TRIBAL

Empowering the world of education

Annual Report and Accounts **2018**

TRIBAL

Empowering the world of education

Tribal is a world-class, education focused company, providing the expertise, software and services needed by education and business organisations worldwide, to underpin student success.

We operate internationally and serve hundreds of Higher Education, Further Education and Vocational institutions; thousands of schools; and many Government and State bodies, Training Providers and Employers; in over 55 countries. Tribal employs over 800 professionals with deep educational domain expertise, across our offices in the UK, Australia, New Zealand, Canada, USA, Middle East, Philippines and Malaysia.

Highlights

Revenue

£80.1m

2018	£80.1m
2017	£84.9m

down 6%

Adjusted Operating Profit

£10.8m

2018	£10.8m
2017	£8.5m

up 27%

Statutory Operating Profit

£4.6m

2018	£4.6m
2017	£3.7m

up 24%

Financial Performance

13.5%
Adjusted Operating Margin[1]
2017: 10.1%

5.7%
Statutory Operating Margin
2017: 4.4%

4.3p
Adjusted Earnings per Share[1]
2017: 3.2p

2.0p
Statutory Profit per Share
2017: 1.3p

£20.0m
Net Cash
2017: £14.1m

132%
Cash Conversion[2]
2017: 130%

1. Adjusted Operating Profit, Adjusted Operating Margin and Adjusted Earnings per Share is in respect of continuing operations which excludes 'Other Items' charges of £6.2m (2017: charge of £4.8m).
2. Cash Conversion is calculated as net cash from operating activities before tax from continuing operations, less expenditure on intangible assets and property, plant and equipment, as a proportion of adjusted operating profit.

Operational Performance

£38.5m
Annually Recurring Revenue[1]
2017: £37.5m

£121.6m
Backlog[2]
2017: £120.4m

1. Annually Recurring Revenues is defined as the software related support and maintenance fees and recurring cloud services revenue.
2. Backlog refers to the Total Contract Value of booked sales orders which have not yet been delivered (including two years Support & Maintenance, where it is contracted on an annually recurring basis).

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At a glance

Our portfolio consists of a range of world-class software and education services: market-leading Student Information Systems that underpin the student journey from recruitment to successful outcomes; a broad range of education services covering quality assurance, peer review, improvement and inspections; and a student survey and analysis business, i-graduate, that provides the leading global benchmarks for student experience.

Our vision is simply:

to empower the world of education.

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

Our mission is:

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

Our key strengths

Extensive and long-standing customer relationships

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

Broad, complementary portfolio

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

Educational expertise and focus

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

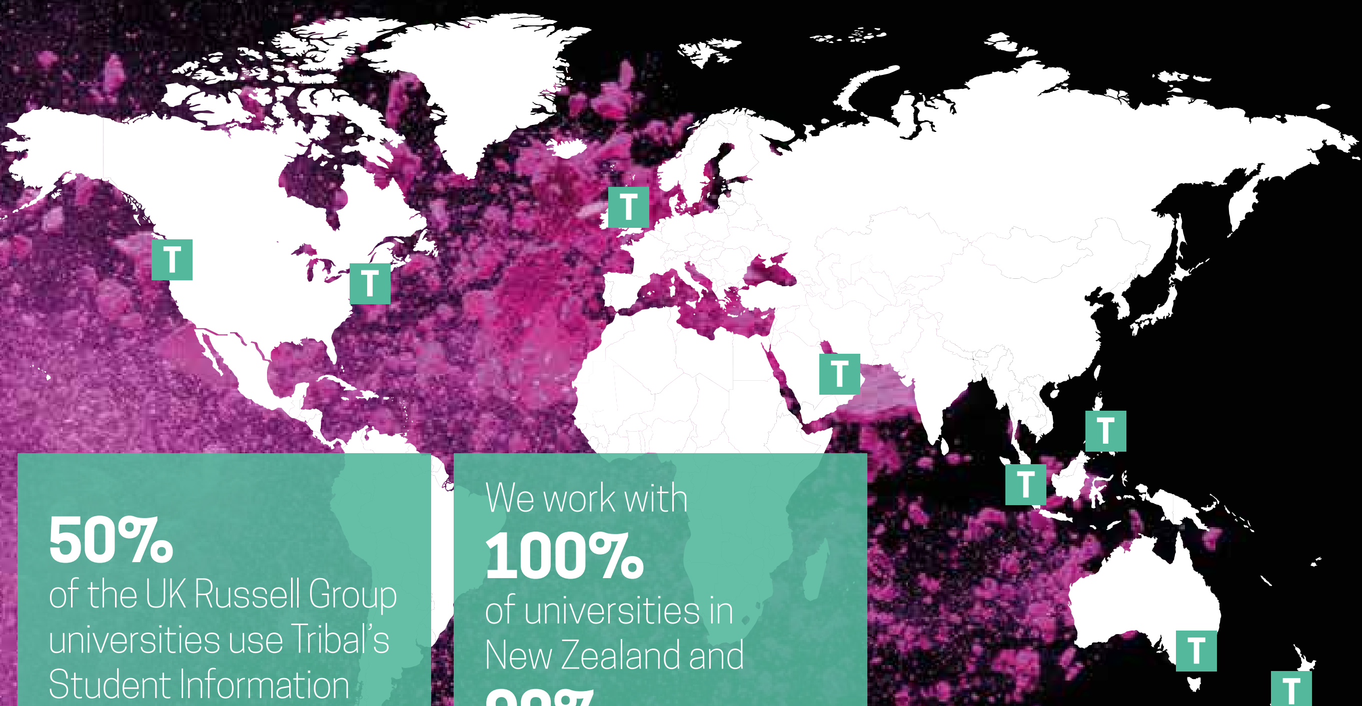
International delivery and insight

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

Investment case

Where we work

Tribal operates globally, with offices in the UK, Australia, New Zealand, Philippines, Malaysia, Middle East, Canada and the USA. We employ over 800 people worldwide, serving customers in over 55 countries. We have customers in Higher Education (HE), Further and Vocational Education (FE), Schools, Government and State bodies, training providers and employers.



50%
of the UK Russell Group universities use Tribal's Student Information Systems

We work with
100%
of universities in New Zealand and
90%
in Australia

Who are our customers

600+
Universities

100s
of colleges

1,000s
of schools

Training providers, employers, Government and State departments

Market Position

#1
student information systems provider

to HE
in UK, Australia & New Zealand

to FE
in UK, Australia & New Zealand

to UK
Training providers

Chairman's statement

Continuing the upward trend

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 and 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 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 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

Key strategic wins

Higher Education

- University of Portsmouth*
- Canterbury Christ Church University*
- St. Mary's University College, Twickenham*
- Ravensbourne University London*
- Institute for Optimum Nutrition*
- Oakhill Theological College*
- University College London (Student Support)
- University Alberta, Canada
- Waikato University, New Zealand

Further/Vocational Education

Combined deal to support the six Further Education colleges of Northern Ireland:

- Belfast Metropolitan College*
- North West Regional College*
- Northern Regional College*
- South Eastern Regional College*
- South West Regional College*
- Southern Regional College*
- Barnsley College*
- College of Animal Welfare*
- Greater Brighton Metropolitan College*
- Highbury College*
- TAFE NSW, Australia

Apprenticeship & Skills

- Cidori*
- Fitch Learning*
- Harriet Ellis Training and Recruitment Group*
- Norse Commercial Services*
- Pluss*
- Skills Republic*
- The Go-Ahead Group*
- The Learning Institute*
- The London Institute of Banking and Finance*
- Track Training Ltd*
- University of Central Lancashire
- University of Hull

* New customers in 2018.
Other listed wins are for major extensions or additional work.
All UK unless stated.

Adult Education

- Barnsley Metropolitan Borough Council*
- Blackburn with Darwen Borough Council*
- Calderdale Adult Learning*
- Derbyshire County Council*
- Hartlepool Borough Council*
- London Borough of Merton Council*
- North Yorkshire County Council*
- Oldham Council*
- Tower Hamlets*

Schools & Government bodies

- Clover Park School District*, Washington, USA
- Cleveland Metropolitan School District*, Ohio, USA
- Department of Finance, Northern Ireland*
- Dept. for Education (NCETM contract expansion and NPQs quality assurance)
- GEMS Education, Middle East
- NSW Dept. of Education, Australia
- Skills for Care
- SFA UK
- UAE Ministry of Education (private school inspections)

Our business model

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

Our Business Units

We operate two Business Units:

Student Information Systems

71% of sales

Student information systems and services tailored to different education segments.

Education Services[1]

29% of sales

Improvement and inspection services, quality assurance, student surveying and benchmarking across education.

Operations

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

1 From 1 January 2019 Quality Assurance Solutions and i-graduate have been combined to form Education Services.

Our Resources

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

Underpinning how we operate:

Our Values See page 32

How we maximise value creation

"We are excited by the possibilities for more efficient and effective management of data in the SMS solution. The team at Tribal have been really open to understanding our business. We enjoy their collaborative approach."

English Language Partners, New Zealand

Our Software

Our cloud-based and on-premise Student Information Systems add value to education and business organisations throughout the student lifecycle. Our modules span:

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

Customers pay through a license, implementation and maintenance model.

