19 March 2019

Tribal Group plc
("Tribal" or the "Group")

Preliminary Results year ended 31 December 2018

Tribal (AIM: TRB), a leading provider of software and services to the international education management market, today announces its preliminary results for the year ended 31 December 2018.

Financial highlights

- Adjusted operating profit for the year up 27% to £10.8m* (2017: £8.5m*) on revenue of £80.1m (2017: £84.9m)
- Statutory operating profit up 24% to £4.6m (2017: £3.7m); statutory earnings per share (diluted) 2.0p (2017: 1.3p)
- Annual recurring revenue increased by 5% to £38.5m (2017: £36.5m**) representing 45% of revenue
- Adjusted Operating Margin improvement of 4.4pp** to 13.5%, pre-IFRS 15 margin 15%
- Strong operational cash inflow during the year of £14.2m (2017: £11.1m); year end net cash of £20.0m (2017: £14.1m)
- Progressive annual dividend payment with the Board recommending a 10% increase to 1.1p per share (2017: 1.0p)

* Adjusted operating profit is in respect of continuing operations and is stated excluding "Other Items" charges of £6.2m (2017: £4.8m). Other Items include Share-based Payments, Deferred Contingent Consideration, Amortisation of IFRS3 Intangibles, Defined Benefit Pension Scheme gains, and Restructuring and associated costs
** Adjusted for Ofsted contract, IFRS15 and constant currency

Operational highlights

- Four new name Universities won in the UK Higher Education sector and a number of larger Further Education Colleges
- QAS won significant new contracts as well as renewals and extensions to existing contracts across the UK, USA and Middle East
- In Australia and New Zealand, Higher Education sector continues to perform well supporting existing customers; Schools and FE/VET sector has been more challenging and a restructuring plan is in place to improve future performance
- Continued investment in next generation, cloud-based student information system “Tribal Edge”, and ongoing investment in current Student Management Systems products
- Dispute with software platform provider on royalty payments; unsubstantiated pre-claim of £15m-£30m which we will strongly defend
- Mark Pickett named Chief Executive Officer and Paul Simpson named Acting Chief Financial Officer on 18th March 2019

Mark Pickett, Chief Executive, commented:

"I am pleased with the improved profit performance for the year and the addition of significant new customers in Higher Education and Further Education following competitive tenders. Margin has improved and we continue to challenge costs across the business. The Group continues to deliver against its strategic goals of improving profitability, supporting customers in their move to the Cloud and delivering the next – generation information system to new and existing customers. We have started 2019 well with significant wins in the Further Education and Work-based learning sectors and look forward to continued momentum across the year and into the future."

The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulations (EU) No.596/2014.

Ends

For further information please contact:

Tribal Group plc
Tel: 0117 313 6371
Richard Last, Executive Chairman
Mark Pickett, Chief Executive Officer
Paul Simpson, Acting Chief Financial Officer

Investec Bank plc

Tel: 020 7597 5970
Sara Hale
Andrew Pinder
William Godfrey
Neil Coleman

N+1 Singer Capital Markets Limited
Tel: 0207 496 3000
Shaun Dobson

Tulchan Communications LLP
Tel: 0207 353 4200
James Macey White
David Ison

About Tribal Group plc

Tribal Group plc is a pioneering world-leader of education software and services. Its portfolio includes Student Information Systems; a broad range of education services covering quality assurance, peer review, benchmarking and improvement; and student surveys that provide the leading global benchmarks for student experience. Working with Higher Education, Further and Tertiary Education, schools, Government and State bodies, training providers and employers, in over 55 countries; Tribal Group's mission is to empower the world of education with products and services that underpin student success.

Chairman's statement

As Tribal enters its 20th year of trading following its foundation in 1999, I am pleased to report another positive performance continuing the upward trend since the operational and structural changes put in place during 2015 and 2016.

The Group achieved significant growth in full year adjusted operating profit which increased by 27% to £10.8m (2017: £8.5m), and the adjusted operating margin which increased to 13.5% from 10.1% in 2017. Adjusted earning per share (diluted) increased to 4.3p (2017: 3.2p). Statutory profits, which are stated after charging share-based payments, amortisation of IFRS3 intangibles and restructuring costs, increased to £4.1m (2017: £2.6m).

Revenue decreased to £80.1m (2017: £84.9m), which reflects the expiry of the Ofsted Early Years contract in March 2017 that contributed £2.4m, and the move to the new revenue accounting standard IFRS 15 which reduced comparable current year revenue by £1.5m.

Annually recurring revenues, covering Support & Maintenance fees and Cloud services, grew by over 5% to £38.5m (2017: £36.5m) and now represent 45% of total revenue, and 64% of software related revenue giving considerable stability to the business.

We continue to see strong cash flows, operating cash flow was £14.2m (2017: £11.1m). The Group ended the year debt free, with the balance sheet in a strong position, debt free, and with closing cash 42% higher at £20.0m (2017: £14.1m).

Dividend

Reflecting the Group's strong performance the Board is please to propose a 10% increase in the annual dividend to 1.1p per share continuing the progressive dividend policy announced with the return to dividend payments in 2017.

2018 Business Performance

Tribal continues to be an international leader in the provision of student information systems to universities and colleges in the UK, Australia, New Zealand, Malaysia and Canada as well as elsewhere in the world. Tribal systems are used by 50% of the Russell group of universities in the UK.

The Group secured new contract wins in 2018 in the Higher Education sector to install our SITS student management systems at the University of Portsmouth, Canterbury Christ Church University, St Mary's University Twickenham and Ravensbourne University London. These will be delivered during 2019 and 2020.

In Further Education we had a significant contract award with Colleges Northern Ireland to install our ebs student management system in all six further education colleges. In addition we concluded the rollout of Campus to all British Council sites across 47 countries.

In Australia we entered the second year of our four year agreement to provide our Callista software to a group of 11 universities and successfully completed the key releases of ebs to 2200 schools in New South Wales; we now support 4000 schools across the country however, as previously reported, 800 of the dioceses schools using our School (Human)Edge system will migrate to their own student management system over the next two years.

The wider APAC market proved challenging in 2018 with no significant new customer wins and limited pipeline opportunities as institutions have deferred upgrading or replacing existing systems. At the end of 2018 the Group took the decision to restructure the Australian business, including ceasing development of additional SchoolEdge modules, with anticipated annualised savings of approximately £2m.

Throughout the year, and particularly in the second half, we have focused significant effort on improving operational efficiency across all aspects of our business. This will bring benefits to Tribal in 2019 and beyond.

Quality Assurance Solutions (QAS) continued to perform well winning over 80% of tender submissions with significant new contracts secured in the UK to provide quality assurance and training, as well as contract extensions in both the UK and the USA and ongoing inspections work in the Middle East. From 2019 the i-graduate surveys business will be brought under QAS management and will operate as one combined business, Education Services, this will improve the efficiency of the i-graduate business both from a sales and costs perspective.

Product Development (Tribal Edge)

We continue to invest in our cloud enabled student information platform, Tribal Edge, with the first modules being completed will in 2020 with further development continuing into 2021 and beyond. The product is a complementary evolution to our existing student management systems which we will continue to support into the future. We already have a number of Edge ready modules that are available on our existing platforms, including Student Engage our social collaboration app for students and teachers.

Board and employees

It was with great shock and sadness that we received the news of Ian Bowles's death on 28 August 2018. Ian was widely respected throughout the Group and the wider industry, and was instrumental in leading the turn around of Tribal since he joined the business as Chief Executive Officer in March 2016. We extend our most heartfelt condolences and sympathy to Ian's family; he is much missed.

We announced on 18 March 2019 the appointment of Mark Pickett as Chief Executive Officer. Mark had been performing the role of Acting Chief Executive Officer, in addition to his Chief Financial Officer duties, since 5 October 2018. I should like to thank Mark for taking on this significant extra responsibility and for the continuing excellent contribution he has made to the success of the business. Paul Simpson, our Global Financial Controller, has taken on the role of Acting Chief Financial Officer.

Our employees are the bedrock upon which the success of our business is founded. Despite the challenges Tribal has faced they have shown great loyalty, determination and hard work for which I thank them sincerely. I look forward to their continued commitment and to working with them in the future.

Dispute

As previously reported on 25th January 2019 we received a letter of claim from lawyers acting for a provider of a software platform on which certain of the Group's software products are based. The letter claims that Tribal Education Limited, a subsidiary of Tribal Group plc, has failed to account properly for royalties under the terms of a Value Added Reseller Agreement dated 1 April 2000 and has breached the terms of that agreement. We are aware that other companies have had similar claims made against them by the same platform provider. Whilst no specific amount is claimed, the letter of claim estimates the losses at between £15 million and £30 million. These claims date back over a period of more than 18 years during which the Group has regularly made royalty payments and the Directors do not consider the claims to be justified. The Directors wish to continue to work with the platform provider but we intend to defend these claims vigorously.

Brexit

Tribal awaits the conclusion of the UK's exit from the European Union (Brexit). Whilst we have no evidence of any short term impact of Brexit, areas concerning reduced funding for research projects, a fall in student numbers as a result of increasing tuition fees and present overseas student immigration policies (which will be exacerbated by a disorderly Brexit) will undoubtedly put pressure on universities' finances which may result in curtailment or delays in new investment. We continue to monitor developments closely and will take all necessary action to respond to any forthcoming developments in our market place.

Outlook and current trading

We have started 2019 strongly winning a large contract in the Work-based learning sector providing our Maytas system to the CITB (Construction Industry Training Board). We have a good pipeline of new opportunities in the UK in Higher Education, Further Education and Work-based learning and expect to secure new customers for our student information systems across the year. Our focus in the Asia Pacific region is on improved operational efficiencies whilst we introduce new products and services.

In Education Services we expect further growth in inspections and training (QAS) with a number of new contracts in the pipeline, including expansions and renewals, and we also expect to see improved performance in our student surveys business (i-graduate) as the products are refreshed.

Revenues for the coming year are expected to be similar to 2018, however we are focused on delivering improved operating margins as we continue to target cost savings and further efficiencies. We enter 2019 with an increased sales order backlog at £121.6m (2017: £120.4m) of which £59.9m is expected to be recognised in 2019.

We look forward to our 20th year with optimism and will continue to build sustainable shareholder value for the future.

Richard Last
Executive Chairman

Business & Financial Review

Introduction

The Group continues to build on the strong foundations put down in 2016 and 2017. There is further, significant improvement in profitability as a result of continued efficiencies and productivity.

Revenues fell to £80.1m (2017: £84.9m reported); this, however, includes the combined impacts of the accounting change to IFRS 15 "Revenue from Contracts with Customers", adverse currency fluctuations, and the inclusion of the Ofsted contract which successfully concluded in March 2017. These are described in more detail below. Excluding these items to focus on the core business, revenue remained consistent with last year, driven by the strong performance in Quality Assurance Solutions (QAS).

Annually recurring revenues increased to £38.5m (2017: £37.5m reported), driven by increasing demand for Cloud services.

The adjusted operating profit increased by 27% to £10.8m (2017: £8.5m reported) and the statutory operating profit by 24% to £4.6m (2017: £3.7m). The adoption of IFRS 15 which spreads the recognition of license revenue for large deals across the period of implementation, materially impacts the profit for the year. For 2018, the profit would have been higher by £1.4m if the previous accounting standard had been applied.

The adjusted operating profit for the core business, after adjusting 2017 for the accounting change to IFRS 15, adverse currency fluctuations, and the Ofsted contract, increased by 48% to £10.8m (2017: £7.3m adjusted). On the same basis, adjusted operating margin increased to 13.5% from 9.1%, with consistent or increased margin in all segments (before central overheads).

We continued the downward pressure on cost which, together with the material cost efficiencies of 2016 and 2017 benefitting 2018, reduced Central Overheads to £10.7m (2017: £14.6m reported), just over 13% of revenue.

Management continues to look to deliver cost efficiencies and improve margin without impacting the Group's ability to serve our customers or drive the business forward. In 2019, we anticipate that there will be further opportunities to restructure parts of the business to improve profitability.

2018 in summary

In the UK, within our chosen markets and sectors, overall activity levels for the replacement of student information systems have remained stable, and we have continued the strong win rates in Higher Education and Further Education. In the year, we won four new university customers for full SITS (Strategic Information Technology System) implementations, at the University of Portsmouth, Canterbury Christ Church University, St Mary's University Twickenham and Ravensbourne University London, as well as in Further Education, winning Colleges Northern Ireland, where we are implementing ebs in all six further education colleges. These wins confirm that our international customer base and continued market-leading position provide a strong platform around which to build long-term shareholder value.

Our Callista business, which provides student information systems to 25% of Australian universities, performed well, and is in the second year of a four year contract extension (approximately £16.8m) with the 11 universities for the ongoing development of the Callista product with gradual migration into the cloud-ready Tribal Edge platform. We have also had a successful year with our existing SITS contracts in Asia Pacific, where we completed work in the University of Massey and the University of Waikato, in New Zealand, as well as continued implementation of SITS at the University of Malaya in Malaysia. We have, though, seen a downturn in opportunities to tender for new student information systems in Asia Pacific; fewer universities appear to be going out to tender, currently, combined with a smaller market, of which Tribal already serves around 40% of the Australia and New Zealand universities market.

Outside of Higher Education, 2018 has been a challenging year in Australia. We have a number of large contracts where we have developed bespoke software, including the British Council and the Department of Education (DoE) schools contract. These contracts have now reached a level of maturity and steady state, where there is less requirement for development services. As previously reported, we also have a contract with New South Wales TAFE (Technical and Further Education) campuses which is expected to end in 2019, and with two schools dioceses (New South Wales and Victoria) in which about 800 of the 1800 schools running the SchoolEdge platform will migrate away to a new product over the next 2-3 years. Management have taken remedial action at the end of 2018 to restructure the Asia Pacific business, including ceasing the development of further SchoolEdge modules, and will continue to monitor the progress of these contracts.

Quality Assurance Solutions (QAS) continues to confirm its position as a market-leading international school inspections business. During the year, the Ministry of Education (MoE) in Dubai awarded us the contract for the review of private schools, which was successfully completed, as well as ongoing work for public school inspections in Abu Dhabi. In the US, we were granted an extension to the work evaluating schools and districts of New York State. In the UK, we were granted an extension of the contract with the National Centre for Excellence in the Teaching of Mathematics, as well as being granted the contract with the UK Department for Education (DfE) to provide quality assurance of the new gold-standard National Professional Qualifications (NPQ). The contract will ensure qualifications are independently verified, nationally consistent, and of the highest quality across the country.

The Group continues to drive efficiencies and remove costs where appropriate. In the first half of the year the original cost savings programme initiated in 2016 was completed. At the end of the year the Group announced the restructure of the management of its i-graduate business in the UK and the SchoolEdge development team in Asia Pacific with annualised savings of over £2m.

2019 outlook

Looking forward to 2019, we continue to see a good pipeline of opportunities in the UK, in Higher Education, where we have a number of tenders in progress, as well as in Further Education, and in Work-based Learning, where, in January 2019, we closed a major win in partnership with Sopra Steria to implement our Maytas product at the CITB (Construction Industry Training Board).

In Asia Pacific, the Higher Education business remains strong, although there are still few new customer opportunities available to tender. The outlook for Further Education and Vocational Learning business remains as noted above.

QAS continues to have a pipeline of opportunities, in the UK, USA and Middle East. Progress continues well in existing projects, although the customer has extended the timelines of the existing ADEK contract in Abu Dhabi, which may impact the revenue in the first half of 2019.

The i-graduate business will move under the QAS management, creating a single line of business known as Education Services. With further investment in a refresh of the survey products, we expect to see growth back into the i-graduate business.

Product & services strategy

At the core of Tribal's business is a portfolio of functionally rich student information systems. These are being expanded with the development of a next generation, cloud-based solution - Tribal Edge - a solution that enables institutions to significantly enhance the student experience they offer. The Group's new product investment will focus on delivering Tribal Edge, though we will continue the development of the existing products (SITS, ebs, Callista and Maytas) to ensure ongoing relevance and competitiveness.

Following the successful launch of Tribal Edge in 2017, we have completed beta trials in both Further and Higher Education institutions for the first new modules and functionality. These modules are available to connect to both SITS (HE) and ebs (FE), providing enhanced functionality to our installed base of customers.

The module structure for Tribal Edge was also simplified to three offerings:

- **Engage** – a mobile app giving students anytime, anywhere availability to see their day at a glance and enabling them to access all information they need at their fingertips, all personalised to their timetable and their lifestyle. This also includes social collaboration functionality where students and staff can communicate with each other within a social network that is both managed and safeguarded. This enables staff and students to safely connect, communicate and collaborate with each other.

- **Student Support** – ensures students are supported through the complete education lifecycle. Institution support staff have a single view of all student performance issues and identify opportunities to deliver critical support to reduce drop-outs and maximise student successes, while students have easy access to support wherever they are.
- **Student Insight** – a learning analytics solution that monitors and tracks student engagement, analysing student data from multiple sources, and flagging students at potential risk, thus enabling the targeting of students that need support. This timely intervention improves outcomes and reduces dropouts.

We have also continued to invest in our market-leading employers and training providers solution, Maytas. While there was significant uncertainty in the UK market in 2018, we are now seeing growth around Apprenticeships at all levels, including Degree Apprenticeships. Maytas fully supports the management of apprenticeship programmes, including the critical area of funding, and we are now seeing new business sales in this area.

SchoolEdge has continued in development through 2018 with new functionality added to the existing set. In 2019 we will reduce the development effort on this product as we look to maximise the return of what has already been delivered to market. Sales and marketing efforts around the Australian schools market will focus on migrating customers to SchoolEdge from their existing legacy systems.

In 2018, we combined the data analysis and management teams of the Quality Assurance Solutions (QAS) and i-graduate areas of the business. Combining these datasets and cross-training the teams will allow us to offer new insights and value to our customers in 2019. It will also support greater cross-selling opportunities.

Business structure

The Group provides software and non-software related services to educational customers, both public and private. These services are managed across three lines of business (segments) as follows:

Student Information Systems (SIS) focusses on the following market sectors: Higher Education, Further Education, Colleges and Employers (referred to in Australia as VET), and Schools, and across three main markets, UK, Australia and New Zealand. Product/ Offerings are split between License & Development Services, Support & Maintenance, Implementation, and Cloud Operations.

Quality Assurance Solutions (QAS) covers inspection and review services which support the assessment of educational delivery, and performance benchmarking.

i-graduate and Other covers student surveys and data analytics. This segment also covers various non-core businesses including K2 Asset Management, Software Solutions and Information Matters. These are businesses that operate profitably and continue to be supported, although there is limited investment in future development of the solutions and little proactive sales and marketing activity.

From 2019 the Group will be combining QAS and i-graduate into one line of business called Education Services. Other non-core business will be reported as part of Education Services.

Reporting basis

In order to give a true reflection of year-on-year performance, the Group is presenting its results in the Business & Financial Review on an adjusted basis, as detailed below:

a) Foreign Exchange: almost half of Tribal's income in the year was generated outside the UK, and is therefore subject to foreign exchange movement. During 2018, the strengthening of sterling, particularly against the Australian Dollar, has impacted revenue. In the Business & Financial Review, the results for 2017 have been adjusted to reflect the foreign exchange rates prevailing during 2018 to provide a "constant currency" comparative.
b) IFRS 15: the Group's 2018 revenue was accounted for under IFRS 15 "Revenue from Contracts with Customers", as discussed below. In accordance with the Modified Retrospective transitional reporting approach, the statutory results for 2017 have not been restated to reflect this change; however, in the Business & Financial Review, the 2017 results have been updated to provide an IFRS 15 comparative.
c) Ofsted: As previously reported, the Group's core Ofsted Early Years inspections contract came to a conclusion in March 2017. Given the nature of the Ofsted contracts, and consistent with prior years reporting, this income has been removed from the 2017 results in the Business & Financial Review to provide an "excluding Ofsted" comparative.

Note this presentation disclosed as "adjusted" is an alternative performance measure and not a statutory reporting measure prepared in line with International Financial Reporting Standards (IFRS) and disclosed as "reported" in in the Business & Financial Review.

IFRS 15 "Revenue from Contracts with Customers"

The Group adopted IFRS 15 "Revenue from Contracts with Customers" with effect from 1 January 2018. The major impact is that software license revenue is now recognised over the duration of the project implementation period on a percentage complete basis.

For the larger deals, mainly Higher Education, which typically have implementation periods of two years or more, this has the effect of spreading the recognition of License revenue over an extended period, rather than the immediate, upfront recognition under the previous basis.

For the smaller deals, mainly Further Education and Work-based Learning where there is a shorter implementation period of generally less than 50 days, there will be little if any impact.

There are no changes to the timing of the recognition of revenue for Implementation services, Support & Maintenance fees or Cloud services, nor is there any impact in QAS or i-graduate.

As part of the transitional reporting requirements, the statutory results for 2017 have not been restated; however the opening balance sheet was restated with a reduction of £1.5m to equity reserves, £0.2m to accrued income and £1.5m to deferred income, and an increase of £0.2m to prepayments.

Results

£'m	2018	Adjusted[2] 2017	Growth	Post IFRS15 excluding Ofsted 2017	Pre IFRS15 excluding Ofsted 2017	Reported 2017
Revenue	**80.1**	81.0	(1.1)%	82.9	82.5	84.9
Student Information Systems	57.0	58.8	(3.1)%	60.4	60.0	60.0
Quality Assurance Solutions	16.7	15.2	9.8%	15.4	15.4	17.8
i-graduate & Other	6.4	7.0	(8.4)%	7.1	7.1	7.1
Adjusted Operating Profit (before Central Overheads)	**21.5**	21.4	0.2%	22.4	22.0	23.1
Student Information Systems	16.5	17.4	(5.4)%	18.0	17.6	17.6
Quality Assurance Solutions	3.7	3.0	23.7%	3.3	3.3	4.4
i-graduate & Other	1.3	1.0	26.5%	1.1	1.1	1.1
Adjusted Operating Margin (before Central Overheads)	**26.8%**	26.5%	0.3pp	27.0%	26.6%	27.2%
Student Information Systems	28.9%	29.7%	(0.8)pp	29.9%	29.3%	29.3%
Quality Assurance Solutions	22.2%	19.7%	2.5pp	21.1%	21.1%	24.8%
i-graduate & Other	19.8%	14.4%	5.4pp	15.0%	15.0%	15.0%
Central Overheads	**(10.7)**	(14.1)	(24.2)%	(14.6)	(14.6)	(14.6)
Adjusted Operating Profit[1]	**10.8**	7.3	46.9%	7.8	7.4	8.5
Adjusted Operating Margin	**13.5%**	9.1%	4.4pp	9.4%	8.9%	10.1%
Statutory profit after tax	**4.1**	n/a	n/a	n/a	n/a	2.6

1. Adjusted Operating Profit is in respect of continuing operations and excludes charges reported in "Other items" of £6.2mm (2017: £4.8m)
2. 2017 results adjusted for constant currency, post IFRS15 and excluding Ofsted:
   a. "Constant currency" – the Group has applied 2018 foreign exchange rates to 2017 results to present a constant currency basis, when applied to 2017 results there is a reduction in Revenue of £1.9m, a reduction to Adjusted Operating Profit (before Central Overheads) of £1.0m and Adjusted Operating Profit of £0.5m
   b. "Post IFRS15" - IFRS 15 "Revenue from Contract with Customers" became effective on 1 January 2018, when applied to 2017 results there is an increase to Revenue of £0.4m and an increase to Adjusted Operating Profit of £0.4m
   c. "Excluding Ofsted" - the contract with Ofsted ended in March 2017, when excluded from 2017 results there is a reduction in Revenue of £2.4m and a reduction in Adjusted Operating Profit of £1.1m in 2017

Revenue

Revenue in the year was 1.1% lower than last year at £80.1m on an adjusted basis (2017: £81.0m adjusted for the negative impact of foreign exchange of £1.9m, the impact of IFRS 15 which would have increased revenue by £0.4m and excluding Ofsted revenue in 2017 of £2.4m; £84.9m as reported).

The Group has chosen to present its results in this Business & Financial Review on an adjusted basis to give a true reflection of year-on-year performance and account for the adverse impact of foreign exchange movements, the adoption of IFRS15 "Revenue from Contract with Customers" and the conclusion of the contract with Ofsted.

During the year there has been a worsening in the average UK exchange rates with the Group's key overseas countries, notably Australia. If the average exchange rates had been applicable to 2017 results there would have been a reduction in revenue of £1.9m.

Adjusted Operating Profit (EBITA)

The Adjusted Operating Profit was £10.8m (2017: £7.3m adjusted for the negative impact of foreign exchange of £0.5m, the impact of IFRS 15 which would have increased Adjusted Operating Profit by £0.4m and excluding Ofsted operating profit in 2017 of £1.1m; £8.5m reported).

The Adjusted Operating Margin increased significantly to 13.5% (2017: 9.1% adjusted; 10.1% reported).

The 2018 results benefitted from the cost reduction programme initiated in 2016, particularly in Central Overheads which fell by £3.4m to £10.7m (2017: £14.1m adjusted; £14.6m reported). The full year effect of the 2017 cost reductions equated to an additional £1.0m of in year savings. Further savings were achieved throughout the year as the Group continued to manage its cost base.

The Adjusted Operating Profit in the year benefitted from a number of one-off items in relation to bad debt provision releases of £0.9m, property related provisions releases of £0.5m and potential onerous contracts provision of £0.2m. There were however costs incurred in relation to revenue contingency adjustments on underperforming contracts of £0.2m and one off costs incurred of £0.5m in relation to the exit of the Group's data centre.

Product and Services performance

£'m	2018	Adjusted 2017	Growth	Post IFRS15 excluding Ofsted 2017	Pre IFRS15 excluding Ofsted 2017	Reported 2017
Software & Related Services	**60.6**	61.8	(2.0)%	64.1	63.7	63.7
License & Development Fees	7.5	10.3	(27.7)%	10.4	10.0	10.0
Support & Maintenance Fees	32.9	32.5	1.1%	33.5	33.5	33.5
Implementation Services	13.9	14.2	(2.3)%	14.8	14.8	14.8
Cloud Services	5.6	4.0	42.6%	4.0	4.0	4.0
Other Services	0.7	0.8	(10.1)%	1.4	1.4	1.4
Non-Software Services	**19.5**	19.2	1.2%	18.8	18.8	21.2
QAS - School Inspections & Related Services	16.4	15.2	7.6%	14.8	14.8	17.1
i-graduate - Surveys & Data Analytics	2.6	3.0	(13.6)%	3.0	3.0	3.0
Other - Information Management Services	0.5	1.0	(50.4)%	1.0	1.0	1.1
Total Revenue	**80.1**	81.0	(1.2)%	82.9	82.5	84.9
Annually Recurring Revenue	**38.5**	36.5	5.6%	37.5	37.5	37.5

Software & Related Services

Software & Related Services covers sales across our core Student Information Systems business together with software sales in i-graduate, reported under Other. In addition QAS has successfully developed and sold a software license as part of the Ofsted migration. The revenue from Software & Related Services decreased by (2.0)% to £60.6m (2017: £61.8m adjusted; £63.7m reported).

License & Development Fees relate to the sale of new software licenses as well as customer paid enhancements (development fees) to previous sales. Tribal's core Student Information Systems products include:

- SITS (Student Information Technology System) used by around 50% of universities in the UK, including 50% of the Russell Group universities, as well as universities in Australia, New Zealand, Malaysia, Canada, Southern Ireland, Hungary and Malta
- Callista, a bespoke student management system implemented in 11 Australian universities
- ebs (education business system) used by colleges and training institutes in the UK (including Northern Ireland)
- Maytas, for training providers and apprenticeship providers
- Student Engage, a social collaboration mobile technology application sold across all markets
- School Edge and ebs Schools used by around 4000 schools in Australia

In addition, non-SMS software sales includes K2 (asset management software) and Software Solutions (bespoke software development). These are businesses that operate profitably and continue to be supported, although there is limited investment in future development of the solutions and little proactive sales and marketing activity.

Revenue from License & Development fees fell 27.7% to £7.5m (2017: £10.3m adjusted; £10.0m reported). There were a number of large license wins in the year in the UK markets for both Higher Education and Further Education; however the markets in APAC region have been more challenging with some contracts moving to a steady-state supporting the implemented solution with limited account growth opportunity, and a limited pipeline with no significant new customers added in the year. In addition, the QAS Technology contract for the Ofsted transition concluded in the year. The impact of these are discussed in more detail in the Segmental Performance review.

Implementation services deliver 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. Revenue was consistent with last year at £13.9m (2017: £14.2m adjusted; £14.8m reported) reflecting an ongoing level of implementation work, with new customer wins replacing implementations completed in the year, supplemented by steady level of enhancement work across many customers.

Support & Maintenance fees in the period were £32.9m (2017: £32.5m adjusted; £33.5m reported), an increase of 1.1%. This reflects the strong retention rates in our customer base and their ongoing commitment to Tribal solutions.

Cloud services cover the provision of managed IT services and hosting services to customers to manage their Tribal products either on premise, in a private cloud, or in a public cloud. We are seeing increasing demand in this area particularly from our Higher Education customers as they consider migrating their systems into the cloud. Revenue has grown by 42.6% to £5.6m (2017: £4.0m adjusted; £4.0m reported).

Other software & related services include revenue from the conferences that Tribal provides to customers in the Higher Education and Further Education sectors, and research and development tax credits (RDEC) received in the UK in relation to product development work undertaken.

Annually Recurring Revenue, comprising Support & Maintenance Fees and Cloud Services, increased by 5.6% to £38.5m (2017: £36.5m adjusted: £37.5m reported), representing 63.6% of Software & Related revenue and 45.2% of total Group revenue.

Non-software related services

Non-software related sales relate to the Quality Assurance Solutions and i-graduate lines of business only.

School inspections & related services covers all products and services offered by the QAS line of business. The business operates globally with sales in the UK, North America, the Middle East, Australia and New Zealand. Inspection services are provided to government and non-government bodies in the UK, US and Middle East, these tend to be multi-year contracts with fixed and variable pricing elements. Related complementary services include 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.

Surveys & data analytics covers all products and services offered by the i-graduate line of business, this includes a range of services for managers of universities, colleges and schools to assess and enhance the quality of education they provide and improve their operational performance. These services are provided globally, the largest product being the International Student Barometer which is performed annually for each of the Northern and Southern hemispheres.

Information management services is a complementary consultancy service providing advice on information and records management including General Data Protection Regulation (GDPR) compliance which came into force in May 2018.

Segmental performance

Student Information Systems (SIS)

£'m	2018	Adjusted 2017	Growth	Reported 2017
Revenue	**57.0**	58.8	(3.1)%	60.0
License & Development Fees	6.5	9.1	(28.8)%	8.7
Support & Maintenance Fees	31.7	31.1	1.9%	32.1
Implementation Services	13.6	13.7	(0.7)%	14.2
Cloud Services	4.5	3.5	26.2%	3.6
Other Services	0.7	1.4	(51.8)%	1.4
Adjusted Operating Profit	**16.5**	17.4	(5.4)%	17.6
Adjusted Operating Margin	**28.9%**	29.7%	(0.8)pp	29.3%

Student Information Systems revenue decreased by 3.1% to £57.0m (2017: £58.8m adjusted; £60.0m reported). Operating profit decreased by 5.4% to £16.5m (2017: £17.4m adjusted; £17.6m reported) and operating margin decreased to 28.9% (2017: 29.7% adjusted; 29.3% reported).

The adoption of IFRS 15 "Revenue from Contracts with Customers" in the year resulted in software license revenue being recognised over the duration of the project implementation period on a percentage completion basis, the greatest impact being on sales to the Higher Education market, which typically have implementation periods of two years or more.

The impact to 2018 statutory results of IFRS 15 to is two-fold. Firstly, revenue from license sales in previous years where the related implementation work was still ongoing in 2018 has been rephased such that £0.9m of previously recognised revenue is reported in 2018 results. Secondly, revenue from new licenses sold in the year with implementation periods that run into future years is no longer recognised up front and is now spread across the implementation periods, such that of the £4.0m of new licenses sales in the year only £1.6m was recognised in 2018 results. The net impact to 2018 results is a reduction in revenue of £1.5m.

Overall activity for the replacement or enhancement of student management systems in the UK and the wider European region has remained strong and we continue to see a positive pipeline of new opportunities. Since 2016 Tribal has displaced over 20 competitive student information systems and replaced four home grown solutions in universities.

In the **Higher Education** market Tribal won four major new customers in the year, replacing competitor systems to implement SITS. These were at the University of Portsmouth and Canterbury Christ Church University (CCCU) in the early part of the year, and at St Mary's University Twickenham and Ravensbourne University London towards the end of the year.

Demand for implementation services has remained high, and implementation work commenced at the University of Portsmouth and CCCU, with significant ongoing implementations at the University of Bristol, the University of Sheffield, the University of Hull, the University of the Arts London, Glasgow Caledonian University, King's College London, the University of Warwick and the University of Wales Trinity St. David.

In Asia Pacific, we have continued to see strong performance from our existing contracts in Higher Education. Our Callista business entered the second year of a four year renewal, and continues to perform well with annualised support and delivery revenues in excess of AUD14m. There was also increased demand for technical developments outside the scope of the core renewal.

Within the SITS product market, we saw implementation work commence in Malaysia at the University of Malaya and the implementations at Universiti Teknologi Petronas (UTP) and Institut Teknologi Petroleum Petronas (INSTEP) were successfully concluded. Key clients in the New Zealand market including Massey University added additional consultancy and implementation revenues to the business showing strength in this market. We have, though, seen a significant slowdown in the opportunities available to tender, and no new university customers were gained in 2018. This situation continues into 2019.

There was increased demand for Cloud services across all student management products, up 26%, with a growing trend for systems and applications to be managed in the Cloud (either a Private Cloud in a data centre or the Public Cloud), rather than managed On Premise by an in-house IT team. All of the four new universities won in 2018 elected to have provision of their SITS software from the Cloud.

With continued very high Support & Maintenance renewal rates and the strong performance in student information systems in the UK, the Annually Recurring Revenue in SIS, which relates to Support & Maintenance and Cloud services, has increased nearly 5% to £36.2m (2017: £34.6m adjusted; £35.7m reported) and represents almost 64% of SIS revenue.

In the **Further Education** market Tribal continued to compete successfully in the UK with a succession of wins with colleges and councils (providing adult education facilities), and a major win at Colleges Northern Ireland (CNI) to implement ebs in all six Further Education colleges, with implementation expected to last 18 months, a significant increase in scope compared to previous deals in this sector.

Following the introduction of the UK Apprenticeship Levy in 2017 the Work-based Learning market has been challenging, however we started to see increased interest in our work-based learning product, Maytas, through the second half of the year as employers increased their understanding of the levy process and sought to access their contributions. This culminated in a major win in January 2019 with Sopra Steria to implement our Maytas work-based learning product at the CITB (Construction Industry Training Board).

In the Further Education / Vocational Learning sectors in Asia Pacific, we have seen a slowdown in revenue, which is expected to continue into 2019. We completed the first deployment of a cloud-based ebs platform in region to English Language Partners in New Zealand (ELPNZ) and enhancement works were delivered to several key clients including TAS TAFE and several NZ FE clients. Successful deployment of the Campus solution to South Australian Department of Education, and Auckland Institute of Studies (AIS) was also completed during 2018, bringing major deployments of that product to conclusion.

However, a number of key contracts managed from Australia have reached a level of maturity where the customer investment has reduced to a steady state of support and maintenance of the current product with limited investment in building further functionality at this point. This includes the British Council where we successfully concluded the global rollout of a customised version of the Campus product across 47 countries and all British Council sites in April 2018, with further delivery of customised reporting services throughout the year.

As noted in 2017, the 138 TAFEs (Technical & Further Education) in New South Wales, Australia continued to utilise our support and enhancement services throughout 2018, which will continue into 2019 until they complete their migration to a new student management system, expected in the second half of the year, when revenues from this account will cease.

In the **Schools** sector, we successfully concluded the key releases of software for our ebs student management system across 2200 schools in the Student Administration and Learning Management (SALM) programme in New South Wales, Australia. The contract will now continue at a lower revenue level, as the ebs implementation is reaching a level of completeness, and the Department of Education has confirmed it will not be implementing the Tribal Timetabling solution.

Our other schools product, SchoolEdge, is used by over 1800 schools in Australia. There was a 90% retention rate across these schools, including a large number of the 800 dioceses schools previously earmarked for movement onto their own student management system platform. The migration is expected to take place over the next two years to the end of 2020. We will continue to receive revenue from school's prior to their migration and a one off following migration and will work with the Dioceses to ensure smooth migration.

At the end of 2018, the Group decided to complete development of the existing core modules, and cease the development of further modules. The focus will then be on driving revenue in the existing customer base through upgrades to the newly released modules. As a result of this decision, there is a charge of £1.4m, which includes an impairment charge of £1.0m against capitalised development costs relating to the work done on further modules which may now not be completed, and a restructuring charge of £0.4m relating to the reduction in headcount in SchoolEdge product development, which was announced in December, and took effect at the end of January 2019.

Quality Assurance Solutions (QAS)

£'m	2018	Adjusted 2017	Growth	Reported[1] 2017
Revenue	**16.7**	15.2	10.2%	17.8
School Inspections & Related Services	16.4	14.5	12.8%	17.1
Technology Services (License & Development Fees)	0.3	0.7	(48.1)%	0.7
Adjusted Operating Profit	**3.7**	3.0	23.7%	4.4
Adjusted Operating Margin	**22.2%**	19.7%	2.5pp	24.8%

1. Includes the Ofsted "Early Years" contract which ended in March 2017 representing Revenue of £2.4m and Adjusted Operating Profit of £1.1m

Quality Assurance Solutions revenue increased by 10.2% to £16.7m (2017: £15.2m adjusted; £17.8m reported). Operating profit increased by 23.7% to £3.7m (2017: £3.0m adjusted; £4.4m reported) and operating margin increased to 22.2% (2017: 19.7% adjusted; 24.8% reported).

As previously noted, the core Ofsted "Early Years" successfully concluded in March 2017 following the decision by Ofsted to take the work back in-house. To allow clear year on year comparability the 2017 results in this review have been adjusted to exclude Ofsted income resulting in a decrease in 2017 Reported Revenue of £2.4m and a decrease to Adjusted Operating Profit of £1.1m. The adjusted results are shown on a constant currency basis however there is no impact from IFRS 15 "Revenue from Contracts with Customers".

The QAS revenue grew by 10.2%, excluding the Ofsted Early Years revenue (2018: £nil; 2017: £2.4m). This contract had successfully concluded at the end of March 2017, following a decision by Ofsted to take school inspections back in house.

The strong performance in QAS was supporting by the high win rate of over 80% on bids. During the year, we successfully rebid an extension of the NCETM contract (National Centre for the Excellence in the Teaching of Mathematics), and, in partnership with MEI (Mathematics in Education and Industry), won the contract to deliver the Advanced Maths Support Programme (AMSP), a national programme designed to increase the maths education levels of our population and better prepare young people for apprenticeships, work, and higher education.

QAS were also chosen by the Department for Education (DfE) to provide quality assurance of the new gold-standard National Professional Qualifications (NPQ). The contract will ensure qualifications are independently verified, nationally consistent, and of the highest quality across the country. The contract has been agreed for an initial three-year period, worth up to £2 million per year.

In the USA, we won an extension to the New York State Education Department contract (NYSED), and in the Middle East, successfully concluded tranches of the Dubai Ministry of Education private schools inspection contract, and the schools inspection contract in Abu Dhabi with ADEK (The Department of Education and Knowledge).

QAS also developed a software application as a platform to manage the Ofsted inspections following the decision to take the work back in-house; this is shown in the table as Technology Services (License & Development Fees). This activity continued until August 2018, when Ofsted completed the implementation of its own application.

The adjusted operating margin was 22.2% (2017: 19.7%), remaining consistent within the low 20s percent margin expectations from the QAS business.

i-graduate and Other

£'m	2018	Adjusted 2017	Growth	Reported 2017
Revenue	**6.4**	7.0	(8.4)%	7.1
i-graduate - Surveys & Data Analytics	2.6	3.0	(13.6)%	3.1
Information Management Services	0.5	1.0	(50.4)%	1.0
Assets management and software solutions (Software Related Services)	3.3	3.0	11.4%	3.0
Adjusted Operating Profit	**1.3**	1.0	26.4%	1.1
Adjusted Operating Margin	**19.8%**	14.4%	5.4pp	15.0%

i-graduate and Other revenue fell by 8.4% to £6.4m (2017: £7.0m adjusted; £7.1m reported). Operating profit increased by 26.4% to £1.3m (2017: £1.0m adjusted; £1.1m reported) and operating margin increased to 19.8% (2017: 14.4% adjusted; 15.0% reported).

The 2017 results are shown on a constant currency basis to allow clear year on year comparability and there is no impact from IFRS 15 "Revenue from Contracts with Customers".

The revenue for i-graduate Surveys & Data Analytics fell by 13.6% to £2.6m (2017: £3.0 adjusted; £3.1m reported). The key offering in this business is the International Student Barometer operated across the Northern and Southern hemispheres; the window for accepting applications for the Northern hemisphere barometer which operates across the 2018/2019 academic year was extended compared to the previous year and this resulted in lower income recognition in 2018, although the total income is expected to be comparable to the previous year and will be recognised as the barometer concludes in 2019.

The i-graduate business also ran the annual Destination for Leavers from Higher Education (DLHE) survey on behalf of HESA (Higher Education Standards Agency). In early 2018 the contract was not renewed as HESA adopted a different approach to managing the survey.

The management of i-graduate was restructured at the end of 2018, and integrated into the QAS management. From 2019, the combined QAS and i-graduate student surveys become a single line of business (segment) called Education Services.

As expected, the revenue in our information management services business, Information Matters, fell to £0.5m (2017: £1.0m adjusted; £1.0m reported). The business's largest customers in the oil & gas and consumer goods sectors have ceased their requirements or taken the work in house. We continue to offer information and records management consultancy and seen a good demand for advice on General Data Protection Regulation (GDPR) compliance which came into force in May 2018.

The revenue from other non-core business, Asset Management (K2) and Software Solutions, increased by 11.4% to £3.3m (2017: £3.0m adjusted; £3.0 reported). These businesses operate profitably and continue to be supported, although there is limited investment in future development of the solutions and little proactive sales and marketing activity.

Product Development

£'m	2018	Reported 2017	Change
Product Development	**11.2**	10.9	3.3%

Of which capitalised	**4.1**	2.1	96.1%
- Tribal Edge	3.7	1.1	229.0%
- SchoolEdge	0.4	1.0	(53.9)%

Net adjusted operating profit charge [1]	**7.1**	8.8	(19.1)%
- SITS	2.3	1.9	19.7%
- ebs	1.8	1.9	(6.6)%
- Maytas	0.4	0.6	(32.1)%
- SchoolEdge	1.0	1.2	(10.2)%
- Other	1.6	3.2	(50.4)%
Including amortisation of	1.4	1.4	(1.7)%

1. Excludes impairment charge of £1.0m (2017: £nil).

Non-client funded Product Development spend was £11.2m, of which £4.1m was capitalised (2017: £10.9m spent, £2.1m capitalised). The net income statement charge after removing capitalised spend decreased by 19.1% to £7.1m (2017: £8.8m).

The Group continued to invest in the Tribal Edge platform, the next generation, cloud-based platform for student information systems in the Higher Education and Further Education & Colleges sectors. Capitalised Product Development spend increased to £3.7m (2017: £1.1m) as the Tribal Edge development team matures to full capacity through recruitment or reskilling from other roles.

The investment in SchoolEdge, the Group's student information system for schools, was £0.5m of capitalised Product Development spend (2017: £1.0m) and completed the development of the core set of SchoolEdge modules. At the end of the year management decided to cease product development work on additional modules until the value of the core modules was demonstrated through a successful program of upgrading existing customers to the completed modules. Accordingly, an impairment charge of £1.0m was incurred for work already undertaken on the additional modules, and a further charge of £0.4m was taken for restructuring of the SchoolEdge development team.

The Group continued to undertake client funded product development work in relation to the Callista student management system on behalf of a group of 11 universities in Australia.

Geographic revenue

£'m	2018	Adjusted 2017	Growth	Post IFRS15 excluding Ofsted 2017	Pre IFRS15 excluding Ofsted 2017	Reported 2017
Revenue	**80.1**	81.0	(1.2)%	82.9	82.5	84.9
UK	42.6	36.2	17.5%	36.3	36.8	39.2
Asia Pacific	27.8	32.9	(15.6)%	34.6	33.7	33.7
Rest of world[1]	9.7	11.9	(18.2)%	12.0	12.0	12.0

1. Including USA, Canada and Middle East

Tribal's key geographic markets are the UK (53% of total revenue), Asia Pacific including Australia, New Zealand and Malaysia (35%); and, North America and the rest of the world including Middle East (12%).

UK revenues increased 17.5% due to significant new customers in both Higher Education and Further Education together with new contract wins for QAS.

Asia Pacific revenues reduced by 15.6%, primarily due to larger implementations coming to an end in the year, a limited pipeline for new implementations as well as reduced sales in the schools market.

Revenue for the Rest of the world reduced by 18.2%, due to the conclusion of larger QAS contracts in the Middle East and the timing of ongoing work which was delayed into 2019.

Key Performance Indicators (KPIs)

	2018	Adjusted 2017	Growth	Reported 2017
Revenue	**£80.1m**	£81.0m	(1.1)%	£84.9m
Adjusted Operating Profit	**£10.8m**	£7.3m	46.9%	£8.5m
Adjusted Operating Margin	**13.5%**	9.1%	4.4pp	10.1%
Annually Recurring Revenue (ARR)	**£38.5m**	£36.5m	5.6%	£37.5m
Sales Order Backlog	**£121.6m**	£120.1m	1.2%	£120.4m
Operating Cash Conversion	**132%**	152%	(20.0)pp	130%
Free Cash Flow	**£8.8m**	£8.0m	10.0%	£8.0m
Staff Retention	**89.0%**	87.0%	9.0pp	87.0%
Revenue / Average FTE	**£91.7k**	£97.8k	(6.2)%	£104k

Sales Order Backlog

The sales order backlog relates to the total value of orders which have been signed on or before, but not delivered by, 31 December 2018. This is reported on an IFRS 15 basis, including the restatement of 2017, and represents the best estimate of business expected to be delivered and recognised in future periods, and includes 2 years of Support & Maintenance revenue. At 31 December 2018 this increased to £121.6 (2017: £120.1m adjusted; £120.4m reported).

Annually Recurring Revenue (ARR)

The Annually Recurring Revenue (ARR) includes Support & Maintenance fees paid on all software and, from December 2017, our Cloud hosting services, as detailed in the 2017 Annual Report and Accounts. The 2017 ARR is restated to include Cloud hosting services. Overall the Annually Recurring Revenue total increased by 5.6% to £38.5m (2017: £36.5m adjusted; £37.5m reported).

Operating cash conversion

Operating cash conversion is calculated as net cash from operating activities before tax as a proportion of adjusted operating profit. In 2018, operating cash conversation was 132% (2017: 130% reported).

Free cash flow

Free cash flow is included as a key indicator of the cash that is generated by the Group and available for further investment or distribution. It is calculated as net cash from operating activities less capital expenditure and less capitalised development costs (excluding acquired intellectual property). In 2018, free cash flow was £8.8m (2017: £8.0m reported).

Headcount and staff retention

	2018	2017	Change
Headcount	**900**	850	5.9%
UK	581	542	7.2%
Asia Pacific	302	287	5.2%
Rest of world[1]	17	21	(19.0)%
Full Time Equivalent (FTE)	**873**	820	6.5%

1. Including USA, Canada and Middle East

Our overall workforce has increased by 5.9% to a total headcount of 900, up from 850 at 31 December 2017. This follows a 22% headcount reduction in the previous year to a headcount of 850 from 1,089 the previous year.

The total Full Time Equivalent (FTE) headcount has increased by 53 FTEs to 873 (2017: 820 FTEs). Nearly half of the UK increase is due to increased delivery headcount to support additional work in QAS and in Higher Education. There was also a net increase of nearly 30 heads, as the Group continues its investment in the Tribal Edge platform.

The Revenue per Average FTE metric is impacted by the adoption of IFRS 15, and is £91.7k for 2018 (2017: £97.8k adjusted; £104.0k reported). On an operational headcount basis (excluding Product Development), the revenue per FTE for 2018 is £100.0k (2017: £109.0k)

We note, though, that despite the extent of change within the Group, our staff retention has improved to 89% (2017: 87%).

One off movements

There were a number of one-off impacts to the 2018 profit, although the overall impact was not material.

Trade receivables were significantly reduced in the year following a very strong collections performance including older debts which had been previously provided for, this resulted in a one off provision release of £0.9m.

The Group continued to rationalise its office estate in the year by reducing space or exiting certain offices, the dilapidations and onerous lease exposure was lower than expected giving a benefit of £0.5m.

A charge of £0.2m was taken as contingency against revenue on ongoing contracts to account for delays in contract performance and timing of delivery; the assessment of debtor recoverability on these contracts is referenced to the revenue contingency.

The Group exited its current data centre in the year and, working in partnership with Rackspace, migrated existing customers into either a Rackspace data centre or into a Public Cloud provider. During the migration there was a duplication of costs of £0.5m.

Items excluded from adjusted profit figures

Certain items not directly related to the trading business or regarded as exceptional in nature are removed from the adjusted profit figure and disclosed as "Other Items" on the Income Statement to provide greater understanding of the Group's underlying performance. The main adjustments are as follows:

Share based payments

In 2018, share based payment charges (including employer related taxes) totalled £2.3m (2017: £1.7m), and are excluded from the Adjusted operating profit.

The charges in the current year relate to the matching shares granted as part of the rights issue and share subscriptions in 2016 (£0.6m) and the Long Term Incentive Plan options (LTIPs) which were granted to the executive and senior management teams in 2016, 2017 and 2018 (£1.7m).

Amortisation of IFRS 3 intangibles

The amortisation charge in relation to IFRS 3 intangible assets of £1.8m (2017: £2.0m) 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.

Restructuring and associated costs

These costs relate to the restructuring of the Group's operations and the charge for the year is £1.0m (2017: £1.0m). The original programme initiated in 2016 completed in the early part of the year with a further £0.3m of cost. At the end of the year the Group announced the restructure of the management of its i-graduate business in the UK and the SchoolEdge development team in Asia Pacific, a provision for costs to be incurred in 2019 of £0.7m was set up.

Net cash and cashflow

£m	2018	2017	Growth
Net cash from operating activities	14.2	11.1	3.1
Net cash outflow from investing activities	(6.2)	(5.5)	(0.7)
Net cash outflow from financing activities	(1.9)	(0.1)	(1.8)
Net increase in cash & cash equivalents	**6.1**	**5.5**	**0.6**
Cash & cash equivalents at beginning of the year	14.1	8.8	5.3
Cash & cash equivalents at end of period	**20.2**	**14.3**	**5.9**
Less: Effect of foreign exchange rate changes	(0.2)	(0.2)	-
Net cash & cash equivalents at end of period	**20.0**	**14.1**	**5.9**

Net cash at 31 December 2018 was £20.0m (2017: £14.1m).

Operating cash inflow for the period was £14.2m (2017: £11.1m). The working capital movement increased to £3.1m (2017: £0.2m), as a result of strong cash management including a significant reduction in trade debtors.

Cash outflow from investing activities was £6.2m (2017: £5.5m). The Group rationalised its office space during the year, exiting certain locations and reducing foot space elsewhere; this has however resulted in an increase to capital expenditure, primarily due to fit out costs, as well as ongoing spend on equipment costs (2018: £1.2m; 2017: £0.8m). Spend on product development increased to £4.2m (2017: £3.6m including £1.25m on acquired intellectual property). The Group made a payments of £0.8m for deferred consideration (2017: £1.2m), of which £0.5m was the final payment in respect of the acquisition of Sky Software Pty (Campus) and £0.3m the second payment in relation to intellectual property acquired in 2017.

Cash outflow from financing activities increased to £1.9m (2017: £0.1m) as the Group resumed the payment of dividends in the year with £1.8m returned to shareholders.

There was an adverse impact of foreign exchange movement of £0.2m (2017: £0.2m).

Finance costs and funding arrangements

Net finance costs reduced to £0.1m in the year (2017: £0.2m) as the Group reduced the size of its revolving credit facility prior to the conclusion of the loan agreement in June 2018.

In November 2018 the Group agreed a UK overdraft of £2.0m to assist with the management of working capital.

Shareholders returns and dividends

The Board has proposed a full year dividend of 1.1p per share (2017: 1.0p per share), pending approval at the AGM on 24 April 2019, reaffirming its intention to continue a progressive dividend policy, with a single dividend payment each year following annual results. The anticipated payment date is 29 May 2019, with an associated record date of 3 May 2019 and ex-dividend date of 2 May 2019.

Going concern

Tribal had net cash of £20.0m at the end of 2018 including an undrawn UK overdraft of £2.0m.

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. While the Group has a net current liability position, this has improved since 2017 and 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 sufficient financial resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Taxation

The corporation tax on continuing operations was £1.9m (2017: £1.8m) and the adjusted effective tax rate was 21% (2017: 21%). This includes the impact of higher rates of taxation arising in overseas jurisdictions.

As the Group continues to operate in international jurisdictions 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 options and share capital

On 26 March 2018, 3,975,000 share options were granted to senior management, excluding Ian Bowles and Mark Pickett. On 22 May 2018, 590,452 nil-cost share options were granted to Ian Bowles and Mark Pickett as part of their ongoing remuneration.

As at 31 December 2018, there were 196,051,181 shares issued (2017: 196,051,181).

Related parties

Transactions with related parties during the period are set out in note 32 of the full financial statements.

Earnings per share (EPS)

Adjusted diluted earnings per share from continuing operations before other costs and intangible asset impairment charges and amortisation, which reflects the Group's underlying trading performance, increased by 34% to 4.3p (2017: 3.2p).

Statutory earnings per share (diluted) increased by 54% to 2.0p (2017: 1.3p).

Pension obligations

The Group has two defined benefit pension schemes for former employees as a consequence of historic contract awards. The largest scheme relates to the Ofsted Early Years inspection contract we entered during the year ended December 2010. This contract expired in March 2017, and those individuals working directly on the contract were transferred to Ofsted, under the Transfer of Undertakings (Protection of Employment) act (TUPE). Under the terms of the contract, a number of individuals elected to transfer their pension plan from Tribal to Ofsted. This process was concluded in 2018 and resulted in a transfer of £3.6m of assets and £4.0m of liabilities.

Across the remaining pensions schemes, the combined deficit calculated under IAS19 at the end of the year totalled £1.0m (2017: deficit of £1.7m), with gross assets of £6.8m and gross liabilities of £7.8m (2017: £11.0m and £12.7m respectively). Total actuarial gains recognised in the consolidated statement of comprehensive income are £0.4m (2017: £0.1m).

Risks

Financial risks

The main financial risks the Group faces relate to the continued sales of our software, 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.

Operating cash flow risk

The Group benefits from significant annually recurring revenue which is received through out the year. A 12 month rolling cash flow forecast is updated on a monthly basis to help identify any risk in future operating cash flows.

Credit risk

The credit risk arising from contractual delays or scope changes is reviewed monthly by the PLC Board. 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. Tribal incurred no material bad debts during 2018.

Interest rate risk

At the end of 2018, Tribal had no bank loan indebtedness. 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. There are no open derivative financial instruments at the year end.

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 currency 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 2018, the Group was also exposed to movements in the rates between Sterling and the US dollar, United Arab Emirates Dirhams, South African Rand, and New Zealand dollar.

The Group Finance team oversees management of foreign exchange risk, and policies and procedures approved by the Board.

Effect of the decision of the UK to exit the European Union (Brexit)

We do not expect the decision of the UK to exit the European Union (Brexit) to have an adverse impact in the short-term demand for student information systems, and the longer term potential impact remains to be seen and is dependent upon the final exit terms agreed. The Group has seen fluctuations in exchange rates during the Brexit process and any strengthening in the value of Sterling would have an adverse impact on earnings. There are a small number of contracts with customers based in the European Union; however, the loss of these contracts would not have a material impact on the Group. The Group also employs a number of European Union nationals but they do not form a significant part of the workforce.

Mark Pickett
Chief Executive Officer

Consolidated Income Statement

For the year ended 31 December 2018

	Note	Adjusted £'000	Other items (see note 5) £'000	Year ended 31 December 2018 Total £'000	Adjusted £'000	Other items (see note 5) £'000	Year ended 31 December 2017 Total £'000
Continuing operations							
Revenue	3	80,062	–	80,062	84,918	–	84,918
Cost of sales		(40,837)	–	(40,837)	(42,401)	–	(42,401)
Gross profit		39,225	–	39,225	42,517	–	42,517
Total administrative expenses		(28,430)	(6,212)	(34,642)	(33,975)	(4,815)	(38,790)
Operating profit	4	10,795	(6,212)	4,583	8,542	(4,815)	3,727
Investment income	6	46	–	46	20	–	20
Finance income/(costs)	7	(54)	274	220	(179)	(128)	(307)
Profit before tax		10,787	(5,938)	4,849	8,383	(4,943)	3,440
Tax (charge)/credit	8	(1,873)	1,171	(702)	(1,757)	936	(821)
Profit attributable to the owners of the parent		8,914	(4,767)	4,147	6,626	(4,007)	2,619
Earnings per share							
Basic	10	4.6p	(2.5)p	2.1p	3.4p	(2.1)p	1.3p
Diluted	10	4.3p	(2.3)p	2.0p	3.2p	(1.9)p	1.3p

All activities are from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit for the year	4,147	2,619

Other comprehensive (expense)/income:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension schemes	430	55
Deferred tax on measurement of defined benefit pension schemes	(73)	(9)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(792)	(436)
Other comprehensive expense for the year net of tax	(435)	(390)
Total comprehensive income for the year attributable to equity holders of the parent	3,712	2,229

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Goodwill	11	20,517	21,113
Other intangible assets	12	12,718	13,863
Property, plant and equipment		1,762	1,577
Deferred tax assets		3,776	4,004
Contract assets		77	150
		38,850	40,707
Current assets			
Trade and other receivables	13	12,840	13,625
Contract assets		3,750	4,851
Current tax assets		73	106
Deferred tax assets		228	271
Cash and cash equivalents		19,974	14,082
		36,865	32,935
Total assets		75,715	73,642
Current liabilities			
Trade and other payables	14	(6,755)	(6,888)
Accruals		(7,941)	(8,593)
Contract liabilities		(20,872)	(17,934)
Current tax liabilities		(1,097)	(2,573)
Provisions		(879)	(1,250)
		(37,544)	(37,238)
Net current liabilities		(679)	(4,303)
Non-current liabilities			
Other payables	14	(62)	(551)
Deferred tax liabilities		(713)	(1,276)

Contract liabilities	(707)	(113)
Retirement benefit obligations	(1,002)	(1,718)
Provisions	(213)	(194)
	(2,697)	(3,852)
Total liabilities	(40,241)	(41,090)
Net assets	35,474	32,552
Equity		
Share capital	9,803	9,803
Share premium	15,539	15,539
Other reserves	25,020	22,783
Accumulated losses	(14,888)	(15,573)
Total equity attributable to equity holders of the parent	35,474	32,552

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2017	9,769	14,989	20,879	(18,147)	27,490
Profit for the year	–	–	–	2,619	2,619
Other comprehensive expense for the year	–	–	–	(390)	(390)
Issue of equity share capital	34	550	–	–	584
Charge to equity for share-based payments	–	–	1,393	–	1,393
Tax credit on charge to equity for share-based payments	–	–	–	345	345
Transfer from other payables for share-based payments	–	–	511	–	511
Contributions by and distributions to owners	34	550	1,904	345	2,833
Balance at 31 December 2017 as previously reported	9,803	15,539	22,783	(15,573)	32,552
Effect of IFRS 15	–	–	–	(1,511)	(1,511)
Tax effect of IFRS 15	–	–	–	265	265
Total Effect of IFRS 15	–	–	–	(1,246)	(1,246)
Balance as at 31 December 2017 restated	9,803	15,539	22,783	(16,819)	31,306
Profit for the year	–	–	–	4,147	4,147
Other comprehensive expense for the year	–	–	–	(435)	(435)
Equity dividend paid	–	–	–	(1,952)	(1,952)

Charge to equity for share-based payments	–	–	2,265	–	2,265
Foreign exchange difference on share-based payments	–	–	(28)	–	(28)
Tax credit on charge to equity for share-based payments	–	–	–	171	171
Contributions by and distributions to owners	–	–	2,237	(1,781)	456
At 31 December 2018	9,803	15,539	25,020	(14,888)	35,474

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Net cash from operating activities	15	14,241	11,117
Investing activities			
Interest received		46	20
Purchases of property, plant and equipment		(1,203)	(803)
Expenditure on intangible assets		(4,217)	(3,559)
Payment of deferred consideration for acquisitions		(826)	(1,157)
Net cash outflow from investing activities		(6,200)	(5,499)
Financing activities			
Interest paid		(1)	(101)
Equity dividend paid		(1,952)	–
Repayment of borrowings and loan arrangement fees		–	(25)
Net cash used in financing activities		(1,953)	(126)
Net increase in cash and cash equivalents		6,088	5,492
Cash and cash equivalents at beginning of year		14,082	8,833
Effect of foreign exchange rate changes		(196)	(243)
Cash and cash equivalents at end of year		19,974	14,082

Notes to the Financial Statements

1. General information

The basis of preparation of this preliminary announcement is set out below.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017,but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's annual general meeting. The auditor BDO LLP has reported on the statutory financial statements for the year ended 31 December 2018 and the audit report was unqualified.

Whilst the financial information included in this preliminary announcement has been completed in accordance with International Financial Reporting Standards (IFRSs), this announcement itself does not contain sufficient information to comply with IFRSs. The financial information has been prepared on the historical cost basis, except for financial instruments.

Copies of this announcement can be obtained from the Company's registered office at King's Orchard, 1 Queen Street, Bristol BS2 0HQ.

The full financial statements which comply with IFRSs will be posted to shareholders on or around 29 March 2019 and are available to members of the public at the registered office of the Company from that date, and are now available on the Company's website: www.tribalgroup.com.

2. Effect of new accounting standards

The Group adopted IFRS15 "Revenue from contracts with customers" with effect from 1 January 2018 using the modified retrospective method. License revenue is now recognised over the duration of the project Implementation period on a percentage completion basis. This has the effect of spreading the recognition of License revenue of the period of implementation, rather than immediate, upfront recognition as was policy under IAS 18. There are no changes to the timing of the recognition of Implementation or Support & Maintenance revenue.

The opening balance sheet at 1 January 2018 was restated for this change with a reduction of £1.3m to equity reserves and £0.2m to contract assets and increases of £1.5m to contract liabilities, £0.2m to deferred tax assets and £0.2m to prepayments.

The impact to revenue of the adoption of IFRS 15 in 2018 is a decrease of £1.5m; under the accounting policy before the adoption of IFRS 15, the revenue would have been £81.6m (2017: £82.3m excluding Ofsted) and adjusted operating profit £12.3m (2017: £7.4m excluding Ofsted).

The Group also adopted IFRS9 "Financial Instruments" with effect from 1 January 2018. Expected credit losses on trade receivables have been calculated using the simplified approach. Individual comparatives have not been restated. The loss allowances for financial assets are based on assumptions about risk of defaults and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. The Group has applied the IFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The restatement of trade receivables at 1 January 2018 on transition to IFRS 9 after applying the expected credit loss model was immaterial and therefore not recorded at that date.

The effects of adopting IFRS 15 and IFRS 9 for the year ending 31 December 2018 are as follows:

	31 Dec 2018 As reported £'000	31 Dec 2018 Effect of IFRS15 £'000	31 Dec 2018 Effect of IFRS9 £'000	31 Dec 2018 As would have been reported £'000
Income Statement				
Revenue	80,062	1,452	–	81,514
Cost of Sales	(40,837)	(90)	–	(40,927)
Gross Profit	39,225	1,362	–	40,587
Administrative Expenses	(34,262)	–	(144)	(34,406)
Operating Profit	4,963	1,362	(144)	6,181
Balance Sheet				
Trade and other receivables	12,840	(90)	(144)	12,606
Contract assets	3,827	941	–	4,768

Contract liabilities	(21,579)	511	–	(21,068)

3. Revenue for contracts with customers

The Group has split revenue into various categories which is intended to enable users to understand the relationship with revenue segment information provided in note 4.

31 December 2018	UK £000	Australia £000	Other APAC £000	North America and rest of the world £000	Total £000
Licence and development fees	5,977	110	424	(21)	6,490
Implementation Services	6,534	4,107	2,436	479	13,556
Support & Maintenance	13,613	16,179	1,314	624	31,730
Cloud Services	3,639	715	25	87	4,466
Other services	450	229	1	–	680
Schools inspections & other related services (QAS)	7,715	-	877	8,114	16,706
i-graduate survey & data analytics	4,626	894	452	462	6,434
	42,554	22,234	5,529	9,745	80,062

31 December 2017	UK £000	Australia £000	Other APAC £000	North America and rest of the world £000	Total £000
Licence and development fees	4,693	83	926	67	5,769
Implementation Services	5,651	8,790	2,722	663	17,826
Support & Maintenance	13,104	16,418	1,377	565	31,464
Cloud Services	2,867	642	6	60	3,575
Other services	135	1	245	6	387
Schools inspections & other related services (QAS)	7,028	-	834	9,929	17,791
i-graduate survey & data analytics	5,774	637	1,032	663	8,106
	39,252	26,571	7,142	11,953	84,918

Net contract assets/(liabilities)

	Contract Asset/(Liability) 2018 £000	Contract Asset/(Liability) 2017 £000
Opening contract balance pre IFRS 15	(13,046)	(16,396)
IFRS 15 adjustment	(1,704)	-

Opening contract balance post IFRS 15	(14,750)	(16,396)
Of which released to income statement	14,416	16,255
New billings and cash in excess of revenue recognised	(17,418)	(12,906)
Closing contract balance	(17,752)	(13,046)

Balances arise on contract assets and liabilities arise when cumulative payments received from customers at the balance sheet date do not necessarily equal the amount of revenue recognised on contracts.

Licence revenue is now recognised over the duration of the project implementation period on a percentage completion basis based on timesheet data of actual days delivered versus number of expected days for the project. This has resulted in a cumulative catch-up adjustment of £1.7m being recognised in the current period, but which related to performance of the previous period and current periods.

Contract assets inherently have some contractual risk associated with them related to the specific and ongoing risks in each individual contract with a customer. The impairment of contract assets/(liabilities) reflects provisions recognised against contract assets in relation to these risks.

The amount of incremental costs to obtain a contract which extends over a period of more than 12 months have been recognised as an asset in prepayments totalling £0.2m and will be released in line with the total contract revenue. No amount has been impaired at 31 December 2018 or 2017.

Remaining performance obligations

Licence revenue is recognised over the duration of the project implementation period on a percentage completion basis. Where there is a short implementation, as with most Further Education and Work-based Learning sales, there is no change to the recognition of revenue. For larger deals, which may typically have an implementation period of two years or more, this has the effect of spreading the recognition of License revenue over an extended period, rather than immediate upfront recognition. There are no changes to the timing of recognition of Implementation, Support & Maintenance revenue, nor is there any impact on i-graduate or QAS.

The amount of revenue that will be recognised in future periods on these contracts when those remaining performance obligations will be satisfied is analysed as follows:

At 31 December 2018

	2019 £000	2020 £000	2021 £000	Thereafter £000	Total £000
Licence and development fees	3,887	1,658	482	26	6,053
Implementation Services	6,955	2,465	170	55	9,645
Support & Maintenance	32,448	29,201	17,558	1,007	80,214
Cloud Services	5,278	4,071	2,199	497	12,045
Other services	166	157	158	-	481
Schools inspections & other related services (QAS)	10,540	1,613	311	-	12,464
i-graduate survey & data analytics	622	15	14	-	651
	59,897	39,180	20,892	1,585	121,554

The Group has taken advantage of the relief in IFRS 15 to reflect the aggregate effect of all modifications that occur before 1 January 2018.

The transaction price of contracted goods and services is shown separately in the contract with customers. The contracted prices of each component of a product sale are expected to provide a robust and appropriate starting point in seeking to allocate the total transaction price to the identified performance obligations. The time value of money is not expected to be significant as contracts where cash is disconnected from revenue by greater than one year are likely to be rare.

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

	2018 £'000	2017 £'000
Continuing operations		
Sales of services	80,062	84,918
Total revenue	80,062	84,918

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 £0.8m (2017: £0.4m) 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 Information Systems ("SIS") represents the delivery of software and subsequent maintenance and support services and the activities through which we deploy and configure our software for our customers;
- Quality Assurance Solutions ("QAS"), representing inspection and review services which support the assessment of educational delivery; and
- i-graduate, represents a portfolio of performance improvement tools and services, including analytics, software solutions, facilities and asset management.

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 2018 £'000	Year ended 31 December 2017 £'000	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Student Information Systems	56,922	60,026	16,506	17,613
Quality Assurance Solutions	16,706	17,791	3,701	4,408
i-graduate	6,434	7,101	1,274	1,064
Total	80,062	84,918	21,481	23,085
Unallocated corporate expenses			(10,686)	(14,543)
Adjusted operating profit			10,795	8,542
Amortisation of IFRS 3 intangibles			(1,787)	(2,034)
Other items			(4,045)	(2,781)
Operating profit			4,963	3,727

Investment income	46	20
Finance costs	(160)	(307)
Profit before tax	4,849	3,440
Tax charge	(702)	(821)
Profit after tax	4,147	2,619

The accounting policies of the reportable segments are the same as the Group's accounting policies. 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.

Within QAS revenues of approximately 5% (2017: 4%) have arisen from the Segments largest customer; within SIS revenues of approximately 6% (2017: 8%) have arisen from the Segments largest customer.

Geographical information

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

	2018 £'000	2017 £'000
UK	42,554	39,252
Australia	22,234	26,571
Other Asia Pacific	5,529	7,142
North America and rest of the world	9,745	11,953
	80,062	84,918

Non-current assets (excluding deferred tax)

	2018 £'000	2017 £'000
UK	17,884	15,923
Australia	16,940	20,660
Other Asia Pacific	248	115
North America and rest of the world	2	6
	35,074	36,704

5. Other items

	2018 £'000	2017 £'000
Acquisition related costs	(62)	(29)
Share based payments (including employer related taxes)	(2,329)	(1,732)
– Impairment of development costs	(983)	–
– Legacy Defined benefit schemes	(73)	–

– Property related	7	–
– Restructuring and associated costs	(985)	(1,020)
Other exceptional items	(2,034)	(1,020)
Amortisation of IFRS 3 intangibles	(1,787)	(2,034)
Total administrative expenses	(6,212)	(4,815)
Other financing costs	(106)	(128)
Other financing income	380	–
Total other items before tax	(5,938)	(4,943)
Tax on other items	1,171	936
Total other items after tax	(4,767)	(4,007)

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:

Acquisition costs: Amounts relating to corporate activity in the period total £62,000, During the previous period, a final payment was made in respect of deferred consideration payable on acquisition of Callista, which resulted in a true up of the amounts provided (2017: £29,000).

Other exceptional items: Amounts principally reflect the costs arising in respect of the restructuring of the Group's operations and the impairment of SchoolEdge development costs. The restructuring program will be executed in the first half of 2019 and associated costs have been provided for. Amounts relate mainly to provision for redundancy costs. (2018: £985,000: 2017: £1,020,000). In addition Management concluded that there was an impairment in Development costs as at 31 December 2018, being the whole of modules 3, being software sold in schools in Australia only (2018: £983,000: 2017: £nil).

Share based payments: The numbers above include the movement in associated employers taxes accrual (2018: £17,000: 2017: £339,000) and the cash paid on dividends on share options that have met performance conditions (2018: £47,000: 2017: £nil). When the Company declares a cash dividend, some option holders are entitled to a "dividend equivalent". This is a payment in cash and/or additional shares with a value determined by reference to the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the grant of the Award and the date on which it becomes exercisable.

Amortisation of IFRS3 intangibles: Amortisation arising on the fair value of intangible assets acquired is separately disclosed as other items. (2018: £1,787,000: 2017: £2,034,000).

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 (2018: £106,000: 2017: £128,000).

Financing income: Amounts relating to settlement gains on defined benefit schemes (2018: £380,000: 2017: £nil).

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.

6. Investment income

	2018 £'000	2017 £'000
Other interest receivable	46	20
	46	20

7. Finance(income)/costs

	2018	2017

	£'000	£'000
Interest on bank overdrafts and loans	1	51
Amortisation and write off of loan arrangement fees	12	36
Net interest payable on retirement benefit obligations	41	42
Other interest payable	–	50
Adjusted Finance costs	54	179
Unwinding of discounts	106	128
Other finance costs	106	128
Total finance costs	160	307
Settlement gain on defined benefit schemes	(380)	–
Total finance (income)/costs	(220)	307

8. Tax

	2018 £'000	2017 £'000
Current tax		
UK corporation tax	114	100
Overseas tax	702	1,529
Adjustments in respect of prior years	(179)	(165)
	637	1,464
Deferred tax		
Current year	79	(641)
Adjustments in respect of prior years	(14)	(2)
	65	(643)
Tax charge on profits	702	821

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

	2018 £'000	2017 £'000
Profit before tax on continuing operations	4,849	3,440
Tax charge at standard UK rate of 19% (2017: 19.25%)	921	662
Effects of:		
Overseas tax rates	(56)	180
Expenses not deductible for tax purposes	156	64

Adjustments in respect of prior years	(193)	(167)
Additional deduction for R&D expenditure	18	(7)
Movement in transfer pricing tax provision	(64)	–
Utilisation of unrecognised tax losses	9	(125)
Effect of changes in tax rates	(89)	214
Tax expense for the year	702	821

In addition to the amount charged to the income statement a current tax credit of £nil (2017: £nil) and a deferred tax credit of £171,000 (2017: credit of £345,000) has been recognised directly in equity during the year in relation to share schemes. A deferred tax charge of £73,000 (2017: charge of £9,000) 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 19% (2017: 19.25%). Tax for other jurisdictions is calculated at the prevailing rates prevailing in the respective jurisdictions.

A further reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future tax charge accordingly. The deferred tax balances at 31 December 2018 have been calculated based on these rates.

9. Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended for the year ended 31 December 2017 of 1.0 pence (year ended 31 December 2017: nil pence) per share	1,952	–
Proposed final dividend for the year ended 31 December 2018 of 1.1 pence (year ended 31 December 2017: 1.0 pence) per share	2,147	1,961

10. 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:

	2018 thousands	2017 thousands
Weighted average number of shares outstanding:		
Basic weighted average number of shares in issue	195,224	195,011
Weighted average number of employee share options	10,546	10,729
Weighted average number of shares outstanding for dilution calculations	205,770	205,740

Diluted earnings per share only reflects the dilutive effect of share options for which vesting criteria have been met.

The maximum number of potentially dilutive shares, based on options that have been granted but have not yet met vesting criteria, is 7,021,974 (2017: 10,084,612). In addition there are a further 3,405,996 (2017: 3,405,996) potentially dilutive matching share options that have been granted but have not yet met vesting criteria as at 31 December 2018.

The adjusted basic and diluted earnings per share figures shown on the consolidated income statement on page [58] are included as the Directors believe that they provide a better understanding of the underlying trading performance of the Group. A reconciliation of how these figures are calculated is set out below:

	2018 £'000	2017 £'000
Net Profit	4,147	2,619
Earnings per share		
Basic	2.1p	1.3p
Diluted	2.0p	1.3p
Adjusted net profit	8,914	6,626
Adjusted earnings per share		
Basic	4.6p	3.4p
Diluted	4.3p	3.2p

	Profit for the year		Earnings per share	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Profit for the year attributable to equity shareholders	4,147	2,619	2.1p	1.3p
Add back:				
Amortisation of IFRS intangibles (net of tax)	1,271	1,444		
Share based payments	2,237	1,393		
Unwinding of discounts	106	128		
Other items (net of tax)	1,153	1,013		
Movement in deferred contingent consideration	–	29		
Total adjusting items (net of tax)	4,767	4,007	2.5p	2.1p
Adjusted earnings	8,914	6,626	4.6p	3.4p

11. Goodwill

	2018 £'000	2017 £'000
Cost		
At beginning of year	102,344	102,547
Disposals	–	(10)
Exchange differences	(596)	(193)
At end of year	101,748	102,344
Accumulated impairment losses		

At beginning of year	81,231	81,231
At end of year	81,231	81,231
Net book value		
At end of year	20,517	21,113
At beginning of year	21,113	21,316

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:

	2018 £'000	2017 £'000
Student Information Systems	16,983	17,579
i-graduate	3,534	3,534
	20,517	21,113

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 2019. 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, contract related inflationary increases and planned cost savings. The budget was extrapolated over an eight-year period inline with previous calculations and to give greater clarity on future cashflows. The growth assumption is 2% per annum for SIS and QAS and 4% per annum for i-graduate. Cash flows beyond the budget and extrapolation period were calculated into perpetuity using the same growth rates. These growth rates are in line with the expected average UK economy long-term growth rate.

The cash flows projections are discounted at a pre-tax discount rate of 10.4% (2017: 11.27%). 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.

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:

SIS is the largest segment and has significant impairment headroom as such no reasonable sensitivities would cause an impairment.

i-graduate is the smallest segment and the impairment headroom is the most sensitive however there is reasonable headroom. The discount rate for 2018 would need to increase to 14.6% for an impairment to occur or the growth rate reduce to 0.6% per annum. For example, if the growth rate decreased to 0.6% and the discount rate was 14.6% it would result in an impairment of approximately £873,000. From 1 January 2019 the i-graduate business is now combined with QAS under one new CGU "Education Services" and lead by the current Managing Director of QAS. Significant synergies are anticipated. Additionally, the annually recurring nature of the surveys and data analytics i-graduate undertakes give further comfort. The Directors will however continue to closely monitor the position given the sensitivity of the segment.

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

12. Other intangible assets

	Software £'000	Customer contracts & relationships £'000	Acquired Intellectual Property £'000	Developmen t costs £'000	Business systems £'000	Software licences £'000	Total £'000
Cost							
At 1 January 2017	7,876	7,142	–	24,479	6,470	1,404	47,371

Additions	–	–	1,873	2,135	97	77	4,182
Disposals	–	–	–	–	(191)	(12)	(203)
Exchange differences	(109)	(46)	–	(79)	(2)	–	(236)
At 31 December 2017 and 1 January 2018	7,767	7,096	1,873	26,535	6,374	1,469	51,114
Additions	–	–	–	4,145	46	26	4,217
Disposals	–	–	–	–	–	(7)	(7)
Exchange differences	(353)	(151)	–	(173)	(5)	(2)	(684)
At 31 December 2018	7,414	6,945	1,873	30,507	6,415	1,486	54,640
Amortisation							
At 1 January 2017	4,039	4,458	–	18,860	4,575	1,225	33,157
Charge for the year	1,529	505	187	1,445	642	134	4,442
Disposals	–	–	–	–	(191)	(12)	(203)
Exchange differences	(93)	(27)	–	(24)	(1)	–	(145)
At 31 December 2017 and 1 January 2018	5,475	4,936	187	20,281	5,025	1,347	37,251
Charge for the year	1,358	429	374	1,383	487	85	4,116
Impairment	–	–	–	983	–	–	983
Disposals	–	–	–	–	–	(7)	(7)
Exchange differences	(270)	(78)	–	(70)	(3)	–	(421)
At 31 December 2018	6,563	5,287	561	22,577	5,509	1,425	41,922
Carrying amount							
At 31 December 2018	851	1,658	1,312	7,930	906	61	12,718
At 31 December 2017	2,292	2,160	1,686	6,254	1,349	122	13,863

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 and impairment of development costs, the amortisation for software, customer contracts and relationships, business systems and software licences are all included within administrative expenses.

Included within Business Systems are finance systems with a carrying value of £0.9m (2017: £1.3m). Each system is being amortised over a period of three to five years and have an average of three years left.

The Group is required to test annually if there are any indicators of impairment. The recoverable amount is determined based on value in use calculations of identified CGU's. The use of this method requires the estimation of future cashflows and the determination of a discount rate in order to calculate the present value of the cashflows.

The impairment testing allocates all assets relating to specific CGUs, including goodwill, other intangibles, property, plant and equipment and net current assets/liabilities.

Towards the end of 2018 management identified some challenges in the APAC school's business. To mitigate some of the challenge it was decided to reduce investment in the sector and halt future software development where it is not supported by committed sales. The decision to stop work on modules 3 was only taken at the end of the year and in line with the Group's policy, work undertaken throughout the year has been capitalised as the view at the time was that the capitalised value was supportable. Management concluded that as at 31 December 2018 there was an impairment in Development Costs, being the whole of modules 3 (prior year and current year capitalisation) in SchoolEdge totalling £1m, being the software sold into schools in Australia only. This asset belongs to the SIS segment and has been booked through “other items, administrative expenses” (see note 5) in the financial statements and is consistent with the treatment of other “non-trading” adjustments.

On 5 June 2017, the Group acquired Intellectual property from Wambiz Limited. The initial cash consideration was £1,250,000. Further consideration of £289,000 was paid in 2018 and £485,000 is payable in 2019. An intangible asset of £1,873,000 has been recorded under Acquired intellectual property, discounted for deferred payments which have been recorded as a deferred consideration liability in Trade and other payables. This asset is being amortised over a period of 5 years.

13. Trade and other receivables

	2018 £’000	2017 £’000
Amounts receivable for the sale of services	9,452	12,202
Less: loss allowance	(137)	(1,713)
	9,315	10,489
Other receivables	375	516
Prepayments	3,150	2,620
	12,840	13,625

14. Trade and other payables

	2018 £’000	2017 £’000
Current		
Trade payables	1,461	429
Other taxation and social security	3,028	2,596
Other payables	1,793	3,038
Deferred consideration	473	825
	6,755	6,888
Non-current		
Other payables	62	153
Deferred consideration	–	398
	62	551
Total	6,817	7,439

The average credit period taken for trade purchases is 30 days (2017: 5 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.

Other payables are split as follows:

	2018 £’000	2017 £’000
Goods received not invoiced	997	1,650

Funds restricted in use	–	39
Other creditors	1,108	1,349
	2,105	3,038

15. Notes to the cash flow statement

	2018 £'000	2017 £'000
Operating profit from continuing operations	4,963	3,727
Depreciation of property, plant and equipment	995	1,190
Amortisation and impairment of other intangible assets	5,099	4,442
Share based payments	2,265	1,393
Research and development tax credit	(325)	(159)
Net pension (credit)/charge	(326)	6
Movement in deferred consideration	–	29
Other non-cash items	55	222
Operating cash flows before movements in working capital	12,726	10,850
Decrease in inventories	–	83
Decrease in receivables	2,034	1,044
Increase/(decrease) in payables	1,086	(930)
Net cash from operating activities before tax	15,846	11,047
Tax (paid)/received	(1,605)	70
Net cash from operating activities	14,241	11,117

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

	2018 £'000	2017 £'000
Continuing operations (excluding restricted cash)	15,885	11,220
Decrease in restricted cash	(39)	(173)
	15,846	11,047