015: credit of £0.4m) are excluded from the Adjusted Operating profit. In 2015, these charges were included in the overall trading numbers, but given the variance in the level of charge, the amounts will now be shown under "Other Items" to provide greater understanding of the Group's underlying performance, and accordingly the 2015 number are restated. The charges in the current year relate to the matching shares granted as part of the rights issue and share subscriptions in April 2016 (£0.5m) and the Long Term Incentive Plan options (LTIPs) which were granted to the new executive management team at the end of June 2016 (£0.4m) plus employer related taxes (£0.1m).

¹ Adjusted operating profit is in respect of continuing operations and is stated excluding "Other items" charge of £4.6m (2015: charge of £47.8m). Statutory loss for the year is £(1.2)m (2015: loss of £(45.5)m).

Financial review continued

Deferred Contingent Consideration

The movement in deferred consideration of a £0.6m charge (2015: credit of £1.0m) represents changes in the deferred contingent consideration payments expected to be paid as part of the earnouts on acquisitions. During the year, a final payment was made in respect of deferred consideration payable on the acquisition of i-Graduate, which resulted in an additional charge of £0.6m, and the expected fair value of the settlement of deferred consideration relating to Sky Software (now renamed Tribal Campus) resulted in no overall charge.

In March 2017, Tribal signed a variation to the Share Purchase Agreement with the vendors of Tribal Campus, which amended the terms of the deferred contingent consideration payments. Under the variation, it was agreed that a combination of cash, shares and share options would be paid/issued in full and final settlement of all contingent obligations under the Agreement. The impact of this variation has been reflected in these financial statements.

Amortisation of IFRS3 Intangibles

The amortisation charge in relation to IFRS3 intangible assets of £1.9m (2015: £1.7m) arose from separately identifiable assets recognised as part of previous acquisitions. The assets principally relate to software and customer relationships and are amortised over their expected life which was determined in the year the acquisition took place.

Profit on sale of Synergy

The Synergy business was disposed of for a net consideration of £19.4m (after adjustments for working capital). Goodwill of £19.1m was apportioned to the disposal resulting in a profit on disposal of £0.3m recognised in the year (see Disposal of Synergy, below).

Restructuring and associated costs

These costs relate to the restructuring of the Group's operations. The restructuring program was executed in the first half of 2016 and amounts include a charge for redundancy costs of £1.2m (including the costs of termination of the previous Executive Directors' employment contracts of £0.3m) and consolidation of the Group's office portfolio of £0.5m.

Statutory loss for the year

The statutory loss for the year reduced in 2016 to £1.2m (2015: £45.5m). The prior year loss included an impairment charge of £38.8m to goodwill and £8.0m in relation to capitalised product development expenditure. Management have performed an impairment review at 31 December 2016 and no impairment charge is required in the year ended 31 December 2016.

Development Costs

| | 2016 £m | 2015 £m |
|------------------------------|------------|------------|
| SchoolEdge | 1.1 | 0.7 |
| Other Products | - | 3.4 |
| Capitalised Development Cost | 1.1 | 4.1 |

The capitalised development cost fell significantly in 2016 to £1.1m (2015: £4.1m), which relates only to the development of the SchoolEdge platform. Reflecting the Group's revised product strategy, it is considered appropriate that the cost of development work relating to statutory/regulatory updates, local requirements of new territories when undertaking work for the first time, and bespoke or one-off projects, is now expensed as incurred, with capitalisation taking place predominantly in respect of new product and platform redevelopment where the Group expects ongoing future revenue to be received.

Disposal of Synergy

On 1 April 2016, the Group disposed of its Synergy children's services management information system business to Servelec Group plc for total consideration of £20.3m (£19.4m after adjustments for working capital).

During 2016, the Synergy business generated revenues of £1.6m (2015: £6.3m). The business delivered an operating profit £0.7m in 2016 (2015: £2.7m), stated before allocation of costs of central support services which have not transferred to Servelec Group plc. These non-transferring activities include IT services, HR, finance, legal, marketing and head office costs.

It is noted that two of the Group's Directors, Richard Last and Roger McDowell, are also directors of Servelec Group plc. Given the conflict arising, neither Director participated in the Board's consideration of the disposal of Synergy. Additionally, the Group has provided warranties and indemnities against certain liabilities as part of the disposal. The Group believes that the likelihood of a material liability arising from such warranties provided is remote.

Net Finance Costs

Overall financing costs were £1.0m (2015: £2.1m). Financing costs on the Group's loan facility decreased to £0.6m (2015: £1.1m) following the streamlining of banking facilities to better match the Group's ongoing requirements. The Group now has available a revolving credit line of £25m with Lloyds Banking Group and Clydesdale Bank, incorporating overdraft facilities and bank guarantee lines, committed until June 2018. Other financing costs reduced to £0.4m (2015: £1.0m) following reductions in the unwinding of discounts on deferred consideration and the fees associated with the waiver of loan covenants.

Key Performance Indicators (KPIs)

The Group monitors its performance using the following KPIs:

| | |
|--|---|
| Revenue £90.3m (2015: £106.7m) | Adjusted Operating profit £4.7m (2015: £2.5m) |
| Adjusted Operating margin 5.2% (2015: 2.3%) | Annually Recurring Revenue £32.4m (2015: £30.3m) |
| Backlog £113.8m (2015: £121.3m) | Cash Conversion 115% (2015: (442)%) |
| Staff Retention 84% (2015: 86%) | Revenue per Employee £87k (2015: £85k) |

Going concern

Following the strengthening of the balance sheet, the Directors are confident that the Group has sufficient financial resources for its foreseeable requirements being a period in excess of 12 months from the approval of the annual report and financial statements. Tribal maintains appropriate cash balances, and has a revolving credit facility of £25m that is committed until June 2018 of which £6.5m is allocated for trading guarantees with customers as at 31 December 2016.

The Group's software products benefit from a significant installed customer base, whilst its other activities are typically delivered under the framework of long-term contracts. Collectively, the Group has a range of customers across different geographic areas, good levels of committed income and a pipeline of new opportunities. The Group's forecasts and projections, which allow for reasonable possible changes in trading performance, show that the Group will be cash generative across the forecast period.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis in preparing the financial statements.

Taxation

The corporation tax on Adjusted Profits was £0.9m (2015: £0.6m) and the adjusted effective tax rate was 21% (2015: 42%). This includes the impact of higher rates of taxation arising in overseas jurisdictions.

The corporation tax on Statutory Profits was £0.3m (2015: credit of £1.9m) and the effective tax rate was 34% (2015: credit of 4%).

As the Group continues to grow its activities in international jurisdictions that operate with a higher rate of corporation tax, it is anticipated that the tax charges on profits in the near- to medium-term future is likely to be higher than the standard rate of UK corporation tax.

Share Capital

On 4 April 2016, the Company undertook a successful rights issue, resulting in the issuance of 94,849,241 shares. On 19 April, a further 5,681,817 subscription shares were issued. As at 31 December, there were 195,380,299 shares issued.

Related parties

Transactions with related parties during the period are set out in note 33.

Earnings per share

Adjusted diluted earnings per share from continuing operations before other costs, the results of businesses disposed of, and intangible asset impairment charges and amortisation, which reflects the Group's underlying trading performance, increased to 1.9p (2015: 0.9p).

The weighted average number of shares outstanding (in '000s) for dilution calculations was 168,755 (2015: 94,435).

Shareholder returns & dividends

The Board of Directors continues to believe that the payment of dividends is important, and has pursued a progressive dividend policy in recent years. It is the Board's intention to continue this policy when it is supported by the financial performance. In light of the rights issue in 2016 and taking into account the requirement to sustain the level of investment in the business to drive further shareholder value, the Board has concluded that no dividend will be declared in respect of 2016.

Financial review continued

Impact of IFRS15

The Group is required to implement a new accounting standard, IFRS 15 'Revenue from contracts with customers', from 1 January 2018. The Group is currently assessing the new standard and does not expect to be able to quantify the impact of any potential changes until later in 2017. Our initial work indicates that there may be changes to the timings of the recognition of license-related revenue. It is not anticipated that there will be significant changes to the timing of the recognition of Implementation or Support & Maintenance revenue.

Net Cash and Cashflow

| | Year ended 31 December £m | |
|-----------------|---------------------------------|--------|
| | 2016 | 2015 |
| Net Cash/(debt) | 8.8 | (32.5) |

The Group moved to a net cash position during the year with an end of year balance of £8.8m (2015: net debt £32.5m) primarily due to proceeds from the rights issue, Directors' share subscriptions and the disposal of Synergy, which together totalled £38.5m, net of costs. The other main movements in cashflow were as follows:

- **Net Cash generated from operating activities**
Operating cash inflow for the period was £8.3m (2015: outflow of £6.2m), which included improvement in working capital requirements of £1.6m. Free Cash Flow (calculated as Operating cash flow less Capital Expenditure less Capitalised Development) was £5.9m (2015: £(13.0)m)
- **Capital Expenditure**
Capital expenditure totalled £2.4m (2015: £6.8m), comprising £1.1m (2015: £4.1m) on software product development and £1.3m (2015: £2.7m) on replacement of IT systems and equipment and office premises.
- **Acquisitions & Deferred Considerations**
The Group made a total net payments £3.0m during the year in relation to the deferred consideration obligations of previous acquisitions being Campus £0.7m, Callista £0.9m, iGrad £1.7m and a receipt of £0.4m in relation to Human Edge following the return of funds held on escrow.

Sales Order Backlog

The sales order backlog relates to the total value of orders which have been signed on or before, but not fully delivered by, 31 December 2016. This represents the best estimate of business expected to be delivered and recognised in future periods, and is based on the Total Contract Value (TCV) signed between Tribal and the customer, even though customer contracts may contain clauses which, under certain circumstances, may permit customers to reduce their commitment at a future date. Software Support & Maintenance (S&M) revenues are typically subject to annual renewal; due to the high renewal rates, two years of S&M revenues are included in the backlog calculation.

The total sales order backlog of the Group as at 31 December 2016 was £113.8m (2015: £121.3m).

Pension Obligations

As a consequence of certain contract awards, some employees participate in defined benefit pension schemes, the largest of which relates to the Ofsted Early Years inspection contract we entered during the year ended December 2010. Across these pensions schemes, the combined deficit calculated under IAS19 at the end of the year totalled £1.7m (2015: surplus of £0.1m), with gross assets of £10.2m (2015: £8.7m) and gross liabilities of £11.9m (2015: £8.6m). Total actuarial losses recognised in the consolidated statement of comprehensive income are £1.7m (2015: £0.2m). The Ofsted Early Years contract expires in March 2017, and those individuals working directly on the contract will transfer to Ofsted, under the Transfer of Undertakings (Protection of Employment) act (TUPE). Under the terms of the contract, they may elect to transfer their pension plan from Tribal to Ofsted.

Financial Risks

The financial risks, which increased as a result of the Group's financial position as at 31 December 2015, have now reduced as a result of management actions in the first half of 2016. The main financial risks the Group faces relate to the availability of funds to meet business needs, where a trading downturn puts a strain on the operating cash flow, credit risk arising from contractual delays or scope changes, fluctuations in interest rates, and foreign exchange risk.

Funding arrangements

The Group finances its operations by a combination of cash reserves from equity capital, retained profits and bank borrowings. The Group Finance team leads treasury management and operates within policies reviewed and approved by the Board.

On 30 June 2016, the Group agreed amendments to the terms of its banking facilities which remain committed until June 2018. The size of the overall credit facility has been reduced from £50million to £25million of which £6.5 million is committed for trading guarantees with customers. The level of the facility is more appropriate for the Group balance sheet. The most significant change to the agreement is that the maximum permissible leverage ratio (measured as the ratio of net debt to EBITDA) must not exceed 2x (previously 3x). The definition of EBITDA has also been defined to exclude certain non-cash and one-off trading impacts that have unfavourable impacts on the calculation. For the foreseeable future, the Group is forecast to operate within the bank covenant requirements set out in the facility agreements, amended with effect from 30 June 2016, after taking in to account reasonably possible downside changes in trading performance.

Credit risk

The Group seeks to reduce the risk of bad debts arising from non-payment by our customers. This risk is closely monitored by the Credit & Collections team, which form part of Group Finance.

Interest Rate risk

At the end of 2016, Tribal had no bank loan indebtedness (2015: debt of £32.5m). However, the Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, and forward rate agreements and interest swaps may be used, where appropriate, to achieve the desired mix of fixed and floating rate debt. We have no open derivatives at 31 December 2016.

Foreign exchange risk

Tribal's reporting currency is Sterling. A number of its subsidiaries have different functional currencies, so increases and decreases in the value of Sterling versus the currencies used by the Group's international operations will affect its reported results, and the value of assets and liabilities on the consolidated balance sheet.

Tribal's principal currency exchange exposure is to the Australian dollar although as at 31 December 2016, the Group was also exposed to movements in the rates between Sterling and the US dollar, South African Rand, and New Zealand dollar. See note 32 for further details.

The Group Finance team oversees management of foreign exchange risk, and policies and procedures approved by the Board. Where appropriate, forward foreign exchange contracts and options reduce potential financial exposure to an acceptable level. There were no open contracts at the year end.

Contract risk

The Group seeks to reduce the risk on contracts including the risk of failure to deliver, legal claims and onerous financial terms. This risk is mitigated through the use of appropriate legal resource to review contracts and an internal control process for contract approval.

Effect of the decision of the UK to exit the European Union

We do not expect the decision of the UK to exit the European Union (Brexit) to have an adverse impact in the short-term on demand for Student Management Systems, and the longer term potential impact remains to be seen and is dependent upon the exit terms agreed. Following the outcome of the Brexit vote, the Group saw some additional benefit in earnings due to the fall in the value of UK Sterling.



Mark Pickett

Chief Financial Officer

Corporate and social responsibility

Tribal helps educators to do their jobs well, and we are proud to support an industry that changes people's lives. We believe in fairness, integrity, and 'doing the right thing'. This means we treat our people well, and that we expect to give something back to the communities where we work through our charitable activities.

Our values

Tribal brings together highly talented people in a creative and collaborative environment. Over the last year we revisited our values and launched a new set of values. Over 25 workshops have now taken place globally, giving people the opportunity to find out more about our new values and, importantly, consider what it means for them and their day to day interactions and behaviours. It's been an extremely interesting and insightful process and thrown up lots of great examples and ideas.

We continue to embed our values and challenge ourselves asking "What have you done today which shows our values in action?"

Our values are:

Trustworthy

We value honest discussion, we anticipate, listen and respond to requirements and we rely on each other

Pioneering

We welcome change, we strive to innovate and we aim to meet the needs of the ever-evolving education market place

Accountable

We take ownership, we keep our promises and are focused on delivering successful outcomes

Dedicated

We are committed to our customers; work to secure long-term partnerships and we collaborate to deliver optimum solutions

Our people

Tribal's capabilities are founded on the talent and expertise of our people. Our development, retention and recruitment strategies at all levels of the business have a strong emphasis on diversity. Our work with Business in the Community has helped us to benchmark our practices and seek new approaches to attracting, retaining and developing a diverse range of talent and we continually review our people practices to ensure they enable all talent to thrive at Tribal. Our success as a growing international business is a tribute to our people's energy, commitment and know-how. We invest in our people, and provide them with the tools and training to support and enable them to realise their potential. We continue to build on our learning and development programmes, which focus on professional sales and business development programmes, technical training for our developer community, and broadening the skills and commercial awareness of our future leaders.

Engaging with people

Tribal operates from a range of offices in the UK and around the world. Communication among our people is crucial. We use a combination of group-wide updates with specific local communications and engagement surveys, to ensure our people have a good understanding of the direction we are moving in as a business. Throughout the year we undertake a series of communication events, including a global 'Tribal Summit', supplemented by regional summits and staff roadshows, that supports engagement across all levels and disciplines in the business, on matters ranging from strategy and market developments to equality and diversity awareness. We supplement these events by communicating on a number of channels, on corporate social media and in staff newsletters and magazines.

The Tribal Foundation

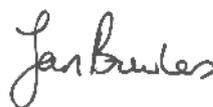
Tribal's charity, the Tribal Foundation supports projects in the UK and globally which reflect Tribal's expertise in education.

We seek out projects which bring sustainable benefits, rather than short-term remedies. In addition to aspirational projects with a strong education theme, we complement our support of these programmes with our local giving initiative, where Tribal offices nominate a local charity to receive a donation towards a project connected to one or more of our staff.

Tribal match every pound donated and the Foundation is also able to access additional funding from the EU and other sources including gift aid, which can make a huge impact on the quality of life of the people we support. Since its establishment, the Foundation has contributed around £0.6m to a variety of programmes.

Tribal Group Foundation is a registered charity no. 1099110

The Strategic Report, comprising the 'Our business model', 'Our strategy', 'Principal risks and uncertainties', 'Business review', 'Financial review' and 'Corporate and social responsibility' sections, was approved by the Board of Directors on 30 March 2017 and signed on its behalf by:



Ian Bowles
Chief Executive Officer



Mark Pickett
Chief Financial Officer



“The Tribal Foundation has funded the supply of teaching resources as a charitable donation. This generous response is very appropriate given that Tribal’s work is focused on empowering education to improve people’s lives.”

Richard Boswell
Tribal Consultant and volunteer

CAUTIONARY STATEMENT

This information has been prepared solely to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Group.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, which underlie any such forward-looking statement.

Case Study

Buttercups Training

Buttercups Training is an NVQ (QCF) Centre for Pharmacy Services Level 2 and Level 3 Qualifications. They deliver high quality training programmes to pharmacists, pharmacy technicians, dispensing assistants and support staff working in hospitals, the community, dispensing doctors' practices and the Armed Forces. They provide a flexible approach to training principally through correspondence courses and are committed to giving learners the highest quality of education.

Buttercups Training required a learner management system to support the delivery of both funded and commercial requirements. They needed confidence in a system that would support the introduction of the new standards and subsequent changes throughout the Apprenticeship Levy.

Tribal proposed the implementation of Maytas to allow Buttercups Training to have a system which would track delivery against multiple contracts within a single solution. Maytas will provide them with the ability to import data from other systems, alleviating the need for multiple systems and giving a single accurate view of learners and their progress.

"Maytas will allow us to meet the immediate need of the SFA delivery within a streamlined user-friendly system, limiting errors in data and ensuring a quick and efficient process." said Lucy Bate, Head of Business Development at Buttercups Training Limited

Tribal's Account Manager, Penny Johnson said "Providers need flexible and easy to use processes to support the new standards, funding mechanisms and changing employer provider relationships. We are pleased to be working with Buttercups Training, helping them to provide the highest quality of specialist pharmacy training to their learners."



Governance

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Board of Directors

Our Board has undergone significant change in the year. The Board, while smaller than this time last year, has a good blend of backgrounds pertinent to the challenges and opportunities Tribal faces.

Richard Last Chairman

Appointed November 2015

Richard joined the Board in November 2015. He is currently Chairman and Non-Executive Director of Servelec Group plc, a technology group and AIM listed Gamma Communications plc, a communications group. In addition, Richard is currently Chairman and Non-Executive Director of the British Smaller Companies VCT 2 plc, Arcontech Group plc, and Lighthouse Group plc, and Non-Executive Director of Corero Network Security plc. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA).



Ian Bowles Chief Executive Officer

Appointed February 2016

Ian joined Tribal in February 2016. He joined Tribal with a strong track record of driving financial and operational improvement and shareholder value creation, having held Board and other senior management positions across a number of leading IT companies. From 2007 to 2015, Ian was Chief Executive Officer of Allocate Software, an AIM listed leading international provider of specialist workforce management optimisation and corporate governance, risk & compliance software, where he oversaw strong organic and acquisitive growth in revenue and profits, and its sale to HgCapital in 2015.



Key to Committee Membership:

- Nomination Committee
- Remuneration Committee
- Audit Committee

Mark Pickett

Chief Financial Officer

Appointed June 2016

Mark joined Tribal in July 2016 with many years' experience in the technology industry. Previously he was Chief Financial Officer and Finance Director, UK of Computer Sciences Corp ('CSC'), a US based global leader in technology enabled business solutions and services. Mark also spent 18 years in a variety of senior finance roles with Oracle across a number of geographies, primarily in its software businesses.

Roger McDowell

Senior Independent Director

Appointed November 2015

Roger joined the Board in November 2015. He is currently serving as Non-Executive Chairman of Avingtrans plc, Senior Independent Non-Executive Director of Servelec Group plc and is also a Non-Executive Director of Premier Technical Services Group plc, Proteome Sciences plc, Swallowfield plc and D4t4 Solutions plc.



Executive Management Team

The Executive Management team has been refreshed in 2016 with the appointment of Ian Bowles (CEO), Mark Pickett (CFO), Mike Beech (Marketing Director), Chris Farnath (Managing Director, Cloud & Support Services) and Mark Wilson (Managing Director, EMEA).

Ian Bowles

Chief Executive Officer

Ian joined Tribal in February 2016 with a strong track record of driving financial and operational improvement and shareholder value creation, having held Board and other senior management positions across a number of leading IT companies.

Mark Pickett

Chief Financial Officer

Mark joined Tribal in June 2016 with many years' experience in the technology industry. Previously he was Chief Financial Officer and Finance Director, UK of Computer Sciences Corp. Mark also spent 18 years in a variety of senior finance roles with Oracle across a number of geographies, primarily in its software businesses.

Jon Baldwin

Managing Director –
Higher Education

Jon joined Tribal in May 2014 from Murdoch University. Jon has also held management, teaching and administration posts at University Warwick, Queen Margaret College, Edinburgh and Lancashire Polytechnic, as well as teaching at the Open University and in Further Education and publishing papers and articles on a wide range of education-related topics.

Mark Wilson

Managing Director –
EMEA Region

Mark joined Tribal in December 2016 as the Managing Director for the EMEA region. Mark is an experienced business leader having spent over 20 years in national and international roles in software and services businesses. In that time he has enjoyed great success driving transformation and helping his clients maximise the value to their organisations of deploying technology enabled solutions.



Janet Tomlinson

Managing Director –
Quality Assurance
Solutions

Janet joined Tribal at the end of 2009. Prior to this, Janet was Director of Education and Children's Services in Oxfordshire. Janet has chaired a range of regional partnership boards, including Children's Trusts, Safeguarding Boards, Education Action Zones and Creative Partnerships. She has also advised the Government on the educational impact of migration and on school inspection policy.

Barbara Staruk

Managing Director –
Product and Development

Barbara joined Tribal in February 2015 and has 20 years of software industry experience. Barbara has led global market expansion, portfolio rationalisation and product transformation initiatives across multiple software product lines. Barbara has worked on large-scale government transformation programmes, such as the NHS' National Programme for IT.

Chris Farnath

Managing Director –
Cloud & Support Services

Chris joined Tribal in August 2016 to lead the Company's cloud and support services, with a mission to deliver a timely and consistent customer experience, whether that be with solutions in the cloud environment or deployed on premise. Chris is an internationally accomplished business leader with over 25 years' technology services experience in the business-to-business sector.

Mike Beech

Marketing Director

Mike joined Tribal in March 2016 and heads up Tribal's global marketing team. Responsible for the strategic development of Tribal's marketing initiatives and driving awareness of the Group's portfolio of capabilities, Mike has the expertise, drive and enthusiasm needed to 'tell the Tribal story' world-wide.



Corporate Governance

Tribal is committed to high standards of corporate governance and maintaining sound business ethics.

The PLC Board applies the principles of good governance and supports a culture of open debate and constructive challenge to enable Tribal to meet its objectives, and to do so in a controlled and efficient manner. In fulfilling their responsibilities, the Directors govern the Group in the best interest of the Company and its shareholders whilst having due regard to the interests of other stakeholders including customers, employees, suppliers and regulators.

Tribal is not bound by the London Stock Exchange Listing Rules, including those relating to corporate governance, following its de-listing and subsequent listing on the Alternative Investment Market ("AIM") in May 2016. The Directors however acknowledge the importance of good corporate governance and although not compulsory for companies listed on AIM, have chosen to adopt the principles of the Quoted Companies Alliance Code ("QCA") to the extent they consider them appropriate for a company of the size and nature of Tribal Group plc.

The PLC Board

The PLC Board ("the Board") is responsible for the Company's systems of corporate governance. The Board has undergone significant change over the last 12 months and comprises Richard Last as Chairman (appointed November 2015), Roger McDowell as Senior Independent Director (appointed November 2015), Ian Bowles as Chief Executive Officer (appointed February 2016) and Mark Pickett as Chief Financial Officer (appointed June 2016). All bring strong international experience of our industry and track records of driving shareholder value.

The Non-Executive Directors are Richard Last and Roger McDowell, both are considered to be independent of management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement. The Non-Executive Directors meet at least once a year without the Executive Directors present.

The Non-Executive Directors are also directors of Servelec Group plc; given the conflict arising in respect of the disposal of Synergy and Servelec, neither Director participated in The Board's consideration of the disposal of Synergy.

All Directors are required to submit to re-election each year at the Annual General Meeting ("AGM") of the Company.

All the Directors have access to the advice and services of the Legal Counsel. Each Director is entitled, if necessary, to seek independent professional advice at the Company's expense.

The Board meets at least eight times each year with additional meetings when circumstances and urgent business dictate. At these meetings the Board reviews a schedule of reserved matters including trading performance, financial strength, strategy (including investment and acquisition opportunities), risk management, controls, compliance, reports to shareholders and succession management.

The Board plans to evaluate its performance and that of its Committees through a process of regular dialogue and periodic formal Board evaluations.

Delegated Authorities

All other matters not specifically reserved to the Board are delegated to management in accordance with a schedule of Delegated Authorities. These delegated authorities cover expenditure, agreements, financial matters, remuneration and agreements with third parties. Management is required to report to the Board concerning authority exercised and matters which come, or may come, within the scope of the Board.

Subsidiary Boards

The Group's subsidiary companies operate a Board of Directors that comprises at least one PLC Director and senior management of the subsidiary as appropriate.

Board Committees

The PLC Board has established three committees to assist in the effective operation of the Board: the Audit Committee, the Remuneration Committee and the Nominations Committee. Each Committee has responsibility to the Board which are outlined in formal Terms of Reference that have been approved by the Board. The Terms of Reference, which are available on the Group's website www.tribalgroup.com, are subject to annual review to ensure the Committees continue to follow best practice. The Chairman of each Committee reports to the PLC Board after each Committee meeting and minutes are tabled at the next PLC Board meeting.

Membership of Board Committees and attendance at Board and Committee meetings during the 12 month period under review was as follows:

| | | PLC Board | Audit Committee | Remuneration Committee | Nominations Committee |
|-------------------------------------|------------------------------|-----------|-----------------|------------------------|-----------------------|
| Number of meetings in period | | 11 | 4 | 3 | 1 |
| Meetings attended by members: | | | | | |
| Richard Last | | 11 | 4 | 3 | 1 |
| Roger McDowell | | 11 | 4 | 3 | 1 |
| Ian Bowles | Joined 16 February 2016 | 10 | 4* | - | - |
| Mark Pickett | Joined 30 June 2016 | 4 | 2* | - | - |
| Members no longer in office: | | | | | |
| David Egan | Resigned 31 October 2016 | 9 | 3 | 2 | 1 |
| Duncan Lewis | Died in office 19 March 2016 | 1 | - | 1 | 1 |
| Steve Breach | Resigned 30 June 2016 | 6 | 2* | - | - |

*By invitation

Audit Committee

The Audit Committee is chaired by Roger McDowell and comprises Richard Last. The Chief Executive Officer and representatives from finance and our external auditors participate in the meeting as non-voting observers. The Committee meets four times a year.

The Committee oversees the Group's financial reporting and internal controls, including their effectiveness and risk management processes, and the external audit process and has the following responsibilities:

- Considering reports from the auditors on the annual and half-yearly financial statements
- Monitoring the integrity of the Group's financial statements and formal announcements relating to the Group's financial performance
- Making recommendations to the Board on the appointment and remuneration of the external auditors
- Reviewing the independence and objectivity of the external auditors and the effectiveness of the audit process
- Considering reports on the effectiveness of the Group's risk-management procedures and internal controls.

The Committee advise the PLC Board on the appointment, independence and objectivity of the external auditors and on the remuneration for both audit and non-audit work. During the year PricewaterhouseCoopers LLP were appointed as the Group's auditors. The Committee also discusses the nature, scope and results of the audit with the external auditors. The Audit Committee Chairman separately meets with the external auditors during the course of the year.

Corporate Governance continued

The auditors' report to the Audit Committee on matters including independence and non-audit fees on an annual basis. The specific audit partner changes every five years. The amount charged by the external auditors for the provision of services during the 12 month period under review is set out in Note 5 of the financial statements on page 75 and is split between those charged by the previous and current auditors.

Due to its size and structure, and following its move to AIM, the Group no longer has an internal audit function. This is a matter which the Committee reviews annually.

Remuneration Committee

The Remuneration Committee is chaired by Roger McDowell and comprises Richard Last. The Committee meets four times a year.

The Committee sets the remuneration of the Directors, including basic salary, bonuses and other incentive payments and awards. It also ratifies policy proposals in respect of remuneration of senior executives in the Group.

The Remuneration report which details the Directors' remuneration, pension entitlements and service contracts, including information on Directors' interests, is set out on pages 47 to 53.

Nominations Committee

The Nominations Committee is chaired by Roger McDowell and comprises Richard Last and Ian Bowles. The Committee meets at least once a year.

The Committee deals with appointments to the PLC Board, monitors potential conflicts of interest and reviews the independence of the Non-Executive Directors.

The PLC Board also operates the following management Boards and committees:

Executive Board

The Executive Board is chaired by Ian Bowles. The members of the Executive Board are drawn from the heads of the business units and other operational areas. The Executive Board typically meets monthly but the members interact frequently in the normal course of their roles.

The Executive Board oversees the Group's operational and financial performance and is responsible for day-to-day management decisions in line with the Group's strategy. It also considers succession planning and talent management. Further matters are outlined in the Delegated Authorities.

Integrated Governance Committee

The Integrated Governance Committee is chaired by the Chief Financial Officer and reports to the Chief Executive Officer. It meets quarterly and oversees the work of the Health and Safety Committee and the Information Security Committee.

Health and Safety Committee

The Health and Safety Committee is chaired by the Property and Procurement Manager and comprises employees from across the business and a consultant from our external Health and Safety advisors. It meets quarterly and reports to the Integrated Governance Committee.

The Committee has authority, delegated from the PLC Board, to ensure business units and employees comply with all aspects of health and safety legislation, and to implement best practice in this area in the UK and overseas.

Information Security Committee

The Information Governance Committee is chaired by the Director of Corporate Services and includes employees from across the business. It meets quarterly and reports to the Integrated Governance Committee.

The Committee is responsible for establishing information security policies and procedures (including cyber security) across the Group, and ensuring compliance with those policies. The Committee ensures that the Group remains compliant with current and future legislation relevant to information security, reviews security risks including those identified by the site-by-site based security forums (ISO27001), and oversees how the business manages those risks.

Internal controls and risk management

The Board is responsible for establishing and monitoring internal control and risk management systems throughout the Group and assessing their effectiveness. The Board recognises that rigorous systems of internal control are critical to the Group's achievement of its business objectives and that those systems are designed to manage rather than eliminate risk of failure to achieve business objectives. The internal control and risk management systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

Tribal maintains a risk framework that contains the key risks faced by the Group. The framework includes the impact and likelihood of key risks and the controls and procedures implemented to mitigate them. Risk management is embedded within Tribal by:

- Setting strategic direction, including targets
- Maintaining a clear authorisation framework
- Reviewing and approving annual plans and budgets
- Maintaining documented policies and procedures
- Regularly reviewing and monitoring the Group's performance in relation to risk through monthly Board reports

The Directors are also responsible for the Group's system of internal control and for reviewing its effectiveness.

The Audit Committee reviews the Group's internal financial controls and risk management systems and the Board reviews the effectiveness of all the Group's internal controls including operational and compliance controls and risk management systems in effect during the period.

To further manage risks faced by the Group, the Company attempts to ensure that employees fully understand the Group's business strategy and objectives. The Group's communication and consultation programme includes regular internal briefings by Directors to all employees throughout the year. Regular meetings are held with staff and managers, both to discuss specific issues and provide an exchange of information. Email and the Group's intranet site also provide information to employees.

The Group operates a comprehensive budgeting system whereby managers submit detailed budgets, which are reviewed and, where appropriate, amended by Executive Directors prior to submission to the Board for approval. Each month, actual results are reported against budget and distributed to managers and are provided to the Board in advance of meetings.

Communication with shareholders

The Group reports formally to shareholders when its annual and half-yearly financial statements are published. At the same time, Executive Directors present the results to institutional investors, analysts and the media. Notification of the date of the AGM is sent to shareholders at least 21 working days in advance of the meeting. Details of the AGM are set out in the Notice of Meeting. The Directors are available at the AGM to answer questions, both during the course of the meeting, and informally afterwards. Contact with major shareholders is principally maintained by the Chief Executive Officer and the Chief Financial Officer, who ensure that their views are communicated to the Board as a whole. The Chairman is also available to discuss governance and other matters directly with major shareholders. At every Board meeting, the Board is provided with the latest brokers' reports and a summary of the contents of any meetings with shareholders. The Board considers that the provision of these documents is a practical and efficient way for both the Chairman and Senior Independent Director to be informed of major shareholders' opinions on governance and strategy and to understand any shareholder issues and concerns.

Approved by the Board of Directors on 30 March 2017



Richard Last
Chairman

Audit Committee report

The Audit Committee report details the key activities undertaken during the year.

Activities of the Committee during the year

The Committee's activities have focused on the accuracy of financial reporting and the related statutory audit; and the assessment of internal controls. During the year the Committee was involved in the Group's rights issue, the refinancing of the Group's loan facility and the disposal of the Synergy business to Servelec Group plc (only David Egan participated in the Synergy discussions as Roger McDowell and Richard Last had a conflict of interest being directors of Servelec Group plc).

In addition, the Committee reviewed the position of the Group's independent external auditors and in line with best practice, conducted a formal tender process, which concluded with the appointment of PricewaterhouseCoopers LLP.

David Egan resigned as a Director and Chairman of the Audit Committee on 31 October 2016, and Roger McDowell was appointed as Chairman of the Audit Committee. The Committee would like to thank David for his time as Chairman.

Financial reporting and statutory audit

The Committee has reviewed with both management and the external auditors the half year and annual financial statements, focusing on:

- the overall truth and fairness of the results and financial position, including the clarity of disclosures shown in the statements and their compliance with statutory and best practice requirements;
- the appropriateness of the accounting policies and practices used in arriving at those results;
- the resolution of management's significant accounting judgements or of matters raised by the external auditors during the course of their half year review and annual statutory audit; and
- the quality of the Annual Report taken as a whole, including disclosures on Governance, Strategy, Risks and Remuneration, and whether it gives a fair and balanced picture of the Group.

External audit

The Committee discussed, challenged and agreed with PricewaterhouseCoopers LLP their detailed audit plans prepared in advance of the audit, which set out their assessment of key audit risks and materiality. Their approach to the review of the half year results was also discussed and agreed.

Accounting policies, practices and judgements

The selection of appropriate accounting policies and practices is the responsibility of management, and the Committee discussed these with both management and the external auditors. Significant areas considered by the Committee in relation to the 2016 financial statements are set out below.

Going concern

The Group is required to assess its ability to trade as a going concern for at least 12 months from the signing of the annual financial statements. The Committee reviewed management's assessment and concluded that it remained appropriate to continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

The Group's operations include complex software delivery programmes and service activities that can require judgements to be made in relation to the timing of revenue recognition. The Committee reviewed the revenue recognition judgements taken and it was concluded that the judgements were appropriate.

Goodwill

The Group is required to test annually whether goodwill has suffered any impairment and consider whether the fixed assets used in the business are carried at an appropriate amount. The Committee reviewed management's impairment testing and concluded that there was no impairment of goodwill or any of the fixed assets used in the business.

Capitalised product development costs

The Group's product development costs are capitalised where the expenditure meets the criteria of IAS38, and the recoverability assessed annually against expected future cashflows. The Committee reviewed management's capitalisation process and recoverability assessment and concluded the capitalisation was appropriate and there was no impairment.

Assessment of internal financial control

Management is responsible for putting in place internal financial controls over financial reporting and to protect the business from identified material risks. The Committee continues to monitor these closely and they are happy they are appropriate for the business.

New accounting standards

The Committee has been kept apprised of progress of the Group's preparations for the implementation of IFRS 15 (Revenue from Contracts with Customers) which the Group expects to implement in the year ending 31 December 2018.

Approved by the Audit Committee on 30 March 2017



Roger McDowell
Chairman, Audit Committee

Remuneration report

The Remuneration report details the Group's remuneration policy and the arrangements currently in place for remuneration of both Executive and Non-Executive Directors

Remuneration policy

The full Directors' remuneration policy approved for three years from the date of the 2014 AGM is shown below for ease of reference, updated with minor changes. However, a shareholder vote on the remuneration policy is not required except as set out below. The original version of the report is set out in the 2014 Annual Report, which is available on the Group's website (www.tribalgroup.com).

The table below details each element of pay and demonstrates how the remuneration policy is linked to overall Group strategy.

| Element of Pay | Purpose and link to Strategy | Operation including maximum | Performance Criteria |
|---------------------|---|---|--|
| Salary | To attract and retain high-quality individuals with the appropriate skills, experience, and knowledge, while also recognising their on-going performance. | Salaries are reviewed annually or when an individual changes position or responsibility. Salaries for the current year are set out on page 51. Any salary increases are not expected to be above those of the general workforce, except if there has been a substantial change to the size and complexity of the role or a change in responsibilities. The Remuneration Committee will also consider the skills and experience of the individual, and their on-going performance, when deciding upon any changes to basic salary. | Assessment of personal and corporate performance. |
| Benefits | To provide a range of cost-effective benefits which are typical market practice. | The main benefits provided include private medical insurance and a death in service benefit of four times salary. The Remuneration Committee may wish to introduce other benefit provisions, which are offered to the wider workforce from time to time. There is no prescribed maximum as the value of benefit provisions may vary year on year. | None. |
| Pension | To provide cost-effective long-term retirement benefits which are aligned with market practice. | Contributions of 10% of salary are paid to Executive Directors. An equivalent cash supplement may be paid to an individual if the annual or lifetime allowance has been met or exceeded. | None. |
| Annual Bonus | To incentivise and reward for the achievement of in-year objectives, which are linked to the Group's Adjusted Operating Profit. | An annual cash bonus is payable up to a maximum of 100% of salary for the Chief Executive Officer and the Chief Financial Officer, subject to the achievement of performance targets. No more than 50% of the maximum bonus would pay out for on-target levels of performance. The pay-out for threshold levels of performance will vary depending on the measure used. In all cases, bonus payments are subject to the overriding discretion of the Remuneration Committee. | Targets are set to provide a suitably challenging initial target, with an incrementally stretching range above the threshold figure. The Remuneration Committee reviews the performance measures and targets annually. The balance of performance measures will be weighted in favour of financial metrics such as Adjusted Operating Profit, with a minority measured against non-financial performance objectives aligned to Group KPIs. |

Remuneration report continued

| Element of Pay | Purpose and link to Strategy | Operation including maximum | Performance Criteria |
|---------------------------------|--|--|--|
| Long-term Incentives | To incentivise and reward for the achievement of long-term performance, which is aligned to the generation of shareholder value. | <p>An annual grant of nil-cost options, which vest after three years subject to continued service and the achievement of performance conditions.</p> <p>The plan limit for an award in any year is 200% of base salary. The normal policy will be to grant 100% of base salary to the Chief Executive Officer and the Chief Financial Officer.</p> <p>Dividends which accrue on vested awards may be paid as cash, or treated as reinvested and paid in shares.</p> | <p>The Committee reviews the performance measures and targets annually. The Remuneration Committee has determined that a share price growth target is an appropriate measure for awards granted in 2016 but it retains the discretion to replace this measure or supplement it with additional performance conditions if appropriate. The Remuneration Committee would consult with shareholders before the introduction of any new performance metrics.</p> <p>No more than 33.3% of the award would pay out for threshold levels of performance.</p> |
| Shareholding requirement | To align interests with long-term shareholder value. | Executive Directors are required to hold shares to the value of their base salary within no more than five years of appointment. | None. |
| All employee plans | To encourage broad-based employee shareholding in the Group. | The Share Incentive Plan (SIP) currently provides all employees with the opportunity to acquire shares in a tax-efficient manner up to £150 per month. | None. |
| Non-Executive Fees | To attract and retain Non-Executive Directors with the required skills and experience. | <p>Periodically reviewed, with the Chairman's fee set by the Committee and the Non-Executive Directors' fee set by the wider Board.</p> <p>Fees are set based on the expected time commitments and responsibilities of each role.</p> <p>Any increases in fees may be greater than those awarded to the wider workforce in any particular year, due to the periodic nature of the review.</p> <p>The Chairman and the Senior Independent Director may participate in certain share-based incentive arrangements.</p> | None. |

The Remuneration Committee ("the Committee") operates the annual bonus plan and long-term incentive plans according to their respective rules, the Listing Rules and HMRC rules where relevant. To facilitate efficient operation and administration, the Committee retains a number of discretions, in line with standard practice, which include:

- the timing of awards and payments;
- the size of an award or payment;
- who is eligible to participate;
- the determination of whether the performance condition has been achieved;
- discretion relating to the measurement of performance in the event of a change of control or restructuring of the Group;
- determining whether a participant is a good/bad leaver for incentive plan purposes;
- determining if any adjustments are required to awards to reflect certain capital structure changes (e.g. rights issues, corporate restructuring, events and special dividends); and
- the weightings, measures and targets for the annual bonus plan and LTIP from year to year.

The Committee also retains the discretion to make any necessary adjustments to existing performance measures and targets if an event occurs (e.g. a major acquisition or disposal) which causes it to believe the conditions as they stand no longer fulfil the original intended purpose, and the change would not be materially less difficult to satisfy.

Outstanding Awards

Existing long-term incentive awards made to Executive Directors are described on page 52. The Committee intends for these awards to vest on their original terms, subject to the relevant performance conditions and service requirements being met and subject to any amendments which were agreed as a result of the proposed Rights Issue and the disposal of Synergy.

The use of performance measures

Annual bonus targets will include financial measures which reflect the performance of the business and are directly linked to the Group's Adjusted Operating Profit, and other measures based on individual non-financial strategic objectives. The balance between financial measures and non-financial strategic measures will be determined based on the priorities for that year.

Long-term incentive performance measures are chosen to be aligned to long-term shareholder value creation, whether that is through the use of financial measures such as earnings per share (pre 2016), or external relative measures such as share price growth (2016).

Targets for financial measures are set using internal forecasts, to set challenging targets on a sliding scale. Only a small percentage of the incentive reward would be earned for threshold performance, with full reward requiring stretching outperformance.

Executive Directors' service contracts

It is Group policy to set notice periods for Executive Directors of no more than 12 months. Copies of each Director's service agreement will be available for inspection at the AGM. Executive's service contracts provide the Committee with the discretion to make a payment in lieu of notice, restricted to base salary only. This would be paid in monthly instalments or in a lump sum and would be subject to mitigation. Under certain conditions, outlined in the agreement, the Executive Directors' employment may be terminated with immediate effect, without notice or payment in lieu of notice. There are no enhanced provisions on a change of control.

Details of service agreements and notice periods are as follows:

| Director | Effective date of contract | Expiry | Notice period for both parties |
|--------------|----------------------------|---------|--------------------------------|
| Ian Bowles | 17 February 2016 | Ongoing | 6 months |
| Mark Pickett | 30 June 2016 | Ongoing | 6 months |

In the event of recruitment of a new Executive Director, a new contract would be based on terms consistent with these provisions.

Directors changes

Ian Bowles joined the Group on 17 February 2016 as Chief Executive Officer, replacing Rob Garner who had been Interim Chief Executive Officer.

Mark Pickett joined the Group on 30 June 2016 as Chief Financial Officer and Board Director, replacing Steve Breach who left the Group after many years' valuable service.

Duncan Lewis very sadly passed away during the year. Duncan acted as Non-Executive Director from June 2015 to the time of his death in March 2016.

David Egan stepped down as a Non-Executive Director on 31 October 2016.

Policy on payments for loss of office

The Committee aims to deal fairly with cases of termination, while attempting to limit compensation. As stated above, Executives' service contracts provide the Committee with the discretion to make a payment in lieu of notice limited to base salary. However, the Committee will retain the discretion to pay an annual bonus on a departure in certain circumstances but this would only be included under termination provisions to the extent they are pro-rated for time and performance prior to notice being served. No annual bonus would be payable for any period of notice not worked. The Committee will make payment for any statutory entitlements or to settle compromise claims that may arise following termination of employment.

The rules of the long-term incentive plan set out the treatment if a participant leaves employment prior to awards vesting. If the participant resigns, then awards would normally lapse on cessation of employment. If the participant is considered a good leaver (through death, retirement with the agreement of the employer, injury or disability, redundancy, employment being transferred outside the Group, or any other reason the Committee decides) then awards would normally vest on the normal vesting date (unless the Committee decides it should vest on cessation of employment) subject to the extent the performance conditions have been achieved and scaled back pro rata for the proportion of the service period completed (albeit that the Committee has discretion to disapply time pro-rating). In the event of a change of control, an award may vest early subject to the extent the performance conditions have been achieved and scaled back pro rata for service, although the Committee has the discretion to disapply time pro-rating.

Remuneration report continued

Chairman and Non-Executive Directors

The terms for all Non-Executive Directors, including the Chairman, are set out in letters of appointment.

Under the terms of their appointment, the Non-Executive Directors have agreed to commit not less than 25 days per annum to their roles. If they are required to commit in excess of 25 days per annum, they may be entitled to an additional fee at a suitable pro rata rate per day.

Richard Last and Roger McDowell benefit from a share incentive scheme which was subject to their purchase of a certain value of shares and other conditions. Details of this scheme are set out in Share Award Interest on page 52.

Non-Executive Directors have a three-month notice period and no compensation or other benefits are payable other than the potential share-based incentives in respect of Richard Last and Roger McDowell. Details of their agreements and notice periods are as follows:

| Name of Director | Effective date of contract | Expiry | Notice period for Company (months) | Notice period for Directors (months) |
|----------------------|----------------------------|-----------------|------------------------------------|--------------------------------------|
| R Last ³ | 17 November 2015 | 2016 AGM | – | – |
| R McDowell | 17 November 2015 | 2016 AGM | 3 | 3 |
| D Egan ¹ | 1 April 2014 | 31 October 2016 | 3 | 3 |
| D Lewis ² | 8 June 2015 | 19 March 2016 | 3 | 3 |

1 David Egan stepped down from the Board on 31 October 2016

2 Duncan Lewis died in office on 19 March 2016

3 Richard Last has no notice period.

Recruitment Policy

Any new Executive Director's remuneration package will be set in line with the policy approved by shareholders.

In arriving at a total package and in considering quantum for each element, the Committee will take into account the skills and experience of the candidate, the market rate for a candidate of that experience, and the importance of securing the preferred candidate. Ongoing annual bonus and LTIP awards will not exceed those of the former Chief Executive on an ongoing basis, with participation in the annual bonus plan and pro-rated for the year of joining. The Committee may wish to set alternative conditions for the annual bonus and LTIP awards in the first year of service, depending on the timing and nature of appointment.

For new appointments, base salary and total remuneration may be set initially below mid-market, and above-market increases may be awarded in subsequent years once expertise and performance have been proven and sustained, to ensure the executive is fairly and appropriately rewarded. The Committee may make additional cash and/or share based awards (on a one-off basis) as it deems appropriate to replace the value of entitlements forfeited by an executive on leaving a previous employer. Such awards would, insofar as is practicable, be consistent with the awards forfeited in terms of value, delivery mechanism (cash or shares), time-horizon for deferral, and whether or not they are subject to performance conditions. The Group's existing incentive schemes will be used, under the limits of the schemes. Awards may be granted outside these schemes in unusual circumstances. Other payments of a one-off nature may be made in relation to relocation and legal expenses. In the case of an internal appointment, any variable pay awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted if appropriate, to take into account the appointment.

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.

Employment Conditions elsewhere in the Group

The Committee has not formally consulted with its employees on executive pay, but is aware of the pay and wider employment conditions within the Group. This information provides context when the Committee is setting Executive Director pay levels. In particular, the Committee will consider the salary increases which are being offered across the workforce, when determining base salary adjustments for the Executive Directors. The remuneration policy for the Executive Directors is generally consistent in terms of structure with that offered to other employees, but will be more heavily weighted towards performance-related pay. For other employees the quantum and weighting towards variable pay is determined by the skills, experience and market rates for the role. Wider employee share ownership is encouraged through the use of the SIP, but the use of LTIP awards is targeted at senior management who are most able to influence overall corporate performance.

Shareholder's Views

The Committee believes a transparent and constructive dialogue with our shareholders is important, and therefore seeks to consult with major investors when making significant changes to the policy. The Committee considers shareholder feedback received at the AGM and during meetings with investors throughout the year, and uses these views to help formulate the overall remuneration policy.

External Board Appointments

It is recognised that external non-executive directorships may be beneficial for both the Company and Executive. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Non-Executive Director Fees

The fees for the year ending 31 December 2017, which took effect from 1 January 2017 are as follows. These exclude any expenses which the Non-Executive Directors may incur in relation to their duties.

| | From 1 January 2017 | From 1 January 2016 | Increase |
|---------------------------------|---------------------------|---------------------------|----------|
| Chairman | £110,000 | £110,000 | Nil |
| Basic Fee | £40,800 | £40,800 | Nil |
| Senior Independent Director Fee | £4,100 | £4,100 | Nil |
| Committee Chairman Fee* | £5,100 | £5,100 | Nil |

* Committee chair fees are in addition, and applies to Audit and Remuneration Committee Chairman only

As noted previously, the Chairman and Senior Independent Director are eligible, subject to shareholder approval, to participate in certain share-based incentive plans.

INFORMATION SUBJECT TO AUDIT

Remuneration payable for the financial year ending 31 December 2016

| Director | Salary | Benefits ⁴ | Bonus ⁵ | LTIP ⁶ | Pension | Total 2016 | Total 2015 |
|---------------------------|----------|-----------------------|--------------------|-------------------|---------|---------------|---------------|
| Ian Bowles ¹ | £235,714 | £1,106 | £224,000 | £129,626 | £24,750 | £615,196 | - |
| Mark Pickett ² | £99,206 | - | £136,348 | £187,938 | £10,000 | £433,492 | - |
| Steve Breach ³ | £113,628 | £8,353 | - | - | £17,612 | £139,593 | £277,981 |

1 Ian Bowles's remuneration is from date of joining, 17 February 2016.

2 Mark Pickett's remuneration is from date of joining, 30 June 2016.

3 Steve Breach's remuneration is to date of leaving, 30 June 2016, payment for loss of office are shown on page 53.

4 Benefits include car allowance and travel allowance.

5 Mark Pickett's bonus was not subject to pro-rating during year of commencement.

6 LTIP awards were granted in June 2016 and are due to vest in June 2017 and June 2019 (see Share Award Interests on page 52). The cost reported in remuneration is equivalent to the share-based payment accounting charge incurred in the year.

Rob Garner was Interim Chief Executive Officer prior to Ian Bowles's appointment as Chief Executive Officer. Rob was not a statutory Director.

| | Total 2016 | Total 2015 |
|---------------------------|---------------|---------------|
| Richard Last | £110,000 | £13,532 |
| Roger McDowell | £50,850 | £6,150 |
| David Egan ¹ | £38,250 | £45,900 |
| Duncan Lewis ² | £10,200 | £23,027 |

¹ David Egan stepped down from the Board on 31 October 2016

² Duncan Lewis died in office on 19 March 2016

Remuneration report continued

Long-term Incentives granted during the year under review

On 28 June 2016 and 30 June 2016, the Committee approved LTIP awards to Ian Bowles and Mark Pickett respectively.

| | Type | Number of Shares | Face Value ¹ | Performance Condition | Performance Period | % Vesting at threshold |
|--------------|-----------------|------------------|------------------------------|--------------------------------|---|------------------------|
| Ian Bowles | Nil-Cost Option | 2,454,546 | £540,000 (200% of salary) | Share price | Measured over 3 financial years to 31 December 2019 | 33.33% |
| Mark Pickett | Nil-Cost Option | 1,223,241 | £400,000 (200% of salary) | Share price (50% of award) | Measured over 3 years to 27 June 2019 | 33.3% |
| | | | | No condition (50% of award) | Measured over 1 year to 29 June 2017 | 100% |

¹ Face value calculated based on share price on date of appointment, Ian Bowles 22.0p and Mark Pickett 32.7p.

The share price performance condition is subject to the following targets:

| Share price as at the third anniversary of the Grant Date | % of an Award that becomes capable of exercise |
|---|--|
| Less than 60p | 0% |
| 60p–69.99p | 33.33% |
| 70p–79.99p | 66.66% |
| 80p or more | 100% |

Matching Plan Shares granted during the year under review

During the year the Share Matching Plan was approved by shareholders. The terms of the Share Matching Plan proposed that, on the basis that Richard Last and Roger McDowell subscribed for their Non-Executive Director (NED) Subscription Shares, they were offered rights to acquire additional Share Matching Plan Shares on the terms of the Share Matching Plan.

On 3 May 2016, the date of the Group's listing on AIM, Richard Last and Roger McDowell each subscribed for 2,272,727 NED Subscription Shares at 22p each and each was granted nil cost options over 1,702,999 Matching Plan Shares. The Matching Plan Shares are not subject to any performance conditions and will vest in three equal tranches on 1 January 2017, 2018 and 2019. The Matching Plan Shares will not vest unless the relevant Director remains a Director and has not given notice to terminate his Directorship on the applicable vesting date.

No Matching Plan Shares have vested or been exercised in the year.

Share Award Interests

The interests of Directors in share options were as follows:

| | At 1 January 2016 | Granted | Lapsed | Exercised | At 31 December 2016 | Exercise Price | Price on date of grant | Date from which exercisable | Expiry Date |
|---------------------|-------------------|-----------|--------|-----------|---------------------|----------------|------------------------|-----------------------------|-------------|
| Ian Bowles | | | | | | | | | |
| LTIP – 28 June 2016 | - | 2,454,546 | - | - | 2,454,546 | Nil | 22.0p | June 2019 | June 2026 |
| Mark Pickett | | | | | | | | | |
| LTIP – 30 June 2016 | - | 611,620 | - | - | 611,620 | Nil | 32.7p | June 2017 | June 2026 |
| LTIP – 30 June 2016 | - | 611,621 | - | - | 611,621 | Nil | 32.7p | June 2019 | June 2026 |

The closing share price at 31 December 2016 was 58.0p and during the year ranged from 15.48p to 58.5p. There have been no variations to the terms and conditions or performance criteria for share awards during the financial year.

Loss of office payments

During the year a loss of office payment totalling £281,781 was paid to Steve Breach, separate to the remuneration payable detailed above. He will also receive outstanding LTIP awards on their normal vesting dates, subject to the achievement of performance targets and pro-rated for time served as Group Finance Director. He has a total of 92,879 options outstanding which currently have £nil value and will lapse at the end of 2017 if performance conditions are not met.

INFORMATION NOT AUDITED

Directors' Shareholdings

The table below sets out the Directors' current shareholdings as at 31 December 2016. The shareholding guideline for the Chief Executive and Chief Financial Officer is to hold shares to the value of their base salary within no more than five years of appointment.

| Director | Beneficially Owned | % of Salary/ Fee held | Share options (LTIP) |
|----------------|--------------------|--------------------------|-------------------------|
| Ian Bowles | 1,336,363 | 287% | 2,454,546 |
| Mark Pickett | - | - | 1,223,241 |
| Richard Last | 2,272,727 | 1,198% | - |
| Roger McDowell | 2,272,727 | 2,636% | - |

Note: % of salary/fees held is calculated by reference to the value of the individual's shareholding in Tribal valued at the share price on the close of business on 31 December 2016.

All-Employee Plans

The Committee believes wider employee share ownership can act as an additional retention and motivation vehicle, and therefore encourages broad based participation in the SIP scheme. During the year, employees, including the Executive Directors, were invited to take part in the SIP. The Committee regularly monitors the participation level in the all-employee arrangements.

Position against dilution limit

The share incentive plans operate in line with the ABI principle, which requires that all commitments must not exceed 10% of the issued share capital in any rolling 10 year period. Given the Company's issued share capital, the number of employees and the level of participation in the LTIP, the Committee believe that operating a single 10% in 10 year limit for all share plans remains appropriate. The Group's position against the dilution limit at 31 December 2016 was 4.5%.

Executive Directors external appointments

Executive Directors are permitted to accept an external non-executive position with the Board's approval. Any fees received in respect of these appointments may be retained by the Executive. No such fees were received by the Executive Directors during the year.

Payments to past Directors

There have been no payments to past Directors, other than those paid to Steve Breach as noted above.

Approved by the Remuneration Committee on 30 March 2017



Roger McDowell

Chairman, Remuneration Committee

Directors' report

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2016.

Principal activities

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 Kings Orchard, One Queen Street, Bristol BS2 0HQ.

The Company acts as a holding company with a number of trading subsidiaries that provide education related systems, solutions and consultancy services. There was no significant change in this activity during the year. The subsidiary undertakings of the Company are listed in note 34.

Results and dividends

The loss for the year, after taxation, amounted to £1,157,000 (2015: loss of £45,516,000). The Directors have proposed that no dividend should be declared in 2016 (2015: interim dividend of 0.70p per share).

Long-term financing

During the year the Group renegotiated its long-term financing and entered into a new three year revolving credit facility committed until June 2018 totalling £25m including a £5m overdraft facility and £6.5m for trading guarantees with customers as at 31 December 2016. At the end of the year £1.4m of the overdraft facility was drawn down. Following a review of the Group's forecasts and projections, the Directors consider the Group is well placed to meet its funding requirements for the foreseeable future. Information about the use of financial instruments by the Group is given in note 32 of the financial statements.

Risks and uncertainties

The Group's principal risks and uncertainties are explained in the Strategic Report on page 17. Risks of a financial nature are addressed in the Financial review on page 28 to 33, and note 32 of the financial statements.

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

Directors retiring

The names of the Directors who served during the year and up to the date of signing the financial statements are set out on page 43. All Directors are required to submit to re-election each year and will be proposed for re-election at the forthcoming AGM.

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 legislations. The Articles themselves may be amended by special resolution of the shareholders.

Directors' interests and share capitals information regarding Directors' interests in the Company, including share options, are detailed in the Remuneration report on page 52 and 53.

Political and Charitable contributions

During the year, the Group made charitable contributions totalling £12,000 (2015: £14,000). These contributions were made to a variety of causes and to both local and national charities. There were no political donations.

Share capital

Details of the authorised and issued share capital are shown in note 24 to the financial statements. 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. During the year, the Company issued 100,531,058 ordinary shares of 1p (2015: nil) and the Employee Benefit Trust (EBT) purchased 413,846 ordinary shares of 1p (2015: nil).

Branches

The Group has overseas branches in Australia, New Zealand, South Africa, Abu Dhabi, Botswana and Saudi Arabia.

Employees

Tribal is a business which is highly dependent on its people. We seek to attract, develop and retain high-calibre staff and, as a consequence, our customers can be assured that the service they receive is among the best available. The Group's commitment to its people is discussed in the Corporate responsibility section on page 34.

The Group is an equal opportunities employer and bases all decisions on individual ability, regardless of race, religion, gender, sexual orientation, age or disability. Applications for employment by disabled persons will always be fully considered, having regard to their particular aptitudes and abilities. Should any employee become disabled, every practical effort is made to provide continued employment. Depending on their skills and abilities, they enjoy the same career prospects and scope for realising their potential as other employees. Appropriate training is arranged for disabled employees, including retraining for alternative work for those who become disabled, to promote their career development within the organisation.

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

Research and development

The Group continues to invest in research and development of software products, as set out in notes 5 and 15 of the financial statements. This has resulted in a number of new modules to existing software products in our APAC region which we expect to contribute to the growth of our business. Total research and development expenditure moved to £4.3m (2015: £5.7m) of which £1.1m (2015: £4.1m) was capitalised.

Post balance sheet events

There have been no significant events since the balance sheet date.

Future development

An indication of likely future developments in the business of the Group is included in the Strategic Report.

Annual General Meeting

The Company's AGM will be held on 16 May 2017. The notice convening the AGM and an explanation of the business to be put to the meeting are contained in a separate circular to shareholders.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be put to the AGM.

Directors' responsibility statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Governance Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Corporate Governance

The Company's statement on corporate governance compliance can be found in the corporate governance report on pages 42 to 45 of the Annual Report and Accounts. The corporate governance report forms part of this Directors' report and is incorporated by reference.

Statement of disclosure of information to auditors

In accordance with Section 418, Directors' reports shall include a statement, in the case of each Director in office at the date the Directors' report is approved, that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware.
- He has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors and signed on its behalf by;



Ian Bowles
Chief Executive



Mark Pickett
Chief Financial Officer

Kings Orchard
1 Queen Street
Bristol
BS2 0HQ

Registered number 4128850

30 March 2017



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Independent Auditor's Report to the Members of Tribal Group plc

Report on the Group financial statements

Our opinion

In our opinion, Tribal Group plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Consolidated Balance Sheet as at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit**Our responsibilities and those of the Directors**

As explained more fully in the Directors' Responsibilities Statement set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of Tribal Group plc for the year ended 31 December 2016.

**Sam Taylor (Senior Statutory Auditor)**

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

30 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

| | | Year ended 31 December 2016 | | | (Restated*) Year ended 31 December 2015 | | |
|--|------|-----------------------------------|--------------------------------------|----------------|--|--------------------------------------|----------------|
| | Note | Adjusted £'000 | Other items (see note 6) £'000 | Total £'000 | Adjusted £'000 | Other items (see note 6) £'000 | Total £'000 |
| Revenue | 3 | 90,255 | - | 90,255 | 106,725 | - | 106,725 |
| Cost of sales | | (51,408) | - | (51,408) | (68,676) | - | (68,676) |
| Gross profit | | 38,847 | - | 38,847 | 38,049 | - | 38,049 |
| Total administrative expenses | | (34,159) | (4,625) | (38,784) | (35,515) | (47,756) | (83,271) |
| Operating profit/(loss) | 4, 5 | 4,688 | (4,625) | 63 | 2,534 | (47,756) | (45,222) |
| Investment income | 8 | 66 | - | 66 | 49 | - | 49 |
| Finance costs | 6, 9 | (595) | (398) | (993) | (1,083) | (1,041) | (2,124) |
| Profit/(loss) before tax | | 4,159 | (5,023) | (864) | 1,500 | (48,797) | (47,297) |
| Tax (charge)/credit | 10 | (889) | 596 | (293) | (626) | 2,487 | 1,861 |
| Profit/(loss) for the year from continuing operations | | 3,270 | (4,427) | (1,157) | 874 | (46,310) | (45,436) |
| Discontinued operations | | | | | | | |
| Loss from discontinued operations | | - | - | - | - | (80) | (80) |
| Profit/(loss) for the year | | 3,270 | (4,427) | (1,157) | 874 | (46,390) | (45,516) |
| Earnings per share | | | | | | | |
| From continuing operations | | | | | | | |
| Basic and diluted | 12 | 1.9p | (2.6)p | (0.7)p | 0.9p | (49.0)p | (48.1)p |
| From continuing and discontinued operations | | | | | | | |
| Basic and diluted | 12 | 1.9p | (2.6)p | (0.7)p | 0.9p | (49.0)p | (48.2)p |

All activities are from continuing operations

* In the current period the share based payment charge and movement in the associated employer related taxes accrual has been reclassified so to disclose in Other items. The 2015 comparatives have been restated.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

| | Note | Year ended 31 December 2016 £'000 | Year ended 31 December 2015 £'000 |
|---|------|--|--|
| Loss for the year | | (1,157) | (45,516) |
| Other comprehensive income/(expense): | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit pension schemes | 28 | (1,706) | (169) |
| Deferred tax on measurement of defined benefit pension schemes | 22 | 290 | 34 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | 3,070 | (720) |
| Other comprehensive income/(expense) for the year net of tax | | 1,654 | (855) |
| Total comprehensive income/(expense) for the year attributable to equity holders of the parent | | 497 | (46,371) |

Consolidated Balance Sheet

As at 31 December 2016

| | Note | 2016 £'000 | (Restated*) 2015 £'000 |
|--|------|---------------|------------------------------|
| Non-current assets | | | |
| Goodwill | 13 | 21,316 | 38,311 |
| Other intangible assets | 14 | 14,214 | 14,784 |
| Property, plant and equipment | 15 | 1,981 | 3,431 |
| Retirement benefit surplus | 28 | - | 88 |
| Deferred tax assets | 22 | 3,881 | 3,213 |
| Accrued income | | 169 | 1,126 |
| | | 41,561 | 60,953 |
| Current assets | | | |
| Inventories | | 83 | 133 |
| Trade and other receivables | 16 | 15,810 | 20,195 |
| Accrued income | | 3,605 | 4,664 |
| Current tax assets | | 84 | - |
| Cash and cash equivalents (excluding bank overdrafts) | 18 | 10,260 | 3,896 |
| | | 29,842 | 28,888 |
| Total assets | | 71,403 | 89,841 |
| Current liabilities | | | |
| Trade and other payables | 19 | (7,066) | (7,043) |
| Accruals | | (8,204) | (9,671) |
| Deferred income | | (19,352) | (21,730) |
| Current tax liabilities | | (1,266) | (169) |
| Borrowings | 20 | (1,427) | (2,160) |
| Provisions | 21 | (941) | (3,845) |
| | | (38,256) | (44,618) |
| Net current liabilities | | (8,414) | (15,730) |
| Non-current liabilities | | | |
| Borrowings | 20 | - | (34,207) |
| Other payables | 19 | (1,026) | - |
| Deferred tax liabilities | 22 | (1,877) | (2,119) |
| Deferred income | | (818) | (646) |
| Retirement benefit obligations | 28 | (1,725) | - |
| Provisions | 21 | (211) | (2,091) |
| | | (5,657) | (39,063) |
| Total liabilities | | (43,913) | (83,681) |
| Net assets | | 27,490 | 6,160 |
| Equity | | | |
| Share capital | 24 | 9,769 | 4,743 |
| Share premium | | 14,989 | 21 |
| Other reserves | 25 | 20,879 | 20,503 |
| Accumulated losses | | (18,147) | (19,107) |
| Total equity attributable to equity holders of the parent | | 27,490 | 6,160 |

* In the current period the Group has reclassified its accrued and deferred income balances, so to disclose between current and non-current assets and liabilities respectively. This has no impact on the results for the previous year.

Notes 1 to 34 form part of these financial statements. The Company's registered number is 4128850.

The financial statements on pages 60 to 105 were approved by the Board of Directors and authorised for issue on 30 March 2017 and were signed on its behalf by:



Ian Bowles
Director



Mark Pickett
Director

Consolidated Statement of Changes in Equity

| | Note | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Accumulated losses £'000 | Total equity £'000 |
|--|------|------------------------|------------------------|-------------------------|-----------------------------|-----------------------|
| At 1 January 2015 | | 4,743 | 21 | 25,757 | 24,126 | 54,647 |
| Loss for the year | | - | - | - | (45,516) | (45,516) |
| Other comprehensive loss for the year | | - | - | - | (855) | (855) |
| Dividends | 11 | - | - | - | (1,794) | (1,794) |
| Use of own shares to settle share-based payment scheme vesting | | - | - | 1,970 | - | 1,970 |
| Credit to equity for share-based payments | | - | - | (904) | (1,364) | (2,268) |
| Tax on charge to equity for share-based payments | | - | - | - | (24) | (24) |
| Transfer from merger reserve | | - | - | (6,320) | 6,320 | - |
| At 31 December 2015 and 1 January 2016 | | 4,743 | 21 | 20,503 | (19,107) | 6,160 |
| Loss for the year | | - | - | - | (1,157) | (1,157) |
| Other comprehensive income for the year | | - | - | - | 1,654 | 1,654 |
| Acquisition of own shares | | - | - | (91) | - | (91) |
| Issue of equity share capital | | 5,026 | 17,091 | - | - | 22,117 |
| Costs associated with issue of share capital | | - | (2,123) | - | - | (2,123) |
| Charge to equity for share-based payments | | - | - | 876 | - | 876 |
| Tax on charge to equity for share-based payments | | - | - | - | 54 | 54 |
| Transfer from merger reserve | | - | - | (409) | 409 | - |
| At 31 December 2016 | | 9,769 | 14,989 | 20,879 | (18,147) | 27,490 |

Consolidated Cash Flow Statement

For the year ended 31 December 2016

| | Note | Year ended 31 December 2016 £'000 | Year ended 31 December 2015 £'000 |
|---|------|--|--|
| Net cash from/(used in) operating activities | 29 | 8,274 | (6,216) |
| Investing activities | | | |
| Interest received | | 66 | 49 |
| Gross proceeds from disposal of Synergy | 27 | 19,421 | - |
| Costs associated with disposal of Synergy | 27 | (872) | - |
| Purchases of property, plant and equipment | 15 | (443) | (1,679) |
| Expenditure on intangible assets | 14 | (1,932) | (5,138) |
| Payment of deferred consideration for acquisitions net of cost acquired | | (3,374) | (4,510) |
| Repayment of Escrow (in respect of Human Edge) | | 357 | - |
| Net cash inflow/(outflow) from investing activities | | 13,223 | (11,278) |
| Financing activities | | | |
| Interest paid | | (460) | (811) |
| Purchase of own shares | | (91) | - |
| Gross proceeds on issue of shares | | 22,117 | - |
| Costs associated with issue of shares | | (2,123) | - |
| Equity dividend paid | | - | (1,794) |
| Fees for waiver of loan covenant | | - | (200) |
| (Repayment)/draw down of borrowings and loan arrangement fees | | (34,500) | 12,912 |
| Net cash (used in)/from financing activities | | (15,057) | 10,107 |
| Net increase /(decrease) in cash and cash equivalents | | 6,440 | (7,387) |
| Cash and cash equivalents at beginning of year | | 1,736 | 9,345 |
| Effect of foreign exchange rate changes | | 657 | (222) |
| Cash and cash equivalents at end of year | 18 | 8,833 | 1,736 |

Notes to the Financial Statements

1. Accounting policies

General information

Tribal Group plc (the Company) is a company incorporated and domiciled in the United Kingdom under the Companies Act. The Company is a public limited company which is listed on the Alternative Investment Market (AIM). The address of the registered office is given on page 115. The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in note 4 and in the strategic report on pages 12 to 35. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements on pages 58 to 105 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretation Committee (IFRS IC) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation and the Companies Act 2006 applicable to Companies reporting under IFRS.

The financial information has been prepared on the historical cost basis, except for financial instruments (Share based payments) which are recognised at fair value.

The preparation of financial statements in conforming with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Adoption of new and revised standards

In the current financial year, the Group has applied a number of amendments to IFRSs and new interpretations by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2016 including amendments to IAS 19 Employee benefits regarding defined benefit plans, IAS 1 Presentation of financial statements regarding the disclosure initiative for the presentation and structure of financial statements and Annual Improvements to the IFRS 2010-2012 Cycle and 2012-2014 Cycle. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

At the date of the 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 been adopted by the EU):

| | |
|--------------------------------------|--|
| IAS 7 (amendments) | Statement of cashflows disclosure |
| IAS 12 (amendments) | Income taxes on Recognition of deferred tax losses for unrealised losses |
| IFRS 2 (amendments) | Share based payments |
| IFRS 9 | Financial Instruments |
| IFRS 15 (amendments) | Revenue from contracts with customers |
| IFRS 16 | Leases |
| IFRS 4 (amendments) | 'Insurance contracts' regarding the implementation of IFRS 9 'Financial Instruments' |
| IFRIC 22 | Foreign currency transactions and advance consideration |
| Annual Improvements 2014-2016 Cycles | |

It is anticipated that IFRS 15 and IFRS 16 could have a potentially material impact on the Group. For IFRS 16 it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

For IFRS 15 the Group is currently assessing the new standard and does not expect to be able to quantify the impact of any potential changes until later in 2017. Our initial work indicates that there may be changes to the timings of the recognition of license-related revenue. It is not anticipated that there will be significant changes to the timing of the recognition of Implementation or Support & Maintenance revenue.

Notes to the Financial Statements continued

1. Accounting policies continued

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 over the investee;
- is exposed, or has the rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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.

Adoption of the going concern basis

The Directors, having considered the cash-flow forecast, and while noting the Group has net current liabilities, have performed a risk assessment of likely downside scenarios and associated mitigating actions, and have a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Revenue 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 excluding sales tax and trade discounts. The particular recognition policies applied in respect of the various potential elements of short-term or repeat service contracts are as set out below. Analysis has been provided by revenue stream:

Student Management Systems:

- Revenue on perpetual 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. The transfer of the risks and rewards takes place when the customer has the opportunity to access the software. Depending on the specific nature of the product in question and whether they are a new site, or an existing customer purchasing new modules, the customer has the opportunity to access the software when links are provided, licence keys issued, or installation completed.
- Revenue from term software licences is spread over the period of the licence.
- Revenue from contracts for software maintenance and support is recognised on a pro rata basis over the contract period, reflecting the Group's obligation to support the relevant software products and update their content over the contract period.
- Other services that are purchased for a specific term are recognised on a pro rata basis over the contract period. This includes services such as hosting and managed IT services.
- Revenue from software implementation, consultancy and other services that involve the purchase of a number of days is recognised as the service is provided.

Quality Assurance Services and graduate:

Revenue from the sale of services is recognised upon transfer to the customer of the risks and rewards of ownership. This is generally when services are performed for customers. The method by which the Group measures the service being performed varies depending on the nature of the contract, but will typically be driven by either time incurred or deliverables delivered as appropriate to the particular arrangement with the customer.

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

For multi-element contracts that include more than one revenue stream, the fair value of the component parts is established and revenue recognised for each element in line with the relevant policy above. Where separate contracts are entered into at or near the same time, with the same entity and were negotiated as a package, they are treated as a single arrangement.

In addition to this, the Group has long-term contracts for the provision of more complex, project-based services including arrangements that involve significant production, modification, or customisation of software. 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 measured by the proportion that development time incurred for work performed to date bears to the estimated total development time required. Variations in contract work and claims are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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 within administrative expenses immediately.

1. Accounting policies continued

Deferred contingent consideration

The Group has a number of deferred consideration obligations arising from previous acquisitions which are subject to both contingent and non-contingent performance criteria. All acquisitions are now outside of the measurement period for fair value acquisition accounting.

The accounting for changes in the fair value of deferred contingent consideration, and non-contingent consideration if applicable, that do not qualify as measurement period adjustments, and for which consideration is classified as an asset or liability is remeasured at subsequent reporting dates at fair value with the corresponding gain or loss being recognised in profit or loss.

Any equity based consideration is recognised in equity at the date it is agreed and would not be remeasured at subsequent reporting dates, with subsequent settlement accounted for within equity.

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 ('CGUs') expected to benefit from the combination. CGUs (or groups of CGUs) 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 CGU (or groups of CGUs) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGUs (or group of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro rata on the basis of the carrying amount of each asset. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a division, 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). Tangible and Intangible assets are amortised over their estimated useful lives (see notes 14 and 15).

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.

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.

Notes to the Financial Statements continued

1. Accounting policies continued

Business systems

The Group's business systems are treated as an intangible asset where the probable future economic benefits arising from the investment can be assessed with reasonable certainty at the time the costs are incurred. 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. 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 have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally generated intangible assets are amortised on a straight-line basis over their useful economic lives of 2 to 7 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 is stated at cost, net of depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of each asset, other than properties in the course of construction, by equal instalments over their estimated useful economic lives as follows:

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

Leases

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

Other items

IAS 1, "Presentation of Financial Statements", provides no definitive guidance as to the format of the income statement, but states key lines which should be disclosed. It also encourages the disclosure of additional line items and the reordering of items presented on the face of the income statement when appropriate for a proper understanding of the entity's financial performance.

The Company has adopted a policy of disclosing separately on the face of its Group income statement the effect of any components of financial performance considered by the Directors to be not directly related to the trading business or regarded as exceptional, or for which separate disclosure would assist in a better understanding of the financial performance achieved. In the current year share-based payments charges/(credits) has been reclassified to Other items for this reason.

Both materiality and the nature and function of the components of income and expense are considered in deciding upon such presentation. Such items may include, inter alia, impairment charges relating to goodwill and other intangible assets, the financial effect of major restructuring and integration activity, gains or losses associated with acquisitions (including the costs of such acquisitions, movements in deferred contingent consideration and the associated unwind of any discount thereon), profits or losses arising on business disposals, and other items where separate disclosure is considered appropriate by the Directors, including the taxation impact of the aforementioned items.

1. Accounting policies continued

Retirement benefit costs

The Group operates two 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. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes, where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the Statement of Comprehensive Income in the period in which they occur. Remeasurement recorded in the Statement of Comprehensive Income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- remeasurement.

The Group presents the first component of defined benefit costs within cost of sales and administrative expenses in the consolidated income statement. Curtailment gains and losses are accounted for as past-service cost. Net interest expense or income is recognised within finance costs. The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit or surplus in the Group's defined benefit pension schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

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.

A property related provision is recognised and measured as a provision when the Group has a present obligation arising under a property related contract. This includes dilapidation costs arising from exiting a leasehold property where the costs are not all expected to be incurred during the next year. For a business that is closed or to be discontinued the provision reflects the costs associated with exiting the property leased by the discontinued or closed business.

An onerous contracts provision is recognised and measured as a provision when the Group has a present obligation arising under an onerous contract. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

A legal claims provision is recognised and measured as a provision when the Group has a present obligation arising under a legal claim. This includes anticipated costs to resolve any contractual disputes and any anticipated costs in respect of disputes arising on previously disposed of businesses.

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.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Notes to the Financial Statements continued

1. Accounting policies continued

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised directly within equity within other comprehensive income. Such translation differences are recognised as income or expense in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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 the particular 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 an adjusted Black-Scholes model for the matching shares and LTIPs awarded pre 2016, and a Monte-Carlo model for the LTIPs awarded in 2016, as these will vest dependent on market conditions.

Tax

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

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

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

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

Financial instruments

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group does not currently hold any held-to-maturity investments or 'available for sale' financial assets.

Effective interest method

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

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

1. Accounting policies continued

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more event 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 and cash equivalents

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.

Derecognition of financial assets

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Notes to the Financial Statements continued

1. Accounting policies continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Critical accounting judgements and sources of estimation uncertainty

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

Allocation of Goodwill in respect of Synergy

On 1 April 2016 the Group disposed of its Synergy children's services management information system business to Servelec Group plc. As part of the calculation of the profit on disposal, goodwill associated with the Synergy business has been allocated to the profit. This amounted to £19.1m and was calculated as the Directors' best estimate of the net present value of the future cashflows associated with the Synergy business, less the fair value of the attributable assets sold as part of the transaction. Further analysis is provided in notes 13 and 27.

Goodwill and other intangible assets

The carrying value of goodwill at the year-end is £21.3m (2015: £38.3m). 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 the Board of Directors. Further details of the other assumptions used are given in note 13.

The carrying value of other intangible assets is £14.2m (2015: £14.8m). Judgement is required to assess whether costs meet the criteria for capitalisation set out in IAS 38, the useful life of those assets, and subsequently the consideration of the potential need for impairment of these assets, in particular in relation to their expected ability to generate future revenue.

Revenue recognition

The Group's revenue recognition policies are disclosed in note 1. In some cases, particularly in relation to significant software delivery programmes on which we are engaged in a number of international settings, judgement is required to determine the most appropriate measure of the fair value and the timing of revenue and profit recognition related to the services and products that have been delivered to customers at the balance sheet date. In particular before any licence revenue can be recognised, the licence must have been delivered and installed at the customers premises and be available to use by the customer in the environment on which installation will take place. Judgement is also required in the assessment of the risk of recoverability of any associated receivables and accrued income where invoicing and/or payment is subject to certain future milestones. Programme delivery requirements, software specification and customer expectations may evolve during the course of these major projects. This may result in developments to ongoing commercial arrangements that could materially impact the basis of financial judgements made at a period end. Therefore the potential impact of these evolving obligations and the overall customer project status must be considered carefully and where appropriate reflected in accounting judgements.

3. Revenue

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

| | 2016 £'000 | 2015 £'000 |
|------------------------------|---------------|---------------|
| Continuing operations | | |
| Sales of services | 90,255 | 106,725 |
| Total revenue | 90,255 | 106,725 |

Sales of services are defined as education related systems or solutions and consultancy services. Further details of the nature of the services provided are disclosed in note 4.

Sales of goods are not material and are therefore not shown separately. Included in sales of services is £0.5m (2015: £1.3m) related to software licence revenues recognised as a result of a periodic review of our licence entitlement resulting from changes in our customers' enrolled student numbers.

There is no revenue in respect of discontinued operations.

4. Business segments

Information reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance is focused on the nature of each type of activity. The Group's reportable segments and principal activities under IFRS 8 are detailed below:

Student Management Systems ("SMS") represents the delivery of software and subsequent maintenance and support services (previously Product Development and Customer Services) and the activities through which we deploy and configure our software for our customers (previously Implementation Services);

i-graduate (previously Professional and Business Solutions), representing a portfolio of performance improvement tools and services, including analytics, benchmarking and transformation services; and

Quality Assurance Solutions ("QAS"), representing inspection and review services which support the assessment of educational delivery.

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. Inter-segment sales are charged at prevailing market prices.

| | Revenue | | Adjusted Segment Operating Profit | |
|---|--|--|--|---|
| | Year ended 31 December 2016 £'000 | Year ended 31 December 2015 £'000 | Year ended 31 December 2016 £'000 | (Restated*) Year ended 31 December 2015 £'000 |
| Student Management Systems | 61,007 | 62,701 | 4,724 | 3,163 |
| i-graduate | 8,534 | 13,622 | 901 | 229 |
| Quality Assurance Solutions | 20,714 | 30,402 | 2,532 | 2,900 |
| Total | 90,255 | 106,725 | 8,157 | 6,292 |
| Unallocated corporate expenses | | | (3,469) | (3,758) |
| Adjusted operating profit | | | 4,688 | 2,534 |
| Amortisation of IFRS 3 intangibles | | | (1,912) | (1,686) |
| Other items | | | (2,713) | (46,070) |
| Operating profit/(loss) | | | 63 | (45,222) |
| Investment income | | | 66 | 49 |
| Finance costs | | | (993) | (2,124) |
| Loss before tax | | | (864) | (47,297) |
| Tax (charge)/credit | | | (293) | 1,861 |
| Loss for the year from discontinued operations | | | - | (80) |
| Loss after tax and discontinued operations | | | (1,157) | (45,516) |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit earned by each segment, without allocation of central administration costs, including Directors' salaries, finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

* As reported to the Chief Executive Officer, in the current period, the share based payment charge and movement in the associated employer related taxes accrual are reported as Other items. The 2015 comparatives have been restated.

Notes to the Financial Statements continued

4. Business segments continued

Revenues of approximately 13% (2015: 18%) have arisen within our QAS segment from the Group's largest customer and revenues of approximately 7% (2015: 6%) have arisen within our SMS segment from the Group's second largest customer.

Geographical information

Revenue from external customers, based on location of the customer, are shown below:

| | 2016 £'000 | 2015 £'000 |
|-------------------------------------|---------------|---------------|
| UK | 46,469 | 72,350 |
| Asia Pacific | 31,819 | 23,699 |
| North America and rest of the world | 11,967 | 10,676 |
| | 90,255 | 106,725 |

Non-current assets

| | 2016 £'000 | (Restated*) 2015 £'000 |
|-------------------------------------|---------------|------------------------------|
| UK | 19,171 | 41,090 |
| Asia Pacific | 22,376 | 19,853 |
| North America and rest of the world | 14 | 10 |
| | 41,561 | 60,953 |

* In the current period the Group has reclassified its accrued and deferred income balances, so to disclose between current and non-current assets and liabilities respectively. This has no impact on the results for the previous year.

The Group's revenues from its major products and services were as follows:

Continuing operations

| | 2016 £'000 | 2015 £'000 |
|-----------------------------|---------------|---------------|
| Licence and development | 10,840 | 14,504 |
| Implementation | 12,430 | 11,717 |
| Maintenance | 32,420 | 30,513 |
| Other Systems related | 5,317 | 5,967 |
| i-graduate | 8,534 | 13,622 |
| Quality Assurance Solutions | 20,714 | 30,402 |
| | 90,255 | 106,725 |

5. Operating profit for the year

| | Note | 2016 £'000 | 2015 £'000 |
|---|------|---------------|---------------|
| Operating profit/(loss) for the year is stated after charging/(crediting): | | | |
| Staff costs (excluding amounts capitalised) | 7 | 56,829 | 59,823 |
| Depreciation and other amounts written off property, plant and equipment | 15 | 1,506 | 1,532 |
| Amortisation of acquired IFRS 3 intangible assets | 14 | 1,912 | 1,686 |
| Amortisation of software licences | 14 | 166 | - |
| Amortisation of business systems | 14 | 162 | 398 |
| Amortisation of development costs | | 1,411 | 3,364 |
| Gain on bargain purchase | | - | (405) |
| Profit on sale of Synergy | 27 | (301) | - |
| Cost of inventories recognised as an expense | | - | 216 |
| Impairment loss on trade receivables | | 864 | 382 |
| Research and development expenditure (includes staff costs noted above) | | 3,213 | 1,656 |
| Impairment of goodwill | | - | 38,802 |
| Impairment losses on development costs | | - | 7,989 |
| Net foreign exchange (losses)/profits | | (115) | 258 |

The analysis of auditors' remuneration is as follows:

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Fees payable to the Company's previous auditor for other services | | |
| - other assurance | 481 | - |
| Fees payable to the Company's current auditor for the audit of the Company's annual report | 107 | - |
| Fees payable to the Company's previous auditor for the audit of the Company's annual report | - | 80 |
| Fees payable to the Company's current auditor and its associates for other services to the Group: | | |
| - the audit of the Company's subsidiaries pursuant to legislation | 153 | - |
| Fees payable to the Company's previous auditor and its associates for other services to the Group: | | |
| - the audit of the Company's subsidiaries pursuant to legislation | - | 156 |
| Total audit fees | 260 | 236 |
| - audit related assurance services | 33 | 47 |
| Total non-audit fees | 514 | 47 |
| Total auditor's remuneration | 774 | 283 |

Fees payable to PricewaterhouseCoopers LLP and the previous auditor and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Non-audit fees in 2015 arose entirely as a result of the half year review.

Non-audit fees in 2016 have been split between those payable to the Group's previous auditors in respect of the Rights Issue and disposal of Synergy (£481,000), and those payable to the current auditors in 2016 (£33,000).

Notes to the Financial Statements continued

6. Other items

| | 2016 £'000 | (Restated*) 2015 £'000 |
|---|---------------|------------------------------|
| Profit on sale of Synergy (see note 27) | 301 | - |
| Other items as (charges)/credits to income statement | | |
| – Acquisition costs | - | (198) |
| – Gain on bargain purchase | - | 405 |
| – Repayment of Escrow (in respect of the acquisition of Human Edge) | 357 | - |
| – Movement in deferred contingent consideration** | (607) | 1,020 |
| Acquisition related costs | (250) | 1,227 |
| – Impairment of goodwill | - | (38,802) |
| – Impairment of development costs and related charges (see note 14) | - | (7,989) |
| Impairment charges | - | (46,791) |
| – Onerous contracts | 115 | 294 |
| – Costs on closure of SLS business | (33) | (823) |
| – Property related | 136 | 210 |
| – Share based payments (including employer related taxes)* | (1,036) | 350 |
| – Restructuring and associated costs | (1,946) | (537) |
| Other exceptional items | (2,764) | (506) |
| Other administrative costs | (2,713) | (46,070) |
| – Amortisation of IFRS 3 intangibles | (1,912) | (1,686) |
| Total administrative expenses | (4,625) | (47,756) |
| – Unwinding of discounts | (205) | (585) |
| – Bank arrangement fees written off | (244) | - |
| – Fees associated with waiver of loan covenant | 51 | (456) |
| Other financing items | (398) | (1,041) |
| | (5,023) | (48,797) |
| Tax on other items | 596 | 2,487 |
| | (4,427) | (46,310) |

* In the current period the Group's share based payment charge and movement in the associated employer taxes accrual have been reclassified so to disclose in Other items. The 2015 comparatives have been restated.

** Included in movement in deferred contingent consideration are £42,000 of professional fees incurred.

IAS 1, paragraph 97 requires separate disclosure of such items that are considered material by nature or value, that they require separate disclosure in the financial statements. As such, 'other items' are not part of the Group's underlying trading activities and include the following:

Profit on sale of Synergy; on 1 April 2016, the Group disposed of its Synergy children's services management information systems business to Servelec Group plc for total consideration of £20.25m (£19.4m after adjustments for working capital). Subsequent to the allocation of goodwill of £19.1m and costs arising in respect of the disposal, a profit on disposal of £0.3m was recognised in the period. Further information is provided in note 27.

6. Other items continued

Acquisition costs: during the period, a final payment was made in respect of deferred consideration payable on acquisition of i-graduate, which resulted in a true up of the amounts provided (£0.6m additional charge). In addition, a further true up in respect of the Campus acquisition resulted in an additional £0.2m charge. Acquisition costs also includes a £0.4m repayment of escrow in relation to Human Edge which was not previously held as a receivable on the balance sheet.

Other exceptional items: amounts principally reflect the costs arising in respect of the restructuring of the Group's operations. The restructuring program was executed in the first half of 2016 and associated costs provided for. Amounts include provision for redundancy costs, consolidation of the Group's office portfolio as well as the costs of termination of the previous Executive Directors' employment contracts.

Share based payments (see note 23): In 2016 share based payments have been disclosed in Other items, 2015 comparatives have been restated. The numbers above include the movement in associated employers taxes accrual.

Amortisation of IFRS3 intangibles: amortisation arising on the fair value of intangible assets acquired is separately disclosed as other items. (2016: £1.9m; (2015: £1.7m)).

Financing charges: consistent with the treatment of movements in deferred consideration, the unwind of the discount on deferred consideration is separately presented as other financing costs in the income statement (2016: £0.2m; 2015: £0.6m). In addition, costs of £0.2m were incurred in respect of previously capitalised bank arrangement fees written off following the revised financing agreement entered into during the year (see note 20).

Taxation: the tax credit arising on the above items is presented on a consistent basis with the underlying cost or credit to which it relates and therefore is also presented separately on the face of the income statement.

7. Staff numbers and costs

The average monthly number of persons employed under contracts of service by the Group (including Executive Directors) during the year was as follows:

| | 2016 number | 2015 number |
|-----------------------------------|----------------|----------------|
| Selling, operations and marketing | 972 | 1,117 |
| Finance and administration | 189 | 235 |
| | 1,161 | 1,352 |

The aggregate payroll costs of these persons were as follows:

| | 2016 £'000 | 2015 £'000 |
|------------------------------|---------------|---------------|
| Wages and salaries | 47,962 | 54,004 |
| Social security costs | 3,869 | 4,756 |
| Other pension costs | 2,988 | 4,006 |
| Redundancy costs | 2,232 | 1,055 |
| Share option charge/(credit) | 876 | (298) |
| | 57,927 | 63,523 |

The total payroll costs above include £1.1m (2015: £3.7m) capitalised as development costs (see note 14).

Net interest credits relating to pension schemes of £12,000 (2015: £34,000) and administrative expenses of £21,000 (2015: £21,000) are reported elsewhere and are therefore excluded from the figures above.

Notes to the Financial Statements continued

8. Investment income

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Net interest receivable on retirement benefit obligations | 12 | 34 |
| Other interest receivable | 54 | 15 |
| | 66 | 49 |

9. Finance costs

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Interest on bank overdrafts and loans | 310 | 695 |
| Amortisation and write off of loan arrangement fees | 60 | 272 |
| Other interest payable | 225 | 116 |
| Financing costs | 595 | 1,083 |
| Unwinding of discounts | 205 | 585 |
| Bank arrangement fees written off | 244 | - |
| Fees associated with waiver of loan covenants | (51) | 456 |
| Other financing costs | 398 | 1,041 |
| Total financing costs | 993 | 2,124 |

10. Tax

| | 2016 £'000 | 2015 £'000 |
|---------------------------------------|---------------|---------------|
| Current tax | | |
| UK corporation tax | 116 | 354 |
| Overseas tax | 690 | 173 |
| Adjustments in respect of prior years | 309 | (1,262) |
| | 1,115 | (735) |
| Deferred tax | | |
| Current year | (816) | (2,125) |
| Adjustments in respect of prior years | (6) | 999 |
| | (822) | (1,126) |
| Tax charge/(credit) on losses | 293 | (1,861) |

See note 22 for further analysis of movements in the deferred tax position. The continuing tax charge can be reconciled to the profit from continuing operations per the income statement as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Loss before tax on continuing operations | (864) | (47,297) |
| Tax credit at standard rate of 20% (2015: 20.25%) | (173) | (9,578) |
| Effects of: | | |
| Overseas tax rates | 140 | (134) |
| Expenses not deductible for tax purposes | 180 | 65 |
| Non-deductible goodwill impairment | - | 7,776 |
| Adjustments in respect of prior years | 272 | (263) |
| Additional deduction for R&D expenditure | (87) | (16) |
| Share schemes | - | (8) |
| Movement in tax provision | 116 | 159 |
| Utilisation of unrecognised tax losses | (358) | - |
| Effect of changes in tax rates | 203 | 138 |
| Tax expense/(credit) for the year | 293 | (1,861) |

In addition to the amount charged to the income statement a current tax credit of £nil (2015: £195,000) and a deferred tax credit of £54,000 (2015: charge of £219,000) has been recognised directly in equity during the year in relation to share schemes. A deferred tax credit of £290,000 (2015: £34,000) has been recognised in the Consolidated Statement of Comprehensive Income in relation to Defined Benefit pension schemes.

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

The income tax expense for the year is based on the UK statutory rate of corporation tax for the period of 20% (2015: blended rate of 20.25%). This rate reflects the reduction of the UK corporation tax rate from 21% to 20% from 1 April 2015. Tax for other jurisdictions is calculated at the prevailing rates prevailing in the respective jurisdictions.

Further reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively. This will reduce the Group's future tax charge accordingly. The deferred tax balances at 31 December 2016 have been calculated based on these rates.

Notes to the Financial Statements continued

11. Dividends

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the year ended 31 December 2015 of nil pence (year ended 31 December 2014: 1.20 pence) per share | – | 1,133 |
| Interim dividend for the year ended 31 December 2016 of nil pence (year ended 31 December 2015: 0.70 pence) per share | – | 661 |
| | – | 1,794 |
| Proposed final dividend for the year ended 31 December 2016 of nil pence (year ended 31 December 2015: nil pence) per share | – | – |

No interim or final dividend for 2016 has been proposed.

12. 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:

| | 2016 thousands | 2015 thousands |
|---|-------------------|-------------------|
| Weighted average number of shares outstanding: | | |
| Basic weighted average number of shares in issue | 168,755 | 94,435 |
| Weighted average number of shares outstanding for dilution calculations | 168,755 | 94,435 |

Diluted earnings per share only reflects the dilutive effect of share options for which performance criteria have been met. Previous share incentive schemes vest based on cumulative EPS for a three year period with the earliest vesting based on the Group's results for the three years to 31 December 2016. None of the 721,171 remaining share options that were issued in 2014 met the performance criteria.

In regards the diluted loss per share in 2015 and 2016, all potentially dilutive ordinary shares, including options and deferred shares, are anti-dilutive as they would decrease the loss per share.

611,620 nil cost options granted to Mark Pickett, Group Chief Financial Officer will vest on 29 June 2017 as this award is only subject to a time-limit condition. In addition all 3,405,996 Matching share options granted to Richard Last and Roger McDowell are also subject to a time-limit condition. These will vest equally on 1 January 2017, 1 January 2018 and 1 January 2019.

12. Earnings per share continued

The maximum number of potentially dilutive shares, based on options that have been granted but have not yet met vesting criteria, is 5,367,189 (2015: 1,531,955). In addition there are a further 3,405,996 (2015: nil) potentially dilutive matching share options that have been granted but have not yet met vesting criteria as at 31 December 2016.

The adjusted basic and diluted earnings per share figures shown on the consolidated income statement on page 60 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:

| | 2016 | | | 2015 | | |
|------------------------------------|---------------------|-----------------------|----------------|---------------------|-----------------------|----------------|
| | Continuing £'000 | Discontinued £'000 | Total £'000 | Continuing £'000 | Discontinued £'000 | Total £'000 |
| Net loss | (1,157) | n/a | (1,157) | (45,436) | (80) | (45,516) |
| Earnings per share | | | | | | |
| Basic and diluted | 0.7p | n/a | (0.7)p | (48.1)p | (0.1)p | (48.2)p |
| Adjusted earnings per share | | | | | | |
| Basic and diluted | 1.9p | n/a | n/a | 0.9p* | n/a | n/a |

| | (Loss)/profit for the year | | Earnings per share | |
|--|----------------------------|---------------|--------------------|---------------|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Loss for the year attributable to equity shareholders | (1,157) | (45,516) | (0.7)p | (48.2)p |
| Add back: discontinued operations | - | 80 | - | 0.1p |
| Loss for the year from continuing operations | (1,157) | (45,436) | (0.7)p | (48.1)p |
| Add back: | | | | |
| Amortisation of IFRS intangibles (net of tax) | 1,354 | 1,197 | | |
| Impairment of goodwill | - | 38,802 | | |
| Disposal of Synergy | (301) | - | | |
| Repayment of Escrow | (357) | - | | |
| Bank arrangement fees written off | 244 | - | | |
| Share based payments | 858 | (279) | | |
| Gain on bargain purchase | - | (405) | | |
| Impairment of development costs (net of tax) | - | 6,323 | | |
| Unwinding of discounts | 205 | 585 | | |
| Other items (net of tax) | 1,817 | 1,107 | | |
| Movement in deferred contingent consideration | 607 | (1,020) | | |
| Total adjusting items (net of tax) | 4,427 | 46,310 | 2.6p | 49.0p |
| Adjusted earnings | 3,270 | 874 | 1.9p | 0.9p |

* The adjusted basic and diluted earnings per share figures for 2015 have been restated as the share based payment charge and movement in the associated employer related taxes accrual has been reclassified so to disclose in Other items.

Notes to the Financial Statements continued

13. Goodwill

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Cost | | |
| At beginning of year | 119,542 | 120,239 |
| Allocation of goodwill to disposal of Synergy business (see note 27) | (19,107) | - |
| Exchange differences | 2,112 | (697) |
| At end of year | 102,547 | 119,542 |
| Accumulated impairment losses | | |
| At beginning of year | 81,231 | 42,429 |
| At end of year | 81,231 | 81,231 |
| Net book value | | |
| At end of year | 21,316 | 38,311 |
| At beginning of year | 38,311 | 77,810 |

Goodwill acquired in a business 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:

| | 2016 £'000 | 2015 £'000 |
|----------------------------|---------------|---------------|
| Student Management Systems | 17,782 | 34,777 |
| i-graduate | 3,534 | 3,534 |
| | 21,316 | 38,311 |

Goodwill is reviewed at least annually for impairment by comparing the recoverable amount of each cash generating unit (CGU) with the goodwill, intangible assets and property, plant and equipment allocated to that CGU.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use risk adjusted cash flow projections based on the financial budget approved by management for the period to 31 December 2017. The budget was prepared based on past experience, strategic plans and management's expectation for the markets in which they operate including adjustments for known contract ends (i.e. Ofsted Early Years), contract related inflationary increases and planned cost savings. The budget was extrapolated over an eight-year period with a growth assumption of 2% per annum. Cash flows beyond the budget and extrapolation period were calculated into perpetuity using a growth rate of 2%.

This growth rate is in line with the expected average UK economy long-term growth rate.

The cash flows projections are discounted at a post-tax discount rate of 12% (2015: 14%). The single discount rate, which is consistently applied for all CGUs, is determined with reference to internal measures and available industry information and reflects specific risks relevant to the Group.

In 2015 the Group suffered a significant downturn in its performance over the course of that year which, together with conservative estimates of the future trading of the Group, led to material impairments totalling £38.8m being recorded across the CGUs as follows: SMS £23.6m, i-graduate £5.5m and QAS £9.7m. QAS was fully impaired.

Impairment testing inherently involves a number of judgemental areas, including the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the Group and the estimation of the future revenue and expenditure of each CGU. Accordingly, management undertook stress testing to understand the key sensitivities and concluded as follows:

SMS is the largest segment and also the most sensitive. The discount rate for 2016 would need to increase to 17.3% for an impairment to occur or the growth rate reduce to (3.8)% per annum. For i-graduate the discount rate for 2016 would need to increase to 21.2% for an impairment to occur or the growth rate reduce to (8.1)% per annum. The Directors do not feel these scenarios or a combination of the two are likely to occur due to the significant increase required to the discount rate; the Group's strong Backlog of £113.8m relating to the Total Contract Value of booked sales orders which have not yet been delivered (including 2 years Support & Maintenance, where it is contracted on an annually recurring basis); and, the Group's Annually Recurring Revenue of £32.4m from software related maintenance fees in SMS.

Further to the impairment review, the Directors concluded that no impairment has arisen during the year.

14. Other intangible assets

| | Software £'000 | Customer contracts & relationships £'000 | Development costs £'000 | Business systems £'000 | Software licences £'000 | Total £'000 |
|---|-------------------|---|-------------------------------|------------------------------|-------------------------------|----------------|
| Cost | | | | | | |
| At 1 January 2015 | 6,747 | 6,600 | 29,633 | 4,735 | - | 47,715 |
| Written off | - | - | (3,268) | (11) | - | (3,279) |
| Additions | 292 | 185 | 4,083 | 1,055 | - | 5,615 |
| Disposals | - | - | (403) | (86) | - | (489) |
| Exchange differences | (405) | (172) | (30) | (5) | - | (612) |
| At 31 December 2015 and 1 January 2016 | 6,634 | 6,613 | 30,015 | 5,688 | - | 48,950 |
| Transfers | - | - | - | - | 1,369 | 1,369 |
| Additions | - | - | 1,098 | 764 | 70 | 1,932 |
| Disposals | - | - | (6,994) | - | (35) | (7,029) |
| Exchange differences | 1,242 | 529 | 360 | 18 | - | 2,149 |
| At 31 December 2016 | 7,876 | 7,142 | 24,479 | 6,470 | 1,404 | 47,371 |
| Amortisation | | | | | | |
| At 1 January 2015 | 924 | 3,423 | 16,100 | 4,019 | - | 24,466 |
| Written off | - | - | (3,268) | (11) | - | (3,279) |
| Charge for the year | 1,248 | 438 | 3,364 | 398 | - | 5,448 |
| Impairment loss | - | - | 7,989 | - | - | 7,989 |
| Disposals | - | - | (359) | - | - | (359) |
| Exchange differences | (44) | (61) | 5 | 1 | - | (99) |
| At 31 December 2015 and 1 January 2016 | 2,128 | 3,800 | 23,831 | 4,407 | - | 34,166 |
| Transfers | - | - | - | - | 1,084 | 1,084 |
| Charge for the year | 1,422 | 490 | 1,411 | 162 | 166 | 3,651 |
| Disposals | - | - | (6,504) | - | (25) | (6,529) |
| Exchange differences | 489 | 168 | 122 | 6 | - | 785 |
| At 31 December 2016 | 4,039 | 4,458 | 18,860 | 4,575 | 1,225 | 33,157 |
| Carrying amount | | | | | | |
| At 31 December 2016 | 3,837 | 2,684 | 5,619 | 1,895 | 179 | 14,214 |
| At 31 December 2015 | 4,506 | 2,813 | 6,184 | 1,281 | - | 14,784 |

Software and customer contracts and relationships have arisen from acquisitions and are amortised over their estimated useful lives, which are 3–6 years and 3–12 years respectively. The amortisation period for development costs incurred on the Group's product development is 3 to 7 years, based on the expected life-cycle of the product. Amortisation of development costs is included within cost of sales; the amortisation for software, customer contracts and relationships, business systems and software licences is included within administrative expenses.

Disposals of development cost of net book value of £490,000 correspond to the sale of the Synergy business (see note 27).

Included within Business Systems are finance systems with a carrying value of £1.6m (2015: £0.9m). Each system is being amortised over a period of three to five years and have an average of three years left. Upgrades to our finance systems, AX2012 and Longview phase II, are due to commence amortisation in January 2017 following a successful rollout to the business.

Notes to the Financial Statements continued

15. Property, plant and equipment

| | Leasehold improvements £'000 | Fixtures, fittings and other equipment £'000 | Total £'000 |
|--|------------------------------------|--|----------------|
| Cost | | | |
| At 1 January 2015 | 2,133 | 4,187 | 6,320 |
| Additions | 619 | 1,060 | 1,679 |
| Acquisition of subsidiary | 304 | 735 | 1,039 |
| Disposals | (8) | (528) | (536) |
| Exchange differences | (13) | (62) | (75) |
| At 31 December 2015 and 1 January 2016 | 3,035 | 5,392 | 8,427 |
| Additions | 63 | 380 | 443 |
| Transfers | - | (1,369) | (1,369) |
| Disposals | (430) | (424) | (854) |
| Exchange differences | 114 | 268 | 382 |
| At 31 December 2016 | 2,782 | 4,247 | 7,029 |
| Accumulated depreciation and impairment | | | |
| At 1 January 2015 | 1,202 | 2,135 | 3,337 |
| Charge for the year | 312 | 1,220 | 1,532 |
| Acquisition of subsidiary | 269 | 436 | 705 |
| Disposals | (8) | (516) | (524) |
| Exchange differences | (17) | (37) | (54) |
| At 31 December 2015 and 1 January 2016 | 1,758 | 3,238 | 4,996 |
| Charge for the year | 513 | 993 | 1,506 |
| Transfers | - | (1,084) | (1,084) |
| Disposals | (252) | (391) | (643) |
| Exchange differences | 96 | 177 | 273 |
| At 31 December 2016 | 2,115 | 2,933 | 5,048 |
| Net book value | | | |
| At 31 December 2016 | 667 | 1,314 | 1,981 |
| At 31 December 2015 | 1,277 | 2,154 | 3,431 |

The fair value of the Group's property, plant and equipment is not materially different to its carrying amount.

There are £1.7m (2015: £2.2m) worth of assets that are fully amortised within property, plant and equipment.

Disposals of property, plant and equipment of net book value of £219,000 correspond to the sale of the Synergy business (see note 27).

16. Trade and other receivables

| | 2016 £'000 | 2015 £'000 |
|---|-----------------------------|-----------------------------|
| Amounts receivable for the sale of services | 14,373 | 17,700 |
| Allowance for doubtful debts | (1,578) | (655) |
| | 12,795 | 17,045 |
| Amounts recoverable on contracts | - | 42 |
| Other receivables | 209 | 263 |
| Prepayments | 2,806 | 2,845 |
| | 15,810 | 20,195 |

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 is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

All receivables are due within one year in both current and prior years.

Trade receivables

Trade receivables are measured at amortised cost. The average credit terms on sales is 30 days (2015: 30 days). The Group sells the majority of its services to the public sector or related bodies and institutions, 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 £5.5m (2015: £8.4m), 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. Of the total trade receivables balance at the end of the year, three customers (2015: two) held balances outstanding of more than 5%, being £1.1m, £0.7m and £0.6m (2015: £3.6m and £1.7m). The average age of receivables is 44 days (2015: 57 days).

Ageing of past due but not impaired trade receivables:

| | 2016 £'000 | 2015 £'000 |
|-------------|-----------------------------|-----------------------------|
| 30–60 days | 2,661 | 4,209 |
| 60–90 days | 1,567 | 1,259 |
| 90–120 days | 391 | 2,273 |
| 120+ days | 849 | 657 |
| Total | 5,468 | 8,398 |

Notes to the Financial Statements continued

16. Trade and other receivables continued

Movement in the allowance for doubtful debts:

| | 2016 £'000 | 2015 £'000 |
|--------------------------------------|---------------|---------------|
| Balance at the beginning of the year | 655 | 153 |
| Amounts written off during the year | (13) | (30) |
| Recognised in the income statement | 864 | 382 |
| Transferred from accrued income | 72 | 150 |
| Balance at the end of the year | 1,578 | 655 |

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:

| | 2016 £'000 | 2015 £'000 |
|-------------|---------------|---------------|
| 30-60 days | 603 | - |
| 60-90 days | 3 | - |
| 90-120 days | 43 | - |
| 120+ days | 929 | 655 |
| Total | 1,578 | 655 |

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

Accrued income

Accrued income is measured at amortised cost. Accrued income inherently has some contractual risk associated with it related to the specific and ongoing risks in each individual contract with a customer.

Impairments recognised in the income statement in respect of accrued income amount to £0.3m (2015: £0.8m).

17. Long-term contracts

At the end of 2016, trade and other receivables included amounts due from contract customers (included within accrued income) of £0.2m (2015: £0.6m) and trade and other payables included amounts due to contract customers (included within deferred income) of £0.5m (2015: £0.3m).

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Contract costs incurred plus recognised profits less recognised losses to date | 1,321 | 7,094 |
| Less: progress billings | (1,236) | (7,485) |
| | 85 | (391) |

At 31 December 2016, retentions held by customers for contract work amounted to £0.2m (2015: £0.1m).

There are no amounts included in trade and other receivables arising from long-term contracts due for settlement after more than 12 months.

£1.3m (2015: £7.1m) of contract revenue has been recognised.

18. Cash and cash equivalents

Cash and cash equivalents of £10.3m (2015: £3.9m) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Of the above balance, £0.2m (2015: £0.2m) represents funds restricted in use by the relevant commercial terms of certain trading contracts. These terms have been complied with.

The credit quality of cash at bank can be assessed by reference to external credit ratings. The following table has been sourced from Moodys credit ratings.

| | 2016 £'000 | 2015 £'000 |
|------|---------------|---------------|
| Aa1 | 573 | 428 |
| Aa2 | 4,020 | 872 |
| A1 | 5,260 | 2,253 |
| A2 | 209 | 244 |
| Baa1 | 25 | 10 |
| Baa2 | 141 | 1 |
| Baa3 | 32 | 88 |
| | 10,260 | 3,896 |

Cash and cash equivalents include the following for the purposes of the statement of cashflows:

| | 2016 £'000 | 2015 £'000 |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | 10,260 | 3,896 |
| Bank overdrafts (note 20) | (1,427) | (2,160) |
| | 8,833 | 1,736 |

19. Trade and other payables

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|---------------|---------------|
| Current | | |
| Trade payables | 677 | 2,274 |
| Other taxation and social security | 3,309 | 3,405 |
| Other payables | 1,453 | 1,364 |
| Deferred consideration | 1,627 | - |
| | 7,066 | 7,043 |
| Non-current | | |
| Deferred consideration | 1,026 | - |
| Total | 8,092 | 7,043 |

The average credit period taken for trade purchases is 7 days (2015: 20 days). For most suppliers, no interest is charged on the trade payables for the first 30 days from the date of invoice. Thereafter, in some cases, 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 their fair value.

Deferred consideration reflects amounts in respect of the previous acquisitions of Campus and Callista. During 2016 all deferred consideration has become non-contingent, and hence transferred from Provisions into other payables. In February 2017, a variation to the Share Purchase Agreement was signed with the vendors of Tribal Campus Pty Limited (previously Sky Software Pty), which amended the terms of the deferred contingent consideration payments. Under the variation, it was agreed that a combination of cash, shares and share options would be paid/issued in full and final settlement of all contingent obligations under the Agreement.

Notes to the Financial Statements continued

19. Trade and other payables continued

Other payables are split as follows:

| | 2016 £'000 | 2015 £'000 |
|-----------------------------|---------------|---------------|
| Goods received not invoiced | 246 | 424 |
| Funds restricted in use | 212 | 262 |
| Other creditors | 995 | 678 |
| | 1,453 | 1,364 |

20. Borrowings

The Group has a borrowings facility under a £13.5m revolving credit facility, together with a £5m committed overdraft facility, and a further £6.5m committed guarantee facility. The total facility is committed until June 2018, subject to compliance with covenants. As at 31 December 2016, the Group had net cash of £8.8m (2015: net debt of £32.5m), reflecting gross cash balances of £10.3m (2015: £3.9m) offset by draw downs on the revolving credit facility of £nil (2015: £34.2m) and £1.4m outstanding on the overdraft facility (2015: £2.2m). The Directors estimate that the book values of the Group's borrowings reflect the fair values thereof. The bank loans are all denominated in UK sterling at floating rates. At 31 December 2016, the weighted average interest rate paid was 3.0% (2015: 2.1%).

There was £13.5m (2015: £10.5m) available but undrawn of the revolving credit facility at 31 December 2016. In addition, at the year-end there was £3.6m available but undrawn in respect of the overdraft facility, and £2.3m available but undrawn in respect of the Guarantee facility, giving total underlying headroom of £19.4m (2015: £13.3m), subject to covenants, of which £2.3m is currently allocated to the Guarantee facility.

The Group also had cash balances of £10.3m (2015: £3.9m) (see note 18) and overdrafts of £1.4m (2015: £2.2m), giving net cash at the year end of £8.8m (2015: net debt of £32.5m). The interest rate is reset for a period of one, three or six months at LIBOR plus a variable margin determined by covenant calculations. At 31 December 2016, the amount drawn down (net of bank arrangement fees) was £nil (2015: £34.2m).

21. Provisions

| | Property related £'000 | Deferred consideration £'000 | Onerous contracts £'000 | Legal claims £'000 | Restructuring £'000 | Total £'000 |
|--|------------------------------|------------------------------------|-------------------------------|--------------------------|------------------------|----------------|
| At 1 January 2016 | 617 | 4,717 | 444 | 158 | - | 5,936 |
| Increase/(release) in provision | 438 | 566 | (32) | 261 | 1,178 | 2,411 |
| Utilisation of provision | (535) | (3,374) | (180) | (40) | (1,181) | (5,310) |
| Unwind of discount | - | 205 | - | - | - | 205 |
| Exchange rate movement | 11 | 539 | - | - | 13 | 563 |
| Transfer to other payables (see note 19) | - | (2,653) | - | - | - | (2,653) |
| At 31 December 2016 | 531 | - | 232 | 379 | 10 | 1,152 |

The provisions are split as follows:

| | Property related £'000 | Deferred consideration £'000 | Onerous contracts £'000 | Legal claims £'000 | Restructuring £'000 | Total £'000 |
|--------------------------|------------------------------|------------------------------------|-------------------------------|--------------------------|------------------------|----------------|
| 2016 | | | | | | |
| Within one year | 453 | - | 232 | 246 | 10 | 941 |
| After more than one year | 78 | - | - | 133 | - | 211 |
| Total | 531 | - | 232 | 379 | 10 | 1,152 |
| 2015 | | | | | | |
| Within one year | 617 | 2,626 | 444 | 158 | - | 3,845 |
| After more than one year | - | 2,091 | - | - | - | 2,091 |
| Total | 617 | 4,717 | 444 | 158 | - | 5,936 |

21. Provisions continued

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.

Property related provision relates to the dilapidation costs arising from exiting leasehold properties where the costs are not all expected to be incurred during the next year.

Onerous contracts provision relates to a specific contract and represents the unavoidable costs of meeting the obligations under the contract that exceed the economic benefits expected to be received under it.

Legal claims provision relates to a specific contract and represents the anticipated costs to resolve the contractual dispute.

Restructuring provision represent amounts provided in respect of the Group's restructuring and reorganisation and principally reflect redundancy costs.

Deferred consideration reflects amounts in respect of the previous acquisitions of Campus and Callista. During 2016 all deferred consideration has become non-contingent, and hence transferred from Provisions into other payables.

22. Deferred tax

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

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Deferred tax assets | | |
| Depreciation in excess of capital allowances | 1,096 | 1,148 |
| Other timing differences | 354 | 476 |
| Share-based payments | 199 | – |
| Tax losses | 1,939 | 1,589 |
| Retirement benefit schemes | 293 | – |
| | 3,881 | 3,213 |
| Deferred tax liabilities | | |
| Intangible assets | (1,877) | (2,103) |
| Retirement benefit schemes | – | (16) |
| | (1,877) | (2,119) |
| | 2,004 | 1,094 |

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 to recognise the impact of this in the income statement. Accordingly, the Directors believe that it is more likely than not that the deferred tax assets will be recoverable.

The Group has recognised a deferred tax asset of £1,939,000 (2015: £1,589,000) on tax losses carried forward in the UK of £10,206,000 (£7,946,000).

The Group has an unrecognised deferred tax asset of £218,000 (2015: £986,000) in relation to further tax losses carried forward in the UK of £1,148,000 (2015: £3,261,000) and Australia of £nil (2015: £1,330,000). The asset has not been recognised due to the uncertainty of generating future relevant profits against which to recover the asset.

Notes to the Financial Statements continued

22. Deferred tax continued

The Group and Company have no further unrecognised deferred tax assets or liabilities.

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

| | Temporary differences on non-current assets £'000 | Retirement benefit schemes £'000 | Other temporary differences £'000 | Total £'000 |
|--|---|---|--|----------------|
| At 1 January 2015 | 1,385 | (24) | (1,523) | (162) |
| Acquisitions | - | - | 172 | 172 |
| Foreign exchange differences | - | - | 143 | 143 |
| (Charge)/credit to income statement | (237) | (26) | 1,389 | 1,126 |
| Items taken directly to equity | - | - | (219) | (219) |
| Credit recognised in consolidated statement of comprehensive income | - | 34 | - | 34 |
| At 31 December 2015 and 1 January 2016 | 1,148 | (16) | (38) | 1,094 |
| Foreign exchange differences | - | - | (256) | (256) |
| (Charge)/credit to income statement | (52) | 19 | 855 | 822 |
| Items taken directly to equity | - | - | 54 | 54 |
| Credit recognised in consolidated statement of comprehensive income | - | 290 | - | 290 |
| At 31 December 2016 | 1,096 | 293 | 615 | 2,004 |

Included in other temporary differences are deferred tax assets of £1,939,000 (2015: £1,589,000) relating to tax losses carried forward and other timing differences of £553,000 (2015: £476,000). The balance also includes a deferred tax liability, in relation to intangible assets of £1,877,000 (2015: £2,103,000).

There are no unrecognised deferred tax liabilities.

The deferred tax assets are expected to be settled as follows: £306,000 less than 12 months from 31 December 2016 and £3,575,000 greater than 12 months from 31 December 2016.

The impact of changes in tax rates on deferred tax balances of £203,000 (2015: £122,000) has been charged to the income statement and is included within the total credit to the income statement of £822,000 (2015: £1,126,000) disclosed above.

23. Share-based payments

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

| | 2016 | 2015 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| LTIPs pre 2016 | – | (298) |
| LTIPs awarded in 2016 | 378 | – |
| Matching | 509 | – |
| SAYE | (11) | – |
| Total | 876 | (298) |

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

LTIPs pre 2016

The extent to which these past awards vest is measured by reference to the growth of the Group's adjusted diluted earnings per share over the performance period of three financial years.

The credit of £0.3m in 2015 represents the reversal of charges made in prior years.

LTIPs awarded in 2016

New awards in 2016, to eligible employees, now vest according to a target share price on the third anniversary of the date of grant. The amount of awards that will vest will range between 0% and 100% of those granted based on a target share price between 60p and 80p.

Mark Pickett was awarded 611,620 options during the year which will vest on 29 June 2017 and are subject to a time-limit condition only.

Matching shares

The matching shares are only subject to a time-limit conditions. The matching share options will vest equally over three years and may be exercised at any time during the period of two years from the applicable vesting dates (1 January 2017, 1 January 2018 and 1 January 2019), but not sold during that period.

SAYE

The SAYE scheme provides for a purchase price equal to mid market value at date of grant. 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. All options have now lapsed and the Scheme has finished.

Notes to the Financial Statements continued

23. Share-based payments continued

Options outstanding during the year are as follows:

| | Matching | | LTIP | | SAYE | |
|---|-----------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| | Number of options thousands | Weighted average exercise price | Number of options thousands | Weighted average exercise price | Number of options thousands | Weighted average exercise price |
| Outstanding at 1 January 2016 | - | - | 1,532 | £nil | 14 | £1.08 |
| Exercised during the year | - | - | - | - | - | - |
| Granted during the year | 3,406 | £nil | 4,814 | £nil | - | - |
| Lapsed during the year | - | - | (979) | £nil | (14) | £1.08 |
| Outstanding at 31 December 2016 | 3,406 | £nil | 5,367 | £nil | - | - |
| Exercisable at 31 December 2016 | - | - | - | - | - | - |
| Weighted average remaining contractual life (years) | 4.0 | - | 9.0 | - | - | - |
| Weighted average share price at date of exercise | - | - | - | - | - | - |

Share options outstanding at the year-end have the following exercise prices: LTIP: £nil and Matching shares £nil.

The Group has used a Monte-Carlo valuation model for the LTIPs awarded in 2016 and an adjusted Black-Scholes valuation model for the pre 2016 LTIP awards and Matching shares, in order to incorporate a discount factors into the fair value to reflect the performance conditions of the LTIP grant and Matching shares. The following table sets out the information about how the fair value of the grants are calculated:

| Date of grant | 27 March 2015 | 19 April 2016 | 28 June 2016 | 30 June 2016 | 30 June 2016* |
|---------------------------|---------------|-----------------|--------------|--------------|---------------|
| Type of grant | LTIPs | Matching | LTIPs | LTIPs | LTIPs |
| Share price | £1.53 | £0.44875 | £0.505 | £0.505 | £0.5075 |
| Exercise price | £nil | £nil | £nil | £nil | £nil |
| Expected dividend yield | 0.8% | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 1.13% | 1.17% | 0.14% | 0.14% | 0.14% |
| Expected volatility | 35% | 75% | 68.04% | 68.04% | 68.04% |
| Term (years) | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Option fair value | £1.53 | £0.449 | £0.316 | £0.318 | £0.508 |
| Expiry date | 27 March 2025 | 01 January 2021 | 27 June 2026 | 29 June 2026 | 29 June 2026 |
| No of options issued | 1,105,918 | 3,405,996 | 3,591,020 | 611,621 | 611,620 |
| No of options outstanding | 552,928 | 3,405,996 | 3,591,020 | 611,621 | 611,620 |

*This award has no market based performance conditions.

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

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

There have been no options over shares that have not been recognised in accordance with IFRS 2.

24. Share capital

| | 2016 number | 2016 £'000 | 2015 number | 2015 £'000 |
|---|----------------|---------------|----------------|---------------|
| Allotted, called up and fully paid | | | | |
| At beginning of the year | 94,849,241 | 4,743 | 94,849,241 | 4,743 |
| Issued during the year | 100,531,058 | 5,026 | - | - |
| At end of the year | 195,380,299 | 9,769 | 94,849,241 | 4,743 |

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

On 4 April 2016 94,849,241 Rights Issue shares were issued and on 19 April 5,681,817 subscription shares were issued. The placing price was £0.22 per share.

25. Other reserves

| | Capital reserve £'000 | Merger reserve £'000 | Own share reserve £'000 | Share- based payment reserve £'000 | Total £'000 |
|---|-----------------------------|----------------------------|-------------------------------|--|----------------|
| At 31 December 2014 | 9,545 | 18,033 | (2,735) | 914 | 25,757 |
| Use of own shares to settle share-based payment scheme vesting | - | - | 1,970 | - | 1,970 |
| Movement in relation to share-based payment (net) | - | - | - | (904) | (904) |
| Transfer from merger reserve | - | (6,320) | - | - | (6,320) |
| At 31 December 2015 | 9,545 | 11,713 | (765) | 10 | 20,503 |
| Acquisition of own shares | - | - | (91) | - | (91) |
| Movement in relation to share-based payment (net) | - | - | - | 876 | 876 |
| Transfer from merger reserve | - | (409) | - | - | (409) |
| At 31 December 2016 | 9,545 | 11,304 | (856) | 886 | 20,879 |

The capital reserve of £9.5m (2015: £9.5m) resulted from a share exchange when Tribal Group plc was listed in February 2001.

The merger reserve of £11.3m (2015: £11.7m) 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 £58.7m (2015: £58.3m) in respect of related acquisitions deemed to be impaired. The movement in the current year relates to the disposal of Goodwill in regards to the sale of Synergy.

The own share reserve of £0.9m (2015: £0.8m) represents the cost of 827,692 shares (2015: 413,846) 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 2016, nil shares (2015: 1,066,429) were disposed of on exercise of options. 413,846 shares were purchased by the EBT as part of the rights issue in April 2016.

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

Notes to the Financial Statements continued

26. Lease commitments

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| The Group as lessee | | |
| Minimum lease payments under operating leases recognised as an expense in the year | 1,551 | 1,688 |

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:

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Within one year | 1,735 | 1,349 |
| In the second to fifth years inclusive | 2,447 | 1,921 |
| After five years | 380 | 380 |
| | 4,562 | 3,650 |

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

27. Disposal of Synergy

On 1 April 2016 the Group disposed of its Synergy children's services management information system business to Servelec Group plc.

The net assets of the Synergy business at the date of disposal were as follows:

| | £'000 |
|------------------------------------|---------|
| Intangible assets | 490 |
| Tangible assets | 219 |
| Trade and other receivables | 1,796 |
| Trade and other payables | (3,364) |
| Attributable goodwill | 19,107 |
| Net assets | 18,248 |
| Cash consideration | 19,421 |
| Costs associated with the disposal | (872) |
| Gain on disposal | 301 |

Two of the Group's Directors, Richard Last and Roger McDowell are also directors of Servelec Group plc; given the conflict arising in respect of the disposal of Synergy to Servelec, neither Director participated in the Board's consideration of the disposal of Synergy.

Additionally, the Group has provided warranties and indemnities against certain liabilities as part of the disposal. The Group believes that a material liability arising from such warranties provided is remote.

During 2016, the Synergy business generated revenues of £1.6m (2015: £6.3m), which all related to the Student Management Systems segment, and included £1.0m (2015: £4.1m) of recurring software maintenance revenues.

The Synergy business delivered an operating profit £0.7m in 2016 (2015: £2.7m), stated before allocation of costs of central support services which have not transferred to Servelec Group plc. These non-transferring activities include IT services, HR, finance, legal, marketing and head office costs. Additionally, the operating profit for 2016 is stated before exceptional charges of £nil (2015: £1.0m).

28. 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 charge for the year ended 31 December 2016 was £3.0m (2015: £4.0m), of which £2.4m (2015: £3.5m) related to defined contribution schemes and £0.6m (2015: £0.6m) to defined benefit schemes.

Contributions amounting to £0.2m (2015: £0.2m) were payable to the funds at the year end and are included in current liabilities.

Defined benefit schemes

At 31 December 2016, the Group operated two defined benefit pension schemes for the benefit of certain employees of its subsidiaries in the UK. These schemes are administered by separate funds that are legally separated from the Company. The trustees of the pension funds are required by law to act in the interest of the funds and of all relevant stakeholders in the schemes. The trustees of the pension funds are responsible for the investment policy with regard to the assets of the funds.

Scheme 1- the Prudential Platinum Pension Fund

Tribal Education Limited, a Group subsidiary, participates in the Prudential Platinum Pension Fund ('PPP'), 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 December 2015.

The Tribal Education section of the Prudential Platinum Pension Fund had 36 deferred members at the year-end. Employer contributions amounting to £21,000 were paid in the year ended 31 December 2016 (2015: £22,000). The accounting figures have been calculated using the valuation as at 31 December 2015, updated on an approximate basis to 31 December 2016 by a qualified independent actuary.

Scheme 2 – the Federated Pension Plan

Tribal Education Limited, a Group subsidiary, participates in the Federated Pension Plan ('FPP'), 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 Ofsted employees are transferring back to Ofsted in early 2017 and the treatment of the defined benefit scheme is currently being discussed with Ofsted. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 5 April 2015.

The Tribal Education section of the Federated Pension Plan had 59 active members at the year-end. Employer contributions amounting to £427,000 were paid in the year ended 31 December 2016 (2015: £677,000). The accounting figures have been calculated using the valuation as at 5 April 2015, updated on an approximate basis to 31 December 2016 by a qualified independent actuary.

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' for both schemes are:

| | 2016 % per annum | 2015 % per annum |
|------------------------------|------------------------|------------------------|
| Inflation | 2.50-3.50 | 2.30-3.30 |
| Salary increases | nil | 1.00-3.80 |
| Rate of discount | 2.6 | 3.8 |
| Pension in payment increases | 2.50-3.50 | 2.30-3.30 |

The salary increase assumption is nil as the FPP members are transferring to Ofsted in early 2017, leaving only deferred members. In addition the PPP only has deferred members.

The mortality assumptions adopted at 31 December 2016 imply the following life expectations:

| | Males | Females |
|-----------------|-------|---------|
| Aged 60 in 2016 | 27.8 | 29.9 |
| Aged 60 in 2036 | 29.9 | 32.2 |

Notes to the Financial Statements continued

28. Retirement benefit schemes continued

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

| | 2016 £'000 | 2015 £'000 |
|-----------------------------------|---------------|---------------|
| Equities | 6,568 | 5,479 |
| Corporate Bonds | 3,403 | 3,048 |
| Gilts | 122 | 97 |
| Cash | 99 | 68 |
| Total fair value of scheme assets | 10,192 | 8,692 |

All equities and corporate bonds are quoted on active markets.

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 14% |
| Rate of inflation | Increase by 0.5% | Increase by 11% |
| Rate of mortality | Increase by one year | No change |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

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

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Present value of defined benefit obligations | (11,917) | (8,604) |
| Fair value of scheme assets | 10,192 | 8,692 |
| (Deficit)/surplus in schemes | (1,725) | 88 |
| (Liability)/asset recognised in the balance sheet | (1,725) | 88 |

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

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Fair value of scheme assets at beginning of year | 8,692 | 8,270 |
| Expected return on assets | 334 | 307 |
| Actuarial gains/(losses) due to investment returns different from the return implied by the discount rate | 863 | (166) |
| Contributions by employer | 448 | 702 |
| Contributions by scheme participants | 64 | 94 |
| Benefits paid | (188) | (87) |
| Settlements | - | (407) |
| Administration expenses | (21) | (21) |
| Fair value of scheme assets at end of year | 10,192 | 8,692 |

28. Retirement benefit schemes continued

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

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Defined benefit obligation at beginning of year | 8,604 | 8,149 |
| Current service cost | 546 | 600 |
| Interest cost | 322 | 273 |
| Contributions by scheme participants | 64 | 94 |
| Actuarial gain – experience | (763) | (77) |
| Actuarial gain – demographic assumptions | (26) | – |
| Actuarial loss – financial assumptions | 3,551 | 255 |
| Benefits paid | (188) | (88) |
| Settlements | – | (427) |
| Change in irrecoverable surplus in year | (193) | (186) |
| Restriction in asset recognised | – | 11 |
| Defined benefit obligation at end of year | 11,917 | 8,604 |

The Group's contribution rate for 2016 was 0% (2015: 0%) for the Prudential Platinum Fund and 43.8% (2015: 32%) for the Federated Pension Plan.

The Group expects to make contributions of £141,000 to the defined benefit schemes during the next financial year.

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

| | 2016 | 2015 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current service cost | 546 | 600 |
| Administration expenses | 21 | 21 |
| Settlement gain | – | (20) |
| Recognised in arriving at operating profit | 567 | 601 |
| Other finance costs | | |
| Interest on pension scheme liabilities | 322 | 273 |
| Expected return on pension scheme assets | (334) | (307) |
| Net finance expense/(credit) | 12 | (34) |
| Total charge to income statement | 555 | 567 |

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

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Actual return less expected return on pension scheme assets | 863 | (166) |
| Experience gains and losses arising on the scheme liabilities | 789 | 77 |
| Changes in assumptions underlying the present value of scheme liabilities | (3,551) | (255) |
| Restriction in asset recognised | – | (11) |
| Change in irrecoverable surplus | 193 | 186 |
| Total actuarial gains and losses recognised in the consolidated statement of comprehensive income | (1,706) | (169) |

Notes to the Financial Statements continued

28. Retirement benefit schemes continued

Cumulative actuarial losses recognised in the consolidated statement of comprehensive income since 1 April 2004 are £1,430,000 (2015: profits of £276,000).

The history of experience adjustments is as follows:

| | 2016 £'000 | 2015 £'000 | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|---------------|---------------|---------------|
| Present value of defined benefit obligations | (11,917) | (8,604) | (8,149) | (6,158) | (5,818) |
| Fair value of scheme assets | 10,192 | 8,692 | 8,270 | 6,936 | 5,399 |
| (Deficit)/surplus in the scheme | (1,725) | 88 | 121 | 778 | (419) |
| Experience adjustments arising on scheme assets: | | | | | |
| Amount | 863 | (166) | 267 | 383 | 324 |
| Percentage of the scheme assets | 8% | (2%) | 3% | 6% | 6% |
| Experience adjustments arising on scheme liabilities: | | | | | |
| Amount | 789 | 77 | (64) | 1,391 | (54) |
| Percentage of the present value of the scheme liabilities | 7% | 1% | (1%) | 23% | (1%) |

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

29. Notes to the cash flow statement

| | 2016 £'000 | 2015 £'000 |
|--|---------------|----------------|
| Operating profit/(loss) from continuing operations | 63 | (45,222) |
| Operating loss from discontinued operations | - | (80) |
| Gain on disposal of Synergy (note 27) | (301) | - |
| Depreciation of property, plant and equipment | 1,506 | 1,532 |
| Impairment of goodwill | - | 38,802 |
| Amortisation and impairment of other intangible assets | 3,651 | 13,437 |
| Share based payments | 876 | (298) |
| Movement in deferred consideration | 566 | (1,020) |
| Other non-cash items | (486) | (516) |
| Operating cash flows before movements in working capital | 5,875 | 6,635 |
| Decrease in inventories | 50 | 478 |
| Decrease in receivables | 4,139 | 5,701 |
| Decrease in payables | (2,295) | (17,203) |
| Net cash from/(used in) operating activities before tax | 7,769 | (4,389) |
| Tax received/(paid) | 505 | (1,827) |
| Net cash from/(used in) operating activities | 8,274 | (6,216) |

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

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Continuing operations (excluding restricted cash) | 7,819 | 2,045 |
| Decrease in restricted cash | (50) | (6,354) |
| | 7,769 | (4,309) |
| Discontinued operations | - | (80) |
| | 7,769 | (4,389) |

30. Analysis of net cash/(debt)

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Cash and cash equivalents (note 18) | 10,260 | 3,896 |
| Overdrafts (note 20) | (1,427) | (2,160) |
| Syndicated bank facility (net of bank arrangement fees) | - | (34,207) |
| Net cash/(debt) | 8,833 | (32,471) |

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Analysis of changes in net cash/(debt): | | |
| Opening net debt | (32,471) | (11,678) |
| Net increase/(decrease) in cash and cash equivalents | 6,440 | (7,387) |
| Effect of foreign exchange rate changes | 657 | (222) |
| Decrease/(increase) in bank loans and overdrafts | 34,500 | (12,912) |
| Amortisation of loan arrangement fees and similar charges | (293) | (272) |
| Closing net cash/(debt) | 8,833 | (32,471) |

31. Contingent liabilities

From time to time the Group is subject to potential litigation claims. On the basis of legal advice, claims are being robustly contested as to both liability and quantum. A provision of £0.4m (2015: £0.2m) has been made for defending these claims, where appropriate (see note 21).

At any time, the Group is overseeing a portfolio of customer implementation projects. Such projects may be complex, multi-phase projects giving rise to significant operational risks which the Group must manage. Such risks may, in certain instances, lead to potential negotiations or disputes with customers which may give rise to consequential financial or commercial obligations or liabilities arising.

A cross-guarantee exists between Group companies in respect of bank facilities which was £nil at 31 December 2016 (2015: £36.2m). In addition, the Company and its subsidiaries have provided performance guarantees issued by its banks on its behalf, in the ordinary course of business, totalling £4.2m (2015: £8.5m). These are not expected to result in any material financial loss.

32. 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 20, cash and cash equivalents (see note 18) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 24 and 25.

Gearing ratio

The Gearing ratio at the year-end is as follows:

| | 2016 £'000 | 2015 £'000 |
|---------------------------------|---------------|---------------|
| Net cash/(debt) | 8,833 | (32,471) |
| Equity | 27,490 | 6,160 |
| Net cash/(debt) to equity ratio | 32.1% | (527.1)% |

Notes to the Financial Statements continued

32. Financial instruments continued

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.

Categories of financial instruments

The Directors consider that the book value of the financial assets and liabilities is equal to their fair value.

| 31 December 2016 | Loans and receivables £'000 | Financial Liabilities measured at amortised cost £'000 | Financial liabilities at fair value through profit and loss £'000 | Total £'000 |
|---|--|---|--|------------------------|
| Financial assets | | | | |
| Cash and cash equivalents (excluding bank overdrafts) | 10,260 | – | – | 10,260 |
| Trade receivables and other receivables* | 13,004 | – | – | 13,004 |
| Accrued income | 3,774 | – | – | 3,774 |
| | 27,038 | – | – | 27,038 |
| Financial liabilities | | | | |
| Trade payables and other payables** | – | 2,130 | – | 2,130 |
| Borrowings | – | 1,427 | – | 1,427 |
| Accruals | – | 8,204 | – | 8,204 |
| Deferred non-contingent consideration | – | 2,653 | – | 2,653 |
| | – | 14,414 | – | 14,414 |

| 31 December 2015 | Loans and receivables £'000 | Financial Liabilities measured at amortised cost £'000 | Financial liabilities at fair value through profit and loss £'000 | Total £'000 |
|---|--|---|--|------------------------|
| Financial assets | | | | |
| Cash and cash equivalents (excluding bank overdrafts) | 3,896 | – | – | 3,896 |
| Trade receivables and other receivables* | 17,308 | – | – | 17,308 |
| Accrued income | 5,790 | – | – | 5,790 |
| | 26,994 | – | – | 26,994 |
| Financial liabilities | | | | |
| Trade payables and other payables** | – | 3,638 | – | 3,638 |
| Borrowings | – | 36,367 | – | 36,367 |
| Accruals | – | 9,671 | – | 9,671 |
| Deferred contingent consideration | – | – | 2,417 | 2,417 |
| Deferred non-contingent consideration | – | 2,301 | – | 2,301 |
| | – | 51,977 | 2,417 | 54,394 |

*Excluding amounts that relate to non-financial instruments of tax and prepayments

**Excluding amounts that relate to non-financial instruments of tax

32. Financial instruments continued

The above tables have been stated at undiscounted values with the exception of deferred consideration. The undiscounted value of the deferred consideration is £2,755,000 (2015: £5,065,000), versus a discounted value of £2,653,000 as at 31 December 2016 (2015: £4,717,000).

In addition the Group's financial assets and liabilities held at fair value, are categorised by the following valuation methodology:

* Level 1: fair value derived from quoted prices in active markets for identical assets or liabilities

* Level 2: fair value derived from observable inputs other than quoted prices included in Level 1

* Level 3: fair value derived from inputs for the asset or liability that are not based on observable market data

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|----------------|
| 31 December 2016 | | | | |
| Financial liabilities at fair value | | | | |
| Deferred contingent consideration | - | - | - | - |
| | - | - | - | - |
| 31 December 2015 | | | | |
| Financial liabilities at fair value | | | | |
| Deferred contingent considerations | - | - | 2,417 | 2,417 |
| | - | - | 2,417 | 2,417 |

The movement in deferred contingent consideration is as follows:

| | £'000 |
|--|---------|
| At 1 January 2016 | 2,417 |
| Increase in provision | 566 |
| Utilisation of provision | (1,773) |
| Unwind of discount | 50 |
| Exchange rate movement | 341 |
| Transfer to other payables (see note 19) | (1,601) |
| At 31 December 2016 | - |

Deferred consideration has been transferred to other payables at amortised cost (undiscounted), as the terms of payment have been agreed with the Vendors of Tribal Campus Pty Limited, following a variation to the Share Purchase Agreement (see note 19).

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

As the Group's international activities grow, its exposure to overseas markets also increases in non-core territories outside of the UK and Australasia. There have been no other significant changes to the Group's exposure to market risk, or the manner in which it manages and measures the risk.

Foreign currency risk management

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

Notes to the Financial Statements continued

32. Financial instruments continued

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 31 December 2016 £'000 | 31 December 2015 £'000 | 31 December 2016 £'000 | 31 December 2015 £'000 |
| Euros | 448 | 187 | - | 6 |
| Australian Dollar | 4,236 | 2,642 | - | 2 |
| United States Dollar | 363 | 251 | 44 | 25 |
| Saudi Arabian Riyal | 491 | 11 | - | - |
| South African Rand | 629 | 1,673 | - | 309 |
| New Zealand Dollar | 2,213 | 535 | - | - |
| Canadian Dollar | 82 | 275 | - | - |
| Philippine Peso | 172 | 75 | - | - |
| United Arab Emirates Dirham | 1,079 | 82 | - | 27 |
| Malaysian Ringgit | 227 | 99 | - | - |
| Bahraini Dinar | 709 | 329 | - | - |
| Other | 34 | 37 | - | 10 |
| | 10,683 | 6,196 | 44 | 379 |

Foreign currency sensitivity analysis

The Group is primarily exposed to the following currencies: US Dollar, Euro, Australian Dollar, New Zealand Dollar, South African Rand, Canadian Dollar, United Arab Emirates Dirham, Saudi Arabia Riyal, Philippine Peso, Bahraini Dinar and Malaysian Ringgit.

If Sterling were to strengthen or weaken by 10% against the relevant foreign currencies, the balances in the table above would give rise to an increase/reduction in profit of £990,000 (2015: £546,000). This sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates.

10% represents management's assessment of the reasonably possible change in foreign exchange rates.

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied. There are no hedges in place as at 31 December 2016 (2015: nil).

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

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 2016 would decrease/increase by £27,000 (2015: decrease/increase by £233,000).

Credit risk management

The Group's principal financial assets are cash and cash equivalents and trade and other receivables. The Group's credit risk is relatively low because a high proportion of trade and other receivables have a sovereign or close to sovereign rating. Of the total trade receivables balance at the end of the year, £2.4m is due from three customers (2015: £4.5m from two customers).

Contract risk management

Accrued income inherently has some contractual risk associated with it related to the specific and ongoing risks in each individual contract with a customer.

32. Financial instruments *continued*

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 was £13.5m at the balance sheet date (2015: £10.5m). In addition, at the year-end, there was a £3.6m (2015: £2.8m) undrawn overdraft facility and a £2.3m undrawn guarantee facility. The Group expects to meet its obligations from operating cash flows. The Group also had cash balances at 31 December 2016 of £10.3m (2015: £3.9m) as detailed in note 18. Net cash at the year-end was £8.8m (2015: net debt of £32.5m), giving underlying headroom at the balance sheet date of £19.4m (2015: £13.3m) of which £3.3m is currently allocated to the Guarantee facility.

33. Related party disclosures

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

As part of the Rights Issue, a CEO Subscription by Ian Bowles (the Company's Chief Executive) to raise £250,000, a NED Subscription by Richard Last and Roger McDowell (the Company's Chairman and Senior Independent Director, respectively) to raise a total of £1,000,000 and a Share Matching Plan to be entered into between the Company and Richard Last and Roger McDowell were executed. The Subscription Shares were admitted to listing on the Official List and admitted to trading on the Main Market on 19 April 2016.

On 28 June 2016, Tribal Group plc ("the Company") granted nil-cost options over a total of 3,591,020 ordinary shares (representing approximately 1.84% of the Company's issued shares) to its Executive Directors and members of the senior management team under the terms of its 2010 Long Term Incentive Plan. This included nil-cost options over 2,454,546 ordinary shares granted to Ian Bowles, the Group's Chief Executive Officer. All of the awards are subject to a performance condition measured over a maximum of a 3 year period ending on 27 June 2019.

In addition, the Company granted nil cost options to Mark Pickett, the Group's Chief Financial Officer, under the terms of its 2010 Long Term Incentive Plan, over a total of 1,223,241 ordinary shares (representing approximately 0.63% of the Company's issued shares). 611,620 options will vest on 29 June 2017 as this award is only subject to a time-limit condition. The remaining 611,621 options are subject to a performance condition measured over a maximum of a 3 year period ending on 29 June 2019.

The performance conditions for the above awards correspond to a target share price on the third anniversary of the date of the grant. The amount of awards that vest will range between 0% and 100% of those granted based upon target share price between 60p and 80p.

The remuneration of 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'. The members of the Group Board and the Group's Executive Board are considered to be the key management personnel of the Group.

Remuneration of key management personnel

The remuneration of 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'.

| | 2016 | 2015 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Salaries and short-term employee benefits | 3,458 | 2,227 |
| Termination benefits | 454 | - |
| Share-based payments | 874 | (141) |
| | 4,786 | 2,086 |

Included within Directors' emoluments are pension costs of £52,000 (2015: £95,000) in respect of accruals and payments made to three (2015: 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 on pages 51 to 53 and form part of these audited financial statements. Arrangements with the Group's pension schemes are set out in note 28.

Notes to the Financial Statements continued

34. Subsidiaries

The Group consists of a parent company, Tribal Group plc, incorporated in the UK and a number of subsidiaries held directly and indirectly by Tribal Group plc, which operate and are incorporated around the world. Tribal Education Limited also operates branches in New Zealand, South Africa, Botswana and Abu Dhabi.

Information about the composition of the Group at the end of the reporting period is as follows:

| Name of Entity | Address of the registered office | Nature of Business | Proportion of ordinary shares held directly by parent (%) | Proportion of ordinary shares held by the Group (%) |
|--|---|---|---|---|
| Tribal Education Limited | Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK | Education related systems and solutions | 100% | 100% |
| Tribal Holdings Limited | Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK | Holding Company | 100% | 100% |
| International Graduate Insight Group Limited | Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK | Educational consultancy services | – | 100% |
| Human Edge Software Corporation PTY Limited | Level 1, 17 Madden Grove, Richmond, VIC 3121, Australia | Education related systems and solutions | – | 100% |
| Tribal Campus PTY Limited | Level 7, 50 Pitt Street, Sydney, NSW. 2000, Australia | Education related systems and solutions | – | 100% |
| Tribal Group PTY Limited | Level 7, 50 Pitt Street, Sydney, NSW. 2000, Australia | Education related systems and solutions | – | 100% |
| Callista Software Services PTY Limited | Level 7, 50 Pitt Street, Sydney, NSW. 2000, Australia | Education related systems and solutions | – | 100% |
| Tribal Technology Limited | Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK | Non-Trading Company | 100% | 100% |
| Tribal Middle East SPC Limited | 81, 1901 Road 1704, Manama, Alhoora, Kingdom of Bahrain | Education related systems and solutions | 100% | 100% |
| Tribal Resourcing Limited | Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK | Non-Trading Company | 100% | 100% |
| Tribal Group (Malaysia) SDN | Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia | Education related systems and solutions | – | 100% |
| Tribal Group South Africa (PTY) Limited | UNISA, Muckleneuk Campus, Preller Street, Muckleneuk Ridge, South Africa | Education related systems and solutions | – | 100% |
| Tribal Systems Canada Limited | 1100 One Bentall Centre, 505 Burrard Street, Box 11, Vancouver, BC V7X 1M5, Canada | Education related systems and solutions | – | 100% |
| Tribal Education INC | 4015 Hillsboro Pike, Suite 210, Nashville, TN 37215, USA | Education related systems and solutions | – | 100% |
| Human Edge Software Philippines | 12th Floor, West Trade Centre, 132 West Avenue, Quezon City, Philippines 1104 | Education related systems and solutions | – | 100% |
| i-graduate USA LLC | 1007 N Orange Street, 9th Floor, Wilmington, Delaware, 19801, USA | Educational consultancy services | – | 100% |
| T2P Limited | Level 1, 13 Bay Road, Kilbirnie, New Zealand | Education related systems and solutions | – | 100% |
| Class Measures INC | 100 Tower Park Drive, Suite A, Woburn MA 01801, USA | Education related systems and solutions | – | 100% |
| Class Measure Limited | Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK | Dormant Company | – | 100% |

34. Subsidiaries continued

| Name of Entity | Address of the registered office | Nature of Business | Proportion of ordinary shares held directly by parent (%) | Proportion of ordinary shares held by the Group (%) |
|--|--|---------------------------|--|--|
| Tribal GEC Limited | 6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong | Dormant Company | – | 100% |
| Cambridge Early Years Training and Education Company Limited | 6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong | Dormant Company | – | 100% |
| Accounts IQ Australia Pty Limited | Level 7, 50 Pitt Street, Sydney, NSW. 2000. Australia | Dormant Company | – | 100% |
| Tribal Group Asset Company Limited | Level 7, 50 Pitt Street, Sydney, NSW. 2000. Australia | Dormant Company | – | 100% |

In addition Tribal Group Foundation, registered office Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ is a registered Company and charity, but not a subsidiary for the purposes of these financial statements.

Independent Auditor's Report to the Members of Tribal Group plc

Report on the parent company financial statements

Our opinion

In our opinion, Tribal Group plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016;
- 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.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Company only Balance Sheet as at 31 December 2016;
- the Company only Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Tribal Group plc for the year ended 31 December 2016.

**Sam Taylor (Senior Statutory Auditor)**

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

30 March 2017

Company only Balance Sheet

| | Note | 2016 £'000 | 2015 £'000 |
|---|------|---------------|---------------|
| Fixed assets | | | |
| Investments | 37 | 63,464 | 57,456 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 38 | 2,825 | 72 |
| Deferred tax assets | 39 | 190 | 28 |
| Cash at bank and in hand | | 1 | 36 |
| | | 3,016 | 136 |
| Total assets | | 66,480 | 57,592 |
| Creditors: amounts falling due within one year | 40 | (26,413) | (10,760) |
| Net current liabilities | | (23,397) | (10,624) |
| Total assets less current liabilities | | 40,067 | 46,832 |
| Creditors: amounts falling due after more than one year | 41 | - | (26,707) |
| Net assets | | 40,067 | 20,125 |
| Capital and reserves | | | |
| Called up share capital | 42 | 9,769 | 4,743 |
| Share premium | | 14,989 | 21 |
| Merger reserve | | 11,304 | 11,713 |
| Own share reserve | | (856) | (765) |
| Share-based payment reserve | | 886 | 10 |
| Retained earnings: | | | |
| At 1 January | | 4,403 | 13,951 |
| Loss for the year attributable to the owners | | (886) | (12,861) |
| Other changes in retained earnings | | 458 | 3,313 |
| At 31 December | | 3,975 | 4,403 |
| Equity shareholders' funds | | 40,067 | 20,125 |

Notes 35 to 46 form part of these financial statements.

The financial statements on pages 108 to 115 of Tribal Group plc (registered number 4128850) were approved by the Board of Directors and authorised for issue on 30 March 2017. They were signed on its behalf by:



Ian Bowles
Director



Mark Pickett
Director

Company only Statement of Changes in Equity

| | Note | Called up Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Own share reserve £'000 | Share based payment reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|------|--|---------------------------|----------------------------|----------------------------------|---|-------------------------------|--------------------------|
| At 31 December 2014 and 1 January 2015 | | 4,743 | 21 | 18,033 | (2,735) | 912 | 13,951 | 34,925 |
| Loss and total comprehensive loss for the year | | - | - | - | - | - | (12,861) | (12,861) |
| Dividends | 11 | - | - | - | - | - | (1,794) | (1,794) |
| Use of own shares to settle share-based payment scheme vesting | | - | - | - | 1,970 | - | - | 1,970 |
| Charge to equity for share-based payments | | - | - | - | - | (902) | (1,363) | (2,265) |
| Tax on charge to equity for share-based payments | | - | - | - | - | - | 150 | 150 |
| Transfer from merger reserve | | - | - | (6,320) | - | - | 6,320 | - |
| At 31 December 2015 and 1 January 2016 | | 4,743 | 21 | 11,713 | (765) | 10 | 4,403 | 20,125 |
| Loss and total comprehensive loss for the year | | - | - | - | - | - | (886) | (886) |
| Issue of share capital | | 5,026 | 17,091 | - | - | - | - | 22,117 |
| Costs associated with issue of share capital | | - | (2,123) | - | - | - | - | (2,123) |
| Charge to equity for share-based payments | | - | - | - | - | 876 | - | 876 |
| Own shares acquired in period | | - | - | - | (91) | - | - | (91) |
| Tax on charge to equity for share-based payments | | - | - | - | - | - | 49 | 49 |
| Transfer from merger reserve | | - | - | (409) | - | - | 409 | - |
| At 31 December 2016 | | 9,769 | 14,989 | 11,304 | (856) | 886 | 3,975 | 40,067 |

Notes to the Company Balance Sheet

35. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial information has been prepared on the going concern and historical cost basis. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

36. Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The loss for the Company amounted to £0.9m (2015: loss of £12.9m). The auditors' remuneration for audit services to the Company was £107,000 (2015: £80,000).

37. Investments

| | Shares in subsidiary undertakings £'000 | Long-term loans £'000 | Total £'000 |
|---|--|-----------------------------|----------------|
| Cost | | | |
| At 1 January 2014 | 24,544 | 43,479 | 68,023 |
| Capital contribution relating to share-based payments | 122 | – | 122 |
| Movement in long-term loans | – | 7,422 | 7,422 |
| At 1 January 2015 | 24,666 | 50,901 | 75,567 |
| Capital reduction relating to share-based payments | (154) | – | (154) |
| Movement in long-term loans | – | 5,891 | 5,891 |
| Impairments | (9,917) | (13,931) | (23,848) |
| At 1 January 2016 | 14,595 | 42,861 | 57,456 |
| Capital contribution relating to share-based payments | 51 | – | 51 |
| Movement in long-term loans | – | 5,957 | 5,957 |
| At 31 December 2016 | 14,646 | 48,818 | 63,464 |

Long-term loans are treated as investments as they are non repayable.

The Directors have considered the value of the above investments and are satisfied that the aggregate value of each investment is not less than its carrying value. The investments in subsidiaries are all stated at cost less provision.

Details of the Companies subsidiaries are given in note 34 to the consolidated financial statements.

38. Debtors: amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | 2,795 | 66 |
| Other debtors | 30 | 6 |
| | 2,825 | 72 |

All amounts owed by group undertakings are unsecured, have no fixed repayment date, no interest is charged and amounts are repayable on demand. All debtors fall due within one year.

39. Deferred tax asset

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|---------------|---------------|
| Deferred taxation | | |
| At start of year | 28 | 174 |
| Credit/(charge)to income statement | 113 | (146) |
| Items taken directly to equity | 49 | - |
| At end of year | 190 | 28 |

The deferred tax asset is analysed as follows:

| | 2016 £'000 | 2015 £'000 |
|--------------------------|---------------|---------------|
| Share schemes | 190 | - |
| Other timing differences | - | 28 |
| | 190 | 28 |

Deferred tax assets are all non-current assets.

The Company has an unrecognised deferred tax asset of £195,000 (2015: £587,000) in relation to tax losses carried forward £1,148,000 (2015: £3,261,000). The asset has not been recognised due to the uncertainty of generating future relevant profits against which to recover the asset.

40. Creditors: amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | 25,556 | 10,075 |
| Trade and other creditors | 206 | 161 |
| Accruals | 651 | 524 |
| | 26,413 | 10,760 |

All amounts owed to group undertakings are unsecured, have no fixed repayment date, no interest is charged and amounts are repayable on demand. All creditors fall due within one year.

Notes to the Company Balance Sheet continued

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

| | 2016 £'000 | 2015 £'000 |
|--------------------------------|---------------|---------------|
| Bank loan (due within 3 years) | – | 26,707 |

Details of the bank loans are given in note 20 to the consolidated financial statements.

42. Called up share capital

| | 2016 number | 2016 £'000 | 2015 number | 2015 £'000 |
|---|----------------|---------------|----------------|---------------|
| Allotted, called up and fully paid | | | | |
| At beginning of the year | 94,849,241 | 4,743 | 94,849,241 | 4,743 |
| Issued during the year | 100,531,058 | 5,026 | – | – |
| At end of the year | 195,380,299 | 9,769 | 94,849,241 | 4,743 |

On 4 April 2016 94,849,241 Rights Issue shares were issued and on 19 April, 5,681,817 subscription shares were issued. The placing price was £0.22 per share.

Details of options in respect of shares outstanding at 31 December 2016 are as follows:

| Employee share option schemes: | Number outstanding '000 | Price payable | Date from which exercisable |
|---|-------------------------------|------------------|-----------------------------------|
| 2014 LTIP | – | £nil | March 2017 |
| 2015 LTIP | 553 | £nil | March 2018 |
| 2016 LTIP | 4,203 | £nil | June 2019 |
| 2016 LTIP | 611 | £nil | June 2017 |
| | 5,367 | | |
| 2016 Matching | 3,406 | £nil | January 2017, 2018, 2019 |
| Total Tribal Group plc share option schemes | 8,773 | | |

Details of share-based payments are given in note 23 to the consolidated financial statements.

43. Share premium and other reserves

| | Merger reserve £'000 | Share premium reserve £'000 | Own share reserve £'000 | Share-based payment reserve £'000 | Retained earnings £'000 |
|---|----------------------------|--------------------------------------|-------------------------------|--|-------------------------------|
| At 31 December 2014 and 1 January 2015 | 18,033 | 21 | (2,735) | 912 | 13,951 |
| Loss for the year | - | - | - | - | (12,861) |
| Tax on charge to equity | - | - | - | - | 150 |
| Dividends | - | - | - | - | (1,794) |
| Use of own shares to settle share-based payment scheme vesting | - | - | 1,970 | - | - |
| Movement in relation to share-based payments | - | - | - | (902) | (1,363) |
| Transfer from merger reserve | (6,320) | - | - | - | 6,320 |
| At 31 December 2015 and 1 January 2016 | 11,713 | 21 | (765) | 10 | 4,403 |
| Loss for the year | - | - | - | - | (886) |
| Issue of share capital | - | 17,091 | - | - | - |
| Costs associated with issue of share capital | - | (2,123) | - | - | - |
| Own shares acquired in period | - | - | (91) | - | - |
| Charge to equity for share-based payments | - | - | - | 876 | - |
| Tax on charge to equity for share-based payments | - | - | - | - | 49 |
| Transfer from merger reserve | (409) | - | - | - | 409 |
| At 31 December 2016 | 11,304 | 14,989 | (856) | 886 | 3,975 |

The merger reserve of £11.3m (2015: £11.7m) 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 £0.9m (2015: £0.8m) represents the cost of 827,692 (2015: 413,846) 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 23 of the consolidated accounts for details of the Group's share options schemes.

The retained earnings reserve is distributable.

44. Contingent liabilities

A cross-guarantee exists between Group companies in respect of bank facilities which was £nil as at 31 December 2016 (2015: £36.2m).

In addition the Company and its subsidiaries have provided performance guarantees issued by its bank on its behalf in the ordinary course of business, totalling £4.2m (2015: £8.5m). They are not expected to result in any material financial loss.

Notes to the Company Balance Sheet continued

45. Financial Instruments

All Company risks are aligned to those of the Group. Details of the risks relating to the Group are given in note 32 to the consolidated financial statements.

| | Loans and receivables £'000 | Financial Liabilities measured at amortised cost £'000 | Financial liabilities at fair value through profit and loss £'000 | Total £'000 |
|------------------------------|-----------------------------------|---|--|----------------|
| 31 December 2016 | | | | |
| Financial assets | | | | |
| Cash | 1 | - | - | 1 |
| Debtors* | 2,795 | - | - | 2,795 |
| | 2,796 | - | - | 2,796 |
| Financial liabilities | | | | |
| Creditors | - | 26,413 | - | 26,413 |
| | - | 26,413 | - | 26,413 |
| 31 December 2015 | | | | |
| Financial assets | | | | |
| Cash | 36 | - | - | 36 |
| Debtors* | 66 | - | - | 66 |
| | 102 | - | - | 102 |
| Financial liabilities | | | | |
| Creditors | - | 10,760 | - | 10,760 |
| Bank loans and loan notes | - | 26,707 | - | 26,707 |
| | - | 37,467 | - | 37,467 |

* Excluding amounts that relate to non-financial instruments of prepayments.

46. Staff numbers and costs

The average monthly number of persons employed under contracts of service by the Company during the year was as follows:

| | 2016 number | 2015 number |
|--|------------------------|------------------------|
| | 8 | 9 |

The aggregate payroll costs of these persons were as follows:

| | 2016 £'000 | 2015 £'000 |
|------------------------------|-----------------------|-----------------------|
| Wages and salaries | 1,655 | 1,238 |
| Social security costs | 157 | 165 |
| Other pension costs | 65 | 95 |
| Redundancy costs | 454 | - |
| Share option charge/(credit) | 835 | (298) |
| | 3,166 | 1,200 |

Cost of Directors' emoluments were incurred by the Company and are included in the Remuneration Report on pages 51 to 53.

Company Information

Tribal Group plc

Registered in England and Wales
Company number: 4128850

Registered office

Kings Orchard
1 Queen Street
Bristol
BS2 0HQ

T: 0845 123 6001
E: info@tribalgroup.com
www.tribalgroup.com

Company secretary

Mark Pickett

Stockbrokers

| | |
|---|--|
| Investec Bank plc 2 Gresham Street London EC2V 7QP | N+1 Singer Capital Markets Limited 1 Bartholomew Lane London EC2N 2AX |
|---|--|

Financial adviser

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Principal bankers

Lloyds Bank
PO Box 112
Canon's House, Canon's Way
Bristol
BS99 7LB

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
RG1 3JH

Solicitors

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

Registrars

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

E-communications

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

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

Duplicate accounts

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

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

Financial calendar

| | |
|------------------------|-------------|
| Annual General Meeting | 16 May 2017 |
|------------------------|-------------|



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