Our Education Services

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

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

Our Outputs

Generating returns and added value for all of our stakeholders:

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

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

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

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

Government agencies/ education funders
Independent quality assurance services supporting the development of top class education provision.

Risk Management See page 30

Corporate Responsibility See page 32

Our strategy for profitable growth is outlined on page 10

Our strategy

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

Strategic Priorities

The strategic direction of the business was set after a detailed review early in 2016 and our strategic priorities remain unchanged.

Deliver Tribal Edge – the new Student Information System

Tribal Edge is a cloud-based Student Information System (SIS) developed from a student centric perspective that will empower institutions to enhance the student experience and support the most appropriate outcome for each unique student. Tribal Edge will enable Tribal to offer a portfolio of applications and services to the education sector, developed by Tribal or by Tribal partners.

Tribal Edge development will focus on creating the underlying interfaces, data structures and embedded analytics that enable value-add solutions to be added to Tribal's existing SISs, including SITS:Vision, Callista and ebs, as well as eventually offering a full standalone option. Tribal's customers can take new Tribal Edge functionality over time as enhancements to their existing solutions.

Key measures

Revenue (sales of new modules to existing or new customers)

Progress in 2018

After successful beta trials, our first modules for Tribal Edge as well as the cloud-based platform, were made generally available. The sales pipeline has grown, and sales of Tribal Edge have been included in new customer bids. The development team has also grown steadily and is now close to full-strength. A detailed product roadmap process is in place and has been reviewed and shared with customers through a series of newly established Customer Advisory Boards.

In 2019, we will release initial modules for Progression, Admissions and Statutory Returns (TCSI). These are core SIS modules and will enable some customers to upgrade to the newly offered functionality.

Increase Annual Recurring Revenue

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

Key measures

Annually Recurring Revenue; percentage of Revenue annually recurring

Progress in 2018

Our partnerships with Rackspace, AWS and Microsoft Azure are offering our customers a comprehensive suite of cloud offerings. New business sales are now predominantly within the 'Tribal Cloud' and a number of on-premise customers have moved or are actively considering a transition to the cloud – all of which increase our annual recurring revenue.

Since 2017, the incremental cloud services revenue as well as the support and maintenance fees are included when calculating Annually Recurring Revenue.

Annually Recurring Revenue increased by 2.7% to £38.5m (2017: £37.5m), which included £5.6m for cloud services (2017: £4.0m), and represented 45% of revenue from continuing operations.

"We were really impressed with the ebs student information system, as it offered a comprehensive solution to help us deliver our part time Adult Education programme and full-time Apprenticeships most effectively."

Tower Hamlets Council, UK

Grow market share in established and new territories

A four-pronged growth strategy:

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

Key measures

Backlog

Progress in 2018

We are expanding business in Malaysia and will be running our first Tribal conference there in April 2019. We have also continued to build business in Canada with projects for three Higher Education institutions ongoing or completed in 2018.

Our education services business continues the success of schools inspection services in Middle East and also in the USA, where we have new contracts in the states of Ohio and Washington.

In 2019, we are looking to open an indirect channel in Australia to increase sales of Vocational and Schools solutions within region.

Backlog increased 1.0% to £121.6m (2017: £120.4m).

Drive improved margin

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

Key measures

Adjusted Operating Profit Margin

Progress in 2018

We continue to drive improved profitability achieving a margin of 13.5% (2017: 10.1%).

Case Study

A healthy future for UK College of Business and Computing

The UK College of Business and Computing (UKCBC) is a higher education institution with six campuses across London, specialising in the fields of Business, Tourism, Computing, Health and Social Care and Accounting. They had an existing system that simply wasn't meeting their needs for Admissions and embarked on a transformational project that implemented Tribal's market-leading student management system, SITS: Vision.

UKCBC now have one central database, one point of access for information and one process to follow across all campuses. SITS: Vision manages student administrative processes, from initial enquiry through to graduation and alumni.

"Tribal indeed have the best consultants, who were able to understand our needs and the purpose of this project really well. As we are a growing institution, we are still in the phase of executing a big implementation team for our DMS. In this scenario, we were able to call on our Tribal team as if they were our own and they were able to provide us with the support we needed quickly and smoothly."

Shiny Chauhan, Project Manager at UKCBC

Business & Financial Review

Building on strong foundations

Recurring revenues increased to

£38.5m

The adjusted operating profit increased by

27%

We won four new university customers for full SITS

4

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.

Introduction

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 for Student Information Systems.

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 two to three 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.

Business & Financial Review continued

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.

"ebs will allow us to simplify our data processes and through digital technologies, will empower our staff and students to achieve more successful outcomes."

Barnsley College, UK

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 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 £6.2m (2017: £4.8m).
2. 2017 results adjusted for constant currency, post IFRS 15 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 IFRS 15' – 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.

"We were impressed with the flexibility Maytas could offer us, and our ability to add further modules and functionality as our apprenticeships grow."

Access Skills, UK

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[2] 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

Business & Financial Review continued

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 (Strategic 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;
- SchoolEdge 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, 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

"Working with Tribal, we will be able to understand and transform our processes to improve the end-to-end student and staff experience."

Glasgow Caledonian University, UK

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.

Business & Financial Review continued

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 to 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.

"We are looking forward to having a full holistic view of our learner journey, alongside using a system that is crucially compliant with ESFA funding rules."

Norse Commercial Services, UK

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 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.

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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.

"We're delighted to be extending our relationship with Tribal. We believe that SchoolEdge will equip our staff to better meet the needs of the students and families in our school communities."

Generations Christian Education, Hong Kong, China

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 programme 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 Middle East and the timing of ongoing work which was delayed into 2019.

Business & Financial Review continued

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%	9pp	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 two years of Support & Maintenance revenue. At 31 December 2018 this increased to £121.6m (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).

Revenue / Average FTE

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).

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.

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

"We saw Quality Mark as a really powerful tool – it gave the perfect balance of external challenge to make sure we weren't just ticking along, and also the recognition that we're doing a great job."

Oakdene Primary School, UK

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 IFRS3 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).

Business & Financial Review continued

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.

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. See note 31 for further details.

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

Principal risks and uncertainties

The Group is exposed to a number of risks and uncertainties which could have a material impact on the future performance of the Group. The table below summarises the key risks that the Directors consider the business faces and how the Group seeks to mitigate them.

In addition to these, other risks of a financial nature are addressed in the Business & Financial Review.

Risk area	Cause and Effect	Mitigation
Reputation	**Cause:** Failure to deliver contractual commitments. Failure to meet investor expectations. **Effect:** Adverse publicity relating to contract and solution delivery with associated reputational damage and financial risk.	The Group maintains strong controls to ensure successful project delivery. The Board engages with investors on a regular basis.
Contract tendering	**Cause:** Poor commercial negotiation and documentation on major contracts. Failure to adapt to local legal framework on international projects. Penetration in new markets increases risk of omissions and mistakes. **Effect:** Contract delivery failure, risk of legal claims or onerous financial contract terms.	The Group maintains a formal Delegation of Authority matrix to ensure appropriate visibility and approval of all potential contracts.
Project delivery	**Cause:** Failure to meet project milestones and other contractual requirements; customer subject to own internal pressures. **Effect:** Non-payment or application of contractual penalty clauses by customers.	The Group reviews project progress on a monthly basis at Executive Management level with Board oversight.
Innovation and technology	**Cause:** Increasing emergence and demand for cloud-architected solutions for some legacy technology platforms and core products. **Effect:** Technically obsolete platform and products.	The Group is investing in a new Student Information Systems product strategy with a Cloud Operations (hosting) focus. This is continuing to move functionality from existing platforms to newer cloud-based applications.
Information security	**Cause:** Data loss or system security breach. Increasing regulatory data protection and information security requirements including health related controls over student management data. **Effect:** Losses of reputation with customers and in market. Risk of regulatory penalty.	The Group operates a Secure Data Centre and continues to roll out ISO 27001 certification across the business, and invest in security software and training for all staff. In addition, the Group reviewed its obligations in readiness for GDPR compliance which came into effect in May 2018.
People	**Cause:** Key employees leave the Group. **Effect:** Detrimental effect on customer relationships and development pipeline.	The Group has incentive schemes designed to attract, motivate and retain key employees, whilst encouraging appropriate behaviours. We aim to provide competitive remuneration packages for all staff. No sole staff member is considered to be a single point of failure.

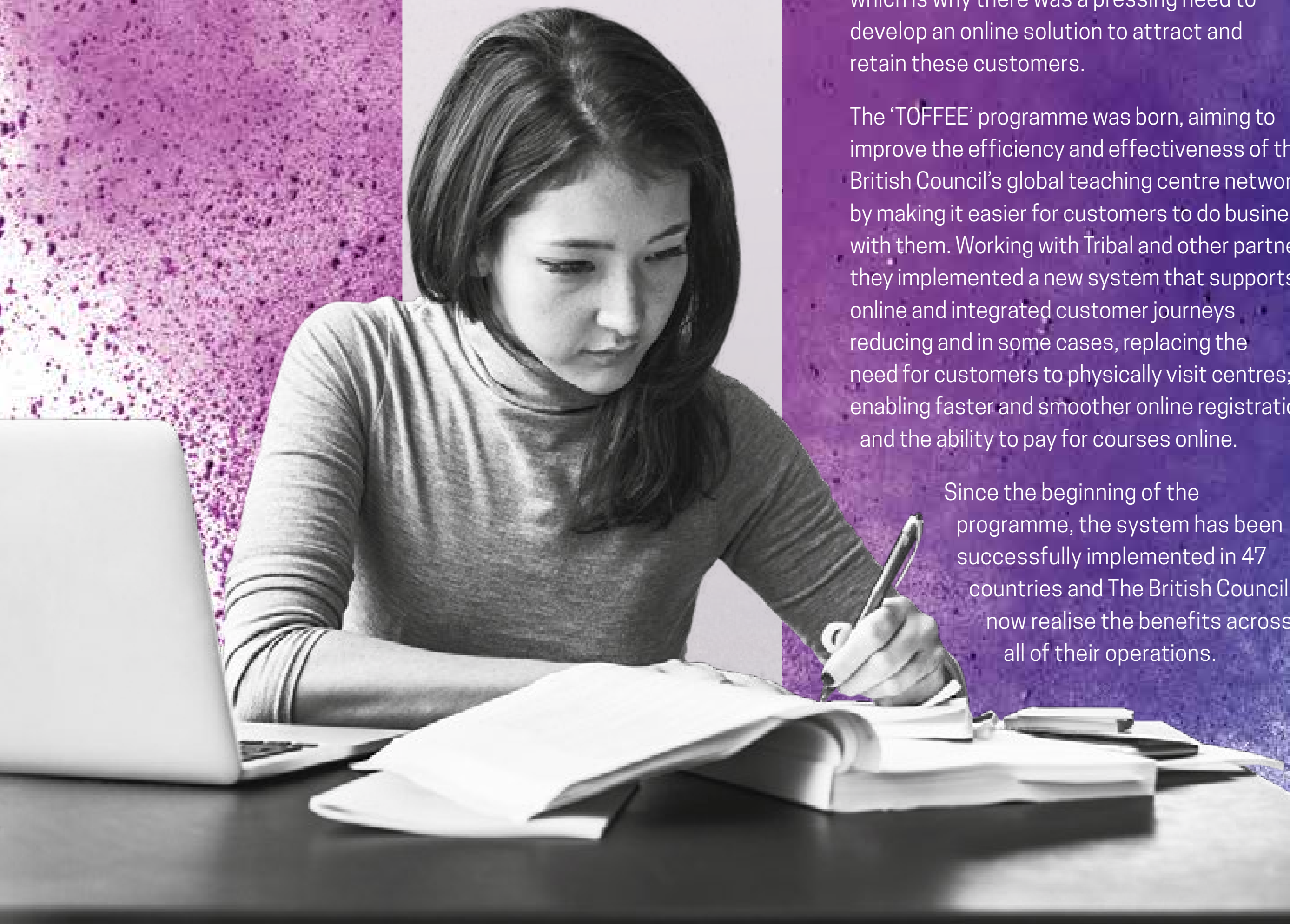
Case Study

British Council – Worldwide

The British Council is United Kingdom's international organisation for cultural relations and educational opportunities. They work with over 100 countries across the world and directly reach over 65 million people and more than 660 million people via broadcasts and publications. Each year they receive millions of customers face-to-face who want to learn English but increasingly customers are doing it online; which is why there was a pressing need to develop an online solution to attract and retain these customers.

The 'TOFFEE' programme was born, aiming to improve the efficiency and effectiveness of the British Council's global teaching centre network by making it easier for customers to do business with them. Working with Tribal and other partners, they implemented a new system that supports online and integrated customer journeys reducing and in some cases, replacing the need for customers to physically visit centres; enabling faster and smoother online registration and the ability to pay for courses online.

Since the beginning of the programme, the system has been successfully implemented in 47 countries and The British Council now realise the benefits across all of their operations.



Corporate and social responsibility

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

Our values

Tribal brings together highly talented people in a creative and collaborative environment. We are united through the values we established as a company in 2016 and now continually reinforce and celebrate. We showcase our people demonstrating our values and in 2018 we rewarded 165 people who had gone above and beyond in demonstrating one of our values.

Our values are:

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

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

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

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

Our people

Tribal's capabilities are founded on the talent and expertise of our people. Our development, retention and recruitment strategies at all levels of the business have a strong emphasis on diversity.

Our success as a growing international business is a tribute to our people's energy, commitment and know-how. We invest in our people, providing them with the tools and training to support and enable them to realise their potential.

A key development for 2018 was the launch of Tribal's bespoke competency framework, which underpins a range of Career Pathways. Our aim is to help our people to understand how they can develop in their current role as well as plan for their future growth and development. It is important to us that our people can envisage a long and successful career and therefore our investment in structures is as much about helping and empowering people to take ownership of their careers and to navigate a dynamic organisation.

We continue to build on our learning and development programmes and have only seen demand and investment increase in response. In 2018 we ran numerous courses, including business development programmes and two key strategic initiatives which have centred on the refresh and expansion of our Manager Academy, which broadens the skills and commercial awareness of our leaders and future leaders and the development of our Digital Learning strategy. All of our people globally now have access to a market leading online learning platform (e.g. Pluralsight, LinkedIn learning). In 2018, our people spent thousands of hours engaging in self-directed learning, allowing everyone the opportunity to develop new skills for their role, and also develop new capabilities for future opportunities.

As well as focusing on the performance, development and success of our existing people, a key part of our people strategy for 2018 involved investing in early talent programmes across the business; bringing in new recruits who learn and work in some of our key job families including Product Development and Customer Support. This included over 30 active or completed Apprentices who have secured formal qualifications whilst at the same time establishing a solid foundation of practical work experience from which to build their career with us and contribute to our ongoing success.

Engaging with people

Tribal operates from a range of offices in the UK and around the world. Communication among our people is crucial. We use a combination of Group-wide updates, including webinars, as well as running specific local communication sessions. We supplement these events by communicating on a number of channels (email, internal bulletin boards), our corporate social media and in our now established bi-monthly staff news update – Tribal Talk.

A major initiative in the year saw the introduction of Wellbeing days at each and every Tribal office. On these days a variety of talks and activities were organised to promote physical and mental wellbeing, as well as being used to highlight numerous benefits open to Tribal employees, including the new investments in staff health cash plans. All events were enthusiastically received, and the days will continue through 2019. It is encouraging to see that our efforts in this area have translated in to positive outcomes in our 2018 staff engagement survey, with some regions reporting a 10% uplift in employee engagement.

Gender Pay Equality

Tribal published its first Gender Pay Gap statutory report for our UK employees in March 2018. Like the vast majority of UK companies, it highlighted that we do have a gender pay gap, primarily because there are more women than men in our lower paid roles, and fewer in higher paid ones.

Across 2018 we have been making progress as Tribal continues to strive for equality across all groups. In our forthcoming Gender Pay Gap report to be published in April, we will show that we have closed the gender pay gap by 7% as we look at the diversity and balance in our business.

"We selected Tribal's SITS:Vision based on its rich functionality, as well as its ability to meet the University's current and future needs for student engagement."

University of Waikato, New Zealand

Supporting Charities

In 2018, we took the decision to close the Tribal Foundation and refocus our charitable giving. As a final act, the Tribal Foundation provided funds to a range of charities proposed and supported by Tribal employees, aligned with the foundation's goal of supporting access to education for all people around the world. Charities that were supported in the final round of funding included: the Rainbow Club, Australia; Australian Literacy and Numeracy Foundation; Youth Moves, UK; School in a Bag, UK; FiND,UK; Kids Scan, New Zealand; Young Musicians Support, UK; One to One Maths, UK; Pertubuhan Kebajikan Harapan Baru, Malaysia; Babbasa, UK; and Triangle, UK.

As a partial replacement, Tribal has introduced a Volunteer's day where an employee is enabled to take an additional day's leave to support a charitable cause. In many cases, a team or even whole office, have taken a day to contribute to a local charity. Through the year, Tribal's teams have been engaged in an impressive array of charitable causes including: Animal Welfare Trust; In the Bag; Gatton Trust; Men's Health (through Movember); Surfers against Sewage; Cancer Council; and The Tomorrow Project.

The Strategic Report, comprising the 'Our business model', 'Our strategy', 'Principal risks and uncertainties', 'Business & Financial Review' and 'Corporate and social responsibility' sections, was approved by the Board of Directors on 19 March 2019 and signed on its behalf by:

Richard Last	**Mark Pickett**
Executive Chairman	Chief Executive Officer

CAUTIONARY STATEMENT

This information has been prepared solely to provide information to shareholders to assess how the Directors have performed their duty to promote the success of the Group. The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, which underlie any such forward-looking statement.

Board of Directors

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

Richard Last

Executive Chairman

Appointed

Richard joined the Board in November 2015.

Experience

He is currently Chairman and Non-Executive Director of AIM listed Gamma Communications plc, Arcontech Group plc, and Lighthouse Group plc[1]. In addition, Richard is Non-Executive Director of Corero Network Security plc and Non-Executive Chairman of fully listed ITE Group plc and British Smaller Companies VCT 2 plc[1]. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

1. Standing down at forthcoming AGMs in 2019.

Mark Pickett

Chief Executive Officer

Appointed

Mark joined Tribal and the Board in July 2016.

Experience

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

Roger McDowell

Senior Independent Director

Appointed

Roger joined the Board in November 2015.

Experience

He is currently serving as Non-Executive Chairman of Avingtrans plc and Hargreaves Services plc, Non-Executive Director of Augean plc, Proteone Sciences plc, ThinkSmart plc, British Smaller Companies VCT 2 plc, Swallowfield plc and D4t4 Solutions plc.

Chief Executive Officer Position

Tribal's CEO, Ian Bowles, passed away suddenly at the end of August 2018.

Richard Last adopted the role of Executive Chairman and Mark Pickett, previously Chief Financial Officer, was appointed as Chief Executive Officer on 18 March 2019. Paul Simpson, our Global Financial Controller, has been appointed as Acting Chief Financial Officer.

Key to Committee Membership:

- Nomination Committee
- Audit Committee
- Remuneration Committee

Executive Management Team

Mark Pickett
Chief Executive Officer

See biography on page 34

Jon Baldwin
Managing Director – Higher Education

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

Mark Wilson
Managing Director – EMEA Region

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

Chloe Payne
Director of HR

Chloe joined Tribal's HR team in 2007 and has been part of many notable aspects in Tribal's evolution, including the early days of our internationalisation. Chloe was appointed to lead the function globally in April 2017. Prior to Tribal, Chloe worked in the Health sector, supporting a large social care organisation through a period of sustained growth, and at Cambridge Assessment where she managed their recruitment function internationally.

Janet Tomlinson

Managing Director – Education Services

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

Mike Beech

Marketing Director

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

Barbara Staruk

Managing Director – Product and Development

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

Peter Croft

Managing Director – APAC Region

Peter joined Tribal in September 2017 to lead the Asia Pacific business with a focus on delivering growth and benefits-driven customer experiences. Peter has over 20 years' experience in successful leadership of IT enterprises in the APAC region, and has held directorships in Australian, UK, US and Malaysian technology companies.

Corporate Governance

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

The Directors acknowledge the importance of good corporate governance and formally adopted the principles of the Quoted Companies Alliance Code ('QCA') on 28 September 2018. Compliance with the code is shown on pages 42 to 49.

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

The PLC Board

The PLC Board ('the Board') is responsible for the Company's systems of corporate governance.

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

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

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

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

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

Delegated Authorities

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

Subsidiary Boards

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

Board Committees

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

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

	PLC Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings in period	12	3	1	1
Meetings attended by members:				
Richard Last	12	3	1	1
Roger McDowell	12	3	1	1
Ian Bowles [1]	8	2*	–	–
Mark Pickett	12	3*	–	–

* By invitation.

1. Ian Bowles died in office on 28 August 2018.

Audit Committee

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

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

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

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

The auditors' report to the Audit Committee on matters including independence and non-audit fees on an annual basis. The specific audit partner changes every five years. The amount charged by the external auditors for the provision of services during the 12 month period under review is set out in Note 6 of the financial statements on page 85.

Corporate Governance continued

Remuneration Committee

The Remuneration Committee is chaired by Roger McDowell and includes Richard Last. The Committee meets at least once a year.

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

The Remuneration report which details the Directors' remuneration, pension entitlements and service contracts, including information on Directors' interests, is set out on pages 51 to 55.

Nominations Committee

The Nominations Committee is chaired by Richard Last and includes Roger McDowell and Mark Pickett, who provides Executive management insight. The Committee meets at least once a year.

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

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

Executive Board

The Executive Board is chaired by Mark Pickett. The members of the Executive Board are drawn from the heads of the business units and other operational areas. The Executive Board typically meets monthly but the members interact frequently in the normal course of their roles. The Executive Board oversees the Group's operational and financial performance and is responsible for day-to-day management decisions in line with the Group's strategy. It also considers succession planning and talent management. Further matters are outlined in the Delegated Authorities.

Integrated Governance Committee

The Integrated Governance Committee is chaired by the Chief Financial Officer and reports to the Chief Executive Officer. The Committee meets monthly and includes representatives from Finance, Information Services, Human Resources, Legal, Compliance, Property and Procurement. There are separate sub-committees for Health & Safety and Information Security which monitor relevant legislative and regulatory requirements.

Internal controls and risk management

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

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

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

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

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

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

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

Communication with shareholders

The Group reports formally to shareholders when its annual and half-yearly financial statements are published. At the same time, Executive Directors present the results to institutional investors, analysts and the media. Notification of the date of the AGM is sent to shareholders at least 21 working days in advance of the meeting. Details of the AGM are set out in the Notice of Meeting. The Directors are available at the AGM to answer questions, both during the course of the meeting, and informally afterwards. Contact with major shareholders is principally maintained by the Chief Executive Officer and the Chief Financial Officer, who ensure that their views are communicated to the Board as a whole.

The Chairman is also available to discuss governance and other matters directly with major shareholders. At every Board meeting, the Board is provided with the latest brokers' reports and a summary of the contents of any meetings with shareholders. The Board considers that the provision of these documents is a practical and efficient way for both the Chairman and Senior Independent Director to be informed of major shareholders' opinions on governance and strategy and to understand any shareholder issues and concerns.

Approved by the Board of Directors on 19 March 2019.

Richard Last
Executive Chairman

Quoted Companies Alliance Code (QCA)

Tribal adheres to the Quoted Companies Alliance Corporate Governance Code (QCA Code), revised and published in April 2018. Compliance with the code and the activities we undertake to successfully manage the Tribal business are detailed below.

Tribal follows the QCA Code's 10 principles of corporate governance, these are detailed in the table below together with Tribal's practices against the principles.

Deliver Growth		
1	Establish a strategy and business model which promote long-term value for shareholders	Delivering growth is key to Tribal's success. Our strategy, business model, stakeholder engagement activities and risk management all help achieve this.
2	Seek to understand and meet shareholder needs and expectations	
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success	
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	

Maintain a Dynamic Management Framework		
5	Maintain the Board as a well-functioning, balanced team led by the Chair	Tribal maintains its own Dynamic Management Framework and has experienced Board members.
6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	
7	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	
8	Promote a corporate culture that is based on ethical values and behaviours	
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	

Building Trust		
10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Building trust with all stakeholders is key to the successful functioning of our business.

Deliver Growth

Tribal's goal is to be the international, market-leading education software and services provider, valued by customers, employees and shareholders alike.

Overview

Tribal is a world-class, education focused company, providing the expertise, software and services needed by education and business organisations worldwide. Everything we do underpins the experience and success of our customers' students.

We operate internationally and serve hundreds of Higher Education, Further Education and Vocational institutions; thousands of schools; and many Government and State bodies, Training Providers and Employers; in over 55 countries. Tribal employs over 800 professionals with deep educational domain expertise, across our offices in the UK, Australia, New Zealand, Canada, US, Middle East, Philippines and Malaysia.

Vision & Mission

Our vision is simply: **to empower the world of education.**

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

We strive to research, develop and deliver products, services and solutions needed by education institutes across the world that support the primary goals of educating students, providing optimum learning experiences and ultimately, delivering successful outcomes. Our solutions enable institutes to maintain their focus on the quality of learning and development offered to their students.

Our Key Strengths

- **Extensive and long-standing customer relationships** – we enjoy deep and long-term relationships with our customers across all education sectors.
- **Broad, complementary portfolio** – we offer a range of world-class software and education services: market leading Student Information Systems that underpin the student journey from recruitment to successful outcomes; a broad range of education services, covering quality assurance, peer review, improvement and inspections; and a student survey and analysis business, (i-graduate) which provides the leading global benchmarks for student experience.
- **Educational expertise and focus** – our deep educational domain expertise has been developed through a long and successful history of working with, and focusing on, the education market. Our team includes many former education practitioners.
- **International delivery and insight** – our business operates globally, and actively collects and shares leading-practice and market insight with our worldwide customer base.

Our Direction

We are developing a new Student Information System, Tribal Edge. This combines our rich experience and expertise, with feedback from our customers as to what they require now and in the future. Tribal Edge will initially enhance and, in time, replace our existing student systems. Tribal Edge will provide richer functionality and a platform for our customers in Higher and Further Education to underpin their management and oversight of the student journey, from recruitment through to successful completion or graduation, and beyond.

Tribal Edge has been designed for the cloud, and with our collaboration agreement with Microsoft, will be available on the Microsoft Azure cloud platform.

Business Model

Our business model is shown on pages 8 and 9.

Strategic Priorities

Our strategy is to focus globally on education sectors – Higher Education, Further Education and Vocational institutions, Schools, Government and State bodies, Training Providers, and Employers – to underpin student success through the provision of expertise, software and services. Our four strategic priorities are outlined on pages 10 and 11.

Shareholder Engagement

Tribal proactively engages with its shareholders and potential shareholders alike. This is through a series of mechanisms:

- **Formal announcements** – as a London Stock Exchange (LSE) AIM listed company, we make all statutory announcements through the LSE's regulatory news service (RNS). A full RNS feed is maintained on our investor area (see below). Tribal reports formally to shareholders by the publication of its annual and half-yearly financial statements.
- **Analyst and investor presentations** – the Executive Directors present the half-yearly and annual results to institutional investors, analysts and the media. The presentations are available on the investor section of the website. Since the announcement of the new strategy by the late Ian Bowles in 2016, institution investor and analyst presentations after half-yearly and annual results have been well received. Since that time, sentiment has become increasingly positive as Tribal has delivered in accordance with the new strategy.

Quoted Companies Alliance Code (QCA) continued

- **AGM** – Notification of the date of the AGM is sent to shareholders at least 21 working days in advance of the meeting. Details are set out in the Notice of Meeting. The Directors (and the auditor) are available at the AGM to answer questions, both during the course of the meeting, and informally afterwards. All details, including previous AGM communications, can be found on the Investor Announcements and the Investor Documents pages.
- **News releases** – in addition to statutory announcements, we use RNS Reach to present regular business news and updates to shareholders. We also have a full news services available on the Tribal website.
- **Interactive sessions** – Tribal's Executive Directors arrange regular (six monthly) face to face sessions with any interested shareholders or potential shareholders, and are also available for updates at any point in the year. See contact details below.
- **Investor focused micro-site** – we maintain a full section on the main Tribal website for investors. This includes the Financial Calendar and real-time RNS announcements; the latest investor documents, presentations and reports; share information and share dealing interactive feeds; this corporate governance statement; a full list of investor related contacts.
- **LSE Profile** – we also maintain a profile on the London Stock Exchange Issuer services website.
- **Investor Email** – we also manage an investor email account for any direct queries – investors@tribalgroup.com

Contact with major shareholders is principally maintained by the Executive Directors, who ensure that their views are communicated to the Board as a whole. The Chair is also available to discuss governance and other matters directly with major shareholders. At every Board meeting, the Board is provided with the latest brokers' reports and a summary of the contents of any meetings with shareholders. The Board considers that the provision of these documents is a practical and efficient way for both the Chair and Senior Independent Director to be informed of major shareholders' opinions on governance and strategy and to understand any shareholder issues and concerns.

If you would like to know more about Tribal as a shareholder, or potential shareholder, please contact us through our investors email address and we will put you in touch with one of our Executive Directors.

Wider Stakeholder and Social Responsibilities

As well as our shareholders, we regularly engage with the wider stakeholder group including employees, customers and regulators. Our engagement activities and ability to build trust, is described here.

In addition, we take our Corporate Social Responsibilities (CSR) seriously and encourage a proactive and positive attitude towards CSR across the company.

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

Previously, we had set-up and managed our own charitable body – the Tribal Foundation. This has contributed to and supported numerous projects within the UK and globally, with the stated aim of widening the opportunity of education to those who are in anyway disadvantaged. The Foundation has contributed over £600,000 to a variety of programmes.

From 2018 onwards, we have decided to adopt a different approach to encourage wider employee participation. We will continue to run Give As You Earn (GAYE) schemes, including the option of Company matched contributions, to allow employees to contribute to their chosen charities, but we now also allow every member of staff to take a day's paid leave to support a charity of their choice. This has been actively promoted and team-wide participation has been encouraged. All such endeavours are then presented in the company newsletter, Tribal Talk.

In addition, new charity teams are being established across the company, representing the major regions we have staff based in, with the goal of annually selecting a charity to support financially, and with the employee charity days.

Risk Management

Our Risk Management Framework applies consistently across all Tribal offices and regions, and is managed at Operational and Corporate levels. Risk management activity is overseen by the Chief Executive Officer, with the support of the Executive Management Team and Global Risk Manager.

Our framework enables us to remain vigilant to all known and emerging risks and opportunities. Effective risk management supports informed decision making; enables us to minimise impact from unforeseen internal or external events; and allows us to fully exploit emerging opportunities.

Our objectives for risk management are to:

- Identify, measure, control and report on business risk that may undermine the achievement of objectives, both strategically and operationally, through appropriate analysis and assessment criteria;
- Effectively allocate effort and resources for the management of key and emerging risks;
- Build an accurate picture at the highest level of the key risks facing our business, and use this information to drive business improvements in a considered and coordinated way;
- Support and develop our reputation as a well governed and trusted organisation;
- Minimise costs and drive efficiencies in the way that pervasive risk is controlled across the business;
- Identify weaknesses in, and opportunities to improve, our business processes.

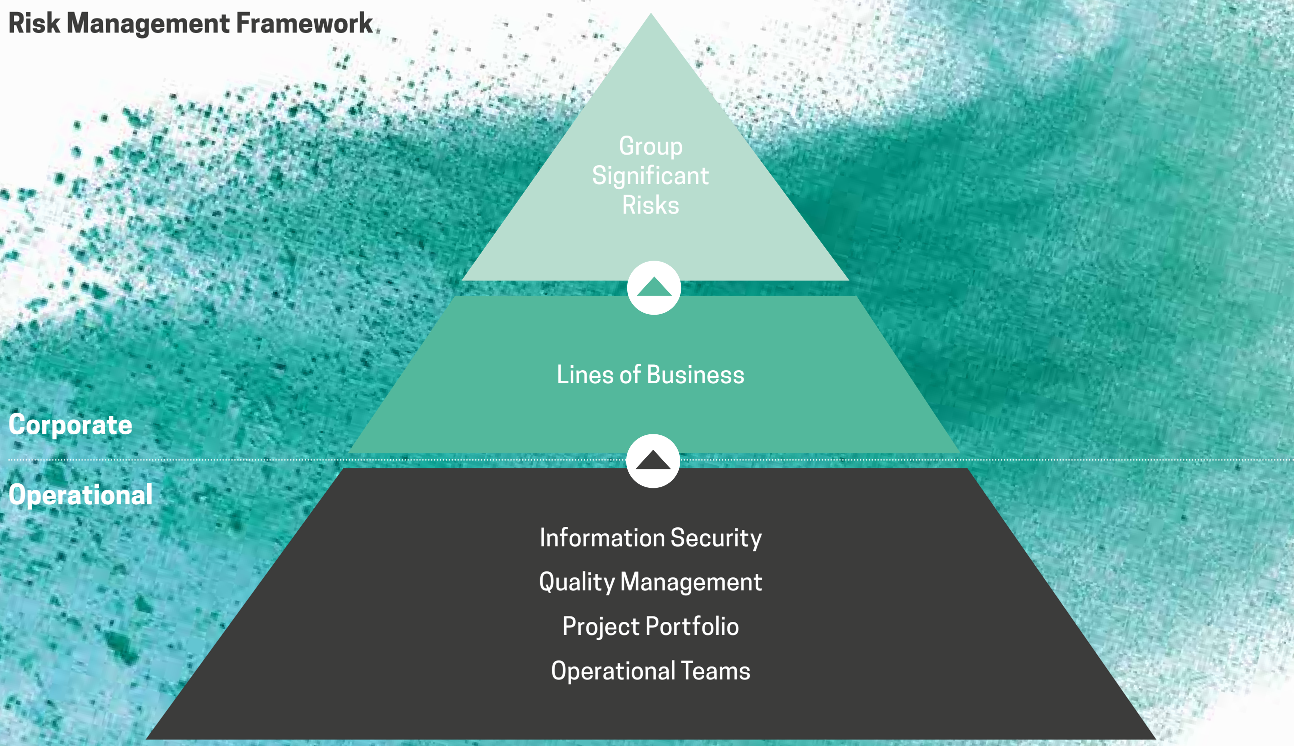
Risk Registers

At the Operational level, risks are recorded and managed within teams or projects as required and in line with the Risk Management Framework.

At the Corporate level, a risk register is held for every line of business, including central support functions. These registers record risks pertinent to the line of business. Above these, there is a single central risk register for Group Significant risks, which records the top risks to the business.

Risk registers are reviewed on a quarterly basis which supports the escalation of any risks with a high residual impact, or potentially pervasive risks, to a higher level risk register as appropriate. This process is overseen by the Global Risk Manager.

Risk Management Framework



Quoted Companies Alliance Code (QCA) continued

Risk Appetite

The Board determines the amount and type of risk that Tribal is willing to take on in pursuit of its strategic objectives. The Board's appetite for risk is influenced by various key factors including (but not limited to) the overall economic, regulatory and operational landscape in which we operate.

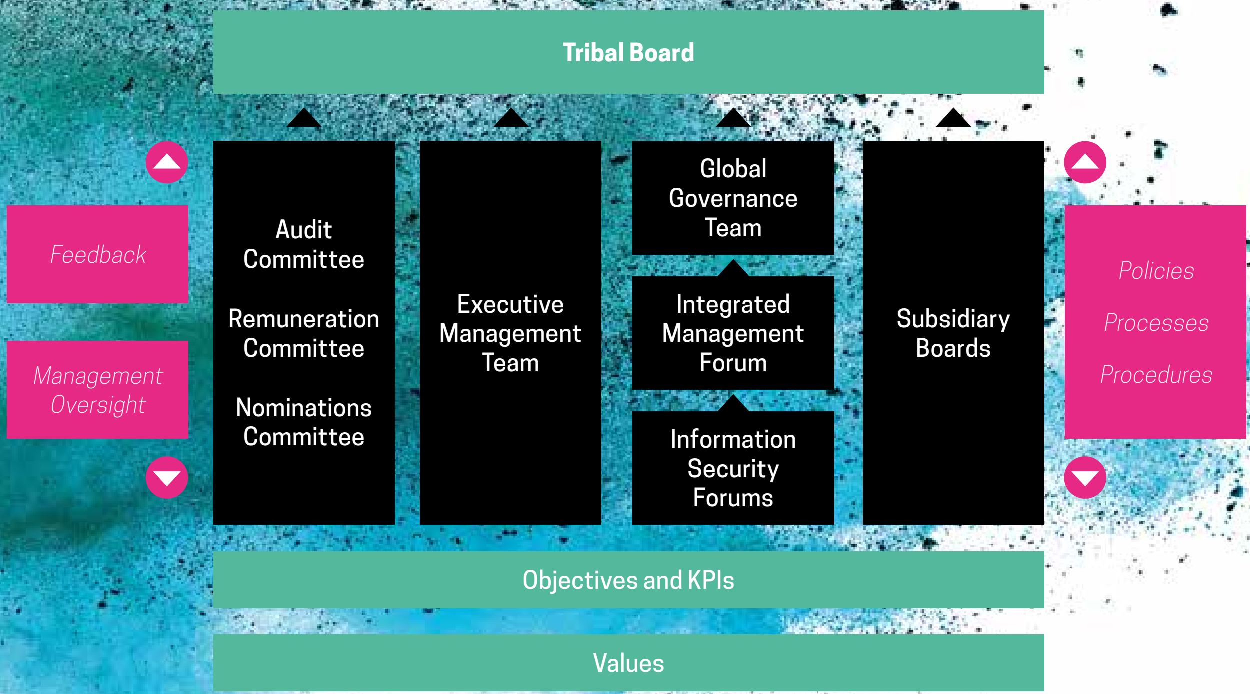
The Executive Management Team and Global Risk Manager monitor and advise the Board of these key influences which enables the Board to adjust the amount of risk that Tribal takes on. Risk tolerance may, by business choice, differ in different parts of the company.

The Framework defines how risks should be handled depending on their severity level.

Review and Assurance

Risk registers are updated as and when required. A full review is undertaken quarterly. The highest rated risks are presented to the Board every quarter by the CEO. Every six months the Board is presented with the detailed risk registers for each line of business.

Dynamic Management Framework



Board composition, experience, and independence

The PLC Board ('the Board') is responsible for the Company's corporate governance systems and processes that support good decision making.

The Non-Executive Directors, Richard Last (Chair)* and Roger McDowell are both considered independent of management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement. Both own shares in Tribal however this is not considered to alter their independent status.

* On the 29th August 2018, Richard Last took up the temporary role of Executive Chairman as a result of the sudden passing of CEO, Ian Bowles, pending the Company's appointment of a replacement. Upon the appointment of replacement CEO, Richard will cease his executive duties and will again be deemed independent. The Board consulted with its NOMAD in this process who confirmed that this action was in the best interests of the Company.

Director's Commitment to Tribal

Our Non-Executive Directors have committed in their letters of appointment to attend all reasonable Board and Committee meetings in addition to being reasonably available at other times for Tribal business. In his temporary role as Executive Chairman, Richard Last has committed to making time available on a daily basis to work with the Executive Management Team in the day to day operations of the Company, which evidences a commitment to devote extra time to Tribal in the event of a crisis.

Our Executive Directors have entered into employment contracts which require them to attend all Board and Committee (of which they are a member) meetings.

The Non-Executive Directors meet at least once a year without the Executive Directors present. All Directors submit to re-election each year at the Annual General Meeting ('AGM') of the Company.

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

Board meetings are occasionally scheduled to take place at different Tribal office locations, to support active engagement with the business and ensure visibility to the Board of matters pertinent to each location.

A summary of Board and Committee meetings and attendance can be found in the Annual Report.

Board experience, skills and capabilities

The Board members and their expertise, the roles of the Chair and Chief Executive Officer, and the roles of the Committees are listed here.

Board Charter

The Board Charter has been approved by the Board and details:

- the overarching roles and responsibilities of the Board;
- all of the matters which are the ultimate responsibility of the Board;
- the Board's powers to establish Committees;
- Board membership, including guidance on director independence;
- the role of the Chair;
- the role of the Chief Executive;
- the role of the Company Secretary;
- managing exceptional circumstances;
- obligation to annually review Board performance and the Board Charter.

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

External Advice

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

The Board nor any Committee, have had cause to obtain external advice on any external matter.

External Board Advisers

The Board has a number of advisors used on a regular basis. Their details can be found on page 121.

Board Evaluation

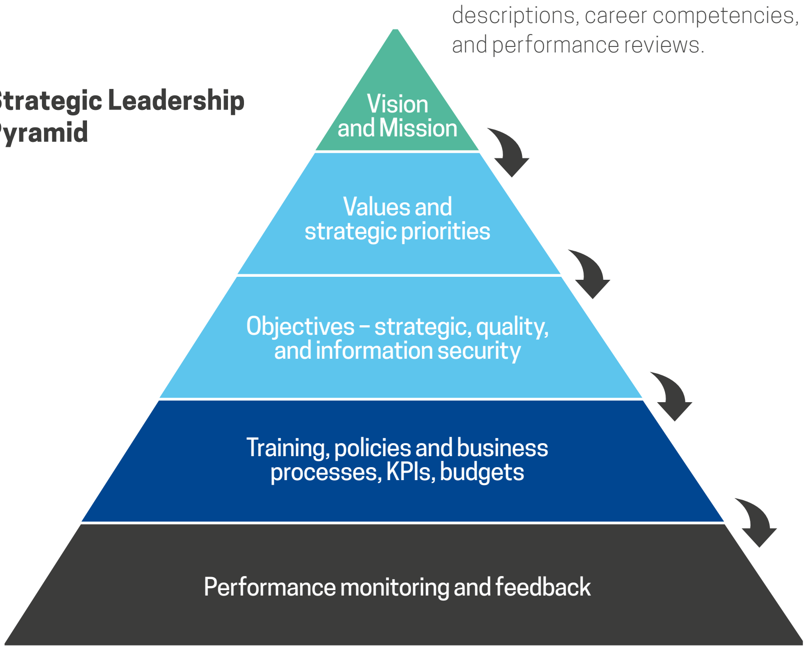
The Tribal Board is reviewed annually, with the evaluation process tying in to our annual planning cycle. The evaluation is initiated by the Chair, and with the consensus of the Tribal Board, agrees the need and scope of the evaluation, as well as whether it is conducted in-house or with the help of an independent external expert.

Quoted Companies Alliance Code (QCA) continued

The Board evaluation covers:

- Board Structure: its composition, constitution and diversity and that of its Committees, competencies of the members, Board and Committee charters, frequency of meetings, procedures;
- Dynamics and Functioning of the Board: annual Board calendar, information availability, interactions and communication with CEO and senior executives, Board agenda, cohesiveness and the quality of participation in Board meetings;
- Business Strategy Governance: Board's role in company strategy;
- Financial Reporting Process, Internal Audit and Internal Controls: The integrity and the robustness of the financial and other controls regarding abusive related party transactions, vigil mechanism and risk management;
- Monitoring Role: Monitoring of policies, strategy implementation and systems;
- Supporting and advisory roles;
- The role of the Chair.

Strategic Leadership Pyramid



Outcomes of the Board evaluation are documented and an action plan put in place as needed. The actions may be owned solely by members of the Board or may be distributed to Tribal's Executive Management team as appropriate. Progress of the action plan is then tracked within the regular Board meetings.

Corporate culture and ethics

The Executive Management Team sets strategic, quality management and information security objectives on an annual basis (overseen by the Board). These objectives are integrated into day to day business activity through:

- Translation into team and individual objectives;
- Policies, procedures and detailed business processes;
- Structured compliance training programme;
- Operational management structures for monitoring and reporting on performance of the governance framework;
- Integration into individual job descriptions, career competencies, and performance reviews.

We maintain an internal management framework which is in compliance with the ISO9001 Standard for Quality Management and ISO27001 Standard for Information Security.

Our Compliance Training Programme is compulsory for all new employees. Refresher training is also compulsory on a rolling basis over a two-year period. Training is updated and delivered following introduction of new or changes to applicable legislation or regulations.

Topics covered by Tribal's Compulsory Training Programme include:

- Anti-Bribery and Corruption;
- Equality and Diversity;
- Data Protection and the GDPR;
- Cyber Security;
- Risk Management;
- Anti-Money Laundering;
- Health and Safety;
- Whistleblowing.

The Compliance Training Programme is actively supported by our senior management team, who personally undertake all modules. The landing page on the Compliance Training Programme site includes a statement personally drafted by our CEO, emphasising the importance of the training and Tribal's commitment to compliance.

All job descriptions define how employees are expected to uphold Tribal's Values and are mapped to our career competencies. Tribal has defined 40 competencies which, when combined, describe the behaviours which drive both our individual and collective success. Individual performance against both the relevant competencies and the corporate Values, and goal-setting in line with corporate objectives, is central to an employee's annual review cycle.

Our incentive structures are designed to encourage ethical conduct in line with our Values, and specifically reward cross-functional collaboration. We operate a spot reward scheme, 'Living the Values'; which explicitly recognises demonstration of the Values. Annual pay reviews are based on individual performance, achievement and behaviours.

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

Building trust with all our stakeholders is key to our success.

Building trust

With our people

Tribal's values, the talent and expertise of our people, and gender pay equality are detailed on page 32.

Communication

Tribal has a number of offices in the UK and around the world, the locations are shown on page 3 and detailed on page 113. Communication among our people is crucial and is a fundamental platform of our success. We use a combination of Group-wide updates, including webinars, as well as running specific local communication sessions. We supplement these by communicating via a number of channels (email, internal bulletin boards), our corporate social media and in our now established bi-monthly staff news update – Tribal Talk. We also make extensive use of our Office 365 infrastructure with corporate news hubs for all main areas; active use of Microsoft Teams to cover any specific interest areas; and Group-wide use of Skype for Business for both calling and messaging.

We continue to listen to our people and at the end of 2017 completed a thorough company-wide engagement survey. The results of this gave us a baseline for planning further work in 2018 and has ensured we have an engaged and motivated team.

Our communication strategies, both internal and external, feed the key relationships upon which we rely to achieve our goals.

With our customers

We have a wide range of mechanisms to regularly engage our customers, both to inform and also to obtain their feedback and input. This includes:

- **Account management;**
- **Regular communications** – including email updates, newsletters, and a website that includes news and weekly blogs;
- **Customer conference** – we hold an annual conference, Empower, for all customers globally where over 50 sessions are run to update customers on all areas of product and services. We showcase our domain knowledge and expertise including our insights in the future direction of the market. It also provides opportunity for customers to comment, question and provide feedback directly to Tribal employees;
- **User groups** – most product areas have their own user groups (our customers), either managed by the users themselves or supported by Tribal, where users can discuss products and any concerns or issues;
- **Customer Advisory Board (CAB)** – we have a formal, strategic advisory board for the Tribal Edge solution which engages customers globally and across education sectors, for review of the Tribal Edge plans and roadmap;
- **Additional customer engagements** – Tribal employees and senior managers regularly meet customers for two-way discussions on an as needs basis.

  Our stakeholders have a track record of providing genuine feedback on their use of our solutions via the above communication methods; most commonly from the User Groups and CAB. It is common for this feedback to be incorporated in our product roadmaps.

With our shareholders

Our activities to regularly engage shareholders is presented here. This ensures an ongoing dialogue between shareholders and Tribal.

Website

Tribal's compliance with the QCA code and the activities undertaken is published on our website at:

www.tribalgroup.com/investors/governance

Audit Committee report

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

Activities of the Committee during the year

The Committee's activities have focused on the accuracy of financial reporting and the related statutory audit; and the assessment of internal controls. During the year the Committee was involved in the reviewing and approving of the Annual Report and Accounts for 2017 and the Half Year Report and Accounts for 2018, overseeing the Group's adoption of IFRS15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments', compliance with the introduction of General Data Protection Regulations (GDPR) and Corporate Criminal Offence Rules. In addition, the Committee reviewed the position of the Group's independent external auditors and appointed BDO LLP in October 2018, replacing PricewaterhouseCoopers LLP.

Financial reporting and statutory audit

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

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

External audit

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

Accounting policies, practices and judgements

The selection of appropriate accounting policies and practices is the responsibility of management, and the Committee discussed these with both management and the external auditors. Significant areas considered by the Committee in relation to the 2018 financial statements are set out below.

Going concern

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

Revenue recognition

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

Goodwill

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

Capitalised product development costs

The Group's product development costs are capitalised where the expenditure meets the criteria of IAS38, and the recoverability assessed annually against expected future cashflows. The Committee reviewed management's capitalisation process and recoverability assessment and concluded the capitalisation was appropriate and that there was an impairment of £1.0m in relation to the SchoolEdge modules.

Assessment of internal financial control

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

New accounting standards

The Committee has continued to be kept appraised of progress of the Group's preparations for the implementation of IFRS 16 (Leases) which the Group will implement from 1 January 2019.

Approved by the Audit Committee on 19 March 2019.

Roger McDowell
Chairman, Audit Committee

Remuneration report

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

Remuneration policy

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

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

Element of Pay	Purpose and link to Strategy	Operation including maximum	Performance Criteria
Salary	To attract and retain high-quality individuals with the appropriate skills, experience, and knowledge, while also recognising their on-going performance.	Salaries are reviewed annually or when an individual changes position or responsibility. Salaries for the current year are set out on page 53.	Assessment of personal and corporate performance.
Benefits	To provide a range of cost-effective benefits which are typical market practice.	The main benefits provided include private medical insurance, a death in service benefit of four times salary and private fuel.	None.
Pension	To provide cost-effective long-term retirement benefits which are aligned with market practice.	Contributions of 10% of salary are paid to Executive Directors. An equivalent cash supplement may be paid to an individual if the annual or lifetime allowance has been met or exceeded.	None.
Annual Bonus	To incentivise and reward for the achievement of in-year objectives, which are linked to the Group's Adjusted Operating Profit.	An annual cash bonus is payable up to a maximum of 125% of salary for the Chief Executive Officer and 125% for the Chief Financial Officer, subject to the achievement of performance targets. In all cases, bonus payments are subject to the overriding discretion of the Remuneration Committee.	The Remuneration Committee reviews the performance measures.
Long-term Incentives	To incentivise and reward for the achievement of long-term performance, which is aligned to the generation of shareholder value.	An annual grant of nil-cost options, which vest after three years subject to continued service and the achievement of performance conditions. The plan limit for an award in any year is 200% of base salary. The normal policy will be to grant 100% of base salary to the Chief Executive Officer and the Chief Financial Officer. Dividends which accrue on vested awards may be paid as cash, or treated as reinvested and paid in shares.	The Remuneration Committee reviews the performance measures and targets annually. The Remuneration Committee has determined that a target linked directly to the Group's adjusted operating profit margin is an appropriate measure for awards granted in 2018.
All employee plans	To encourage broad-based employee shareholding in the Group.	The Share Incentive Plan (SIP) currently provides all employees with the opportunity to acquire shares in a tax-efficient manner up to £150 per month.	None.

The Remuneration Committee ('the Committee') operates the annual bonus plan and long-term incentive plans according to their respective rules, the Listing Rules and HMRC rules where relevant.

Remuneration report continued

Director changes

Ian Bowles sadly passed away during the year. Ian acted as Chief Executive Officer from February 2016 to the time of his death in August 2018. Richard Last was appointed Executive Chairman on 29 August 2018 and Mark Pickett was appointed Chief Executive Officer on 18 March 2019.

The use of performance measures

Annual bonus targets will include financial measures which reflect the performance of the business and are directly linked to the Group's Adjusted Operating Profit.

Long-term incentive performance measures are chosen to be aligned to long-term shareholder value creation by using a share price growth measure.

Directors' service contracts

Details of service agreements and notice periods are as follows:

Name	Director status	Effective date of contract	Expiry	Notice period for both parties
Ian Bowles[3]	Executive	17 February 2016	28 August 2018	6 months
Mark Pickett	Executive	30 June 2016	Ongoing	6 months
Richard Last[1,]	Non-Executive – Chairman	17 November 2015	28 August 2018	–
Richard Last[2]	Executive – Chairman	29 August 2018	2019 AGM	–
Roger McDowell	Non-Executive – Senior Independent Director	17 November 2015	2019 AGM	3 months

1. Richard Last has no notice period.
2. Richard Last was appointed Executive Chairman on 29 August 2018.
3. Ian Bowles died in office on 28 August 2018.

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

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

Policy on payments for loss of office

The Committee aims to deal fairly with cases of termination, while attempting to limit compensation. Executives' service contracts provide the Committee with the discretion to make a payment in lieu of notice limited to base salary. The Committee also retains the discretion to pay an annual bonus on a departure in certain circumstances. The rules of the long-term incentive plan set out the treatment if a participant leaves employment prior to awards vesting. If the participant is considered a good leaver (through death, retirement, injury or disability, redundancy, employment being transferred outside the Group, or any other reason the Committee decides) then awards would normally vest on the normal vesting date. In the event of a change of control, an award may vest early subject to the extent the performance conditions have been achieved and scaled back pro rata for service, although the Committee has the discretion to disapply time pro-rating.

Non-Executive Directors have a defined notice period and no compensation or other benefits are payable other than the potential share-based incentives in respect of Richard Last and Roger McDowell.

Risk

The Committee is cognisant of the need for the remuneration policy to operate within an effective risk management system. The Committee reviews the various elements of remuneration on an annual basis, to ensure that they do not encourage any undue risk-taking by Executive Directors or senior management. When setting performance targets for variable components of remuneration, the Committee remains mindful of environmental, social and governance ('ESG') issues. The Committee does not believe that the current remuneration structure will encourage dysfunctional behaviours or would reward despite a negative ESG event.

Shareholder's Views

The Committee considers shareholder feedback received at the AGM and during meetings with investors throughout the year, and uses these views to help formulate the overall remuneration policy.

External Board Appointments

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

Non-Executive Director Fees

The fees for the year ending 31 December 2018, which took effect from 1 January 2018 are as follows. These exclude any expenses which the Non-Executive Directors may incur in relation to their duties.

	From 1 January 2019	From 1 January 2018	Increase
Executive Chairman	£200,000	£200,000	Nil
Non-Executive Chairman	£110,000	£110,000	Nil
Basic Fee	£40,800	£40,800	Nil
Senior Independent Director Fee	£4,100	£4,100	Nil
Committee Chairman Fee*	£5,100	£5,100	Nil

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

INFORMATION SUBJECT TO AUDIT

Remuneration payable for the financial year ending 31 December 2018

Director	Salary	Benefits[1]	Bonus	SBP[2]	Pension	Total 2018	Total 2017
Ian Bowles	178,200	2,589	225,000	809,165	16,556	1,231,510	£873,709
Mark Pickett	217,500	1,222	271,875	162,106	20,628	673,331	£613,994
Richard Last	135,000	–	–	266,093	–	401,093	£364,740
Roger McDowell	55,100	–	–	266,093	–	321,193	£309,840

1. Benefits include private medical insurance and private fuel.
2. The cost reported in remuneration is equivalent to the share-based payment accounting charge incurred in the year including dividends accruing on LTIPs and matching shares. The charge for Ian Bowles includes an acceleration of future years.

Long Term Incentives Plan (LTIP) awards

On 22 May 2018 the Remuneration Committee approved LTIP awards to Ian Bowles and Mark Pickett respectively.

	Type	Number of Shares	Face Value[1]	Performance Condition	Performance Period	% Vesting at threshold
Ian Bowles	Nil-Cost Option	339,196	£270,000 (100% of salary)	Adjusted operating profit	Measured over 3 years to 21 May 2021	80%
Mark Pickett	Nil-Cost Option	251,256	£200,000 (100% of salary)	Adjusted operating profit	Measured over 3 years to 21 May 2021	80%

1. Face value calculated based on share price on 21 May 2018 (79.6p).

Share Matching Plan

The Share Matching Plan was approved by shareholders in 2017. The terms of the Share Matching Plan proposed that, on the basis that Richard Last and Roger McDowell subscribed for their Non-Executive Director (NED) Subscription Shares, they were offered rights to acquire additional Share Matching Plan Shares on the terms of the Share Matching Plan.

On 3 May 2016, the date of the Group's listing on AIM, Richard Last and Roger McDowell each subscribed for 2,272,727 NED Subscription Shares at 22p each and each was granted nil cost share options over 1,702,999 Matching Plan Shares. The Matching Plan Shares are not subject to any performance conditions and will vest in three equal tranches on 1 January 2017, 2018 and 2019. In December 2018 the exercise date of the first tranche was extended by 12 months to 1 January 2020, in line with the exercise date for the second tranche. The Matching Plan Shares will not vest unless the relevant Director remains a Director and has not given notice to terminate his Directorship on the applicable vesting date.

Two thirds of these Matching Plan Shares have now vested but no shares have been exercised in the year.

Share Award Interests

The interests in share options were as follows:

	At 1 January 2018	Granted	Lapsed	Exercised	At 31 December 2018	Exercise Price	Price on date of grant	Date from which exercisable	Expiry Date
Ian Bowles									
LTIP – 28 June 2016	2,454,546	–	–	–	2,455,546	Nil	22.0p	June 2019	June 2026
LTIP – 28 June 2017	348,977	–	–	–	348,977	Nil	83.8p	June 2020	June 2027
LTIP – 21 May 2018	–	339,196	–	–	339,196	Nil	79.6p	May 2021	May 2028
Mark Pickett									
LTIP – 30 June 2016	611,620	–	–	–	611,620	Nil	32.7p	June 2017	June 2026
LTIP – 30 June 2016	611,621	–	–	–	611,621	Nil	32.7p	June 2019	June 2026
LTIP – 28 June 2017	247,678	–	–	–	247,678	Nil	83.8p	June 2020	June 2027
LTIP – 21 May 2018	–	251,256	–	–	251,256	Nil	79.6p	May 2021	May 2028

The closing share price at 31 December 2018 was 76.3p and during the year ranged from 76.2p to 93.3p. There have been no variations to the terms and conditions or performance criteria for share awards during the financial year.

INFORMATION NOT AUDITED

Directors' Shareholdings

The table below sets out the Directors' current shareholdings as at 31 December 2018. The shareholding guideline for the Chief Executive Officer and Chief Financial Officer is to hold shares to the value of their base salary within no more than five years of appointment.

Director	Beneficially Owned	% of Salary/ Fee held	LTIP Options	Share Matching Plan Option
Mark Pickett	–	–	1,671,924	–
Richard Last	2,272,727	1,285%	–	1,702,999
Roger McDowell	2,272,727	3,147%	–	1,702,999

Note: % of salary/fees held is calculated by reference to the value of the individual's shareholding in Tribal valued at the share price on the close of business on 31 December 2018.

All-Employee Plans

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

Position against dilution limit

The share incentive plans operate in line with the ABI principle, which requires that all commitments must not exceed 10% of the issued share capital in any rolling 10 year period. Given the Company's issued share capital, the number of employees and the level of participation in the LTIP, the Committee believe that operating a single 10% in 10 year limit for all share plans remains appropriate. The Group's position against the dilution limit at 31 December 2018 was 5.3%.

Executive Directors external appointments

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

Approved by the Remuneration Committee on 19 March 2019.

Roger McDowell
Chairman, Remuneration Committee

Directors' report

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2018.

Principal activities

Tribal Group plc is incorporated as a public limited company, and is registered in England and Wales with registered number 4128850. Its registered office is at Kings Orchard, One Queen Street, Bristol BS2 0HQ.

The Company acts as a holding company with a number of trading subsidiaries that provide education related systems, solutions and consultancy services. There was no significant change in this activity during the year. The subsidiary undertakings of the Company are listed in note 33.

Results and dividends

The profit for the year, after taxation, amounted to £4,147,000 (2017: profit of £2,619,000). The Directors have declared a full year dividend of 1.1p per share for 2018 (2017: 1.0p per share), pending approval at the AGM on 24 April 2019.

Long-term financing

The Group has a £2.0m committed overdraft facility in the UK. The overdraft is committed for a 12 month period ending September 2019. The revolving credit facility reduced to £11.0m in January 2018 and was not renewed when it expired in June 2018. At the end of 2018 none of the overdraft facility was drawn down. Following a review of the Group's forecasts and projections, the Directors consider the Group is well placed to meet its funding requirements for the foreseeable future. Information about the use of financial instruments by the Group is given in note 31 of the financial statements.

Risks and uncertainties

The Group's principal risks and uncertainties are explained in the Strategic Report on page 30. Risks of a financial nature are addressed in the Business & Financial Review on page 29, and note 31 of the financial statements.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which remain in force at the date of this report and throughout the year. Directors' and officers' liability insurance is provided for all Directors of the Company.

Directors retiring

The names of the Directors who served during the year and up to the date of signing the financial statements are set out on page 39. All Directors are required to submit to re-election each year and will be proposed for re-election at the forthcoming AGM.

The appointment and replacement of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislations. The Articles themselves may be amended by special resolution of the shareholders.

Directors' interests in the Company and share capital information, including share options, are detailed in the Remuneration report on page 54 and 55.

Political and Charitable contributions

During the year, the Group made charitable contributions through the Tribal Group Foundation totalling £43,000 (2017: £8,000). These contributions were made to a variety of causes and to both local and national charities. The Tribal Group Foundation has now been closed. There were no political donations.

Share capital

Details of the authorised and issued share capital are shown in note 24 to the financial statements. The Company has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. During the year, the Company issued no shares (2017: 670,882 ordinary shares of 5p).

Branches

The Group has overseas branches in Australia, New Zealand, South Africa, Abu Dhabi, Botswana, Saudi Arabia and Hungary. Since the year end the Botswana branch has been dissolved.

Employees

Tribal is a business which is highly dependent on its people. We seek to attract, develop and retain high-calibre staff and, as a consequence, our customers can be assured that the service they receive is among the best available. The Group's commitment to its people is discussed in the Corporate responsibility section on page 32.

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

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

Research and development

The Group continues to invest in research and development of software products, as set out in notes 6 and 15 of the financial statements. The investment is predominantly in the Group's next generation cloud-based Student information System, TribalEdge and in a number of new modules to existing software products in our APAC region which we expect to contribute to the growth of our business. Total research and development expenditure increased to £11.2m (2017: £10.9m) of which £4.1m (2017: £2.1m) was capitalised.

Post balance sheet events

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

Future development

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

Annual General Meeting

The Company's AGM will be held on 24 April 2019. The notice convening the AGM and an explanation of the business to be put to the meeting are contained in a separate circular to shareholders.

Independent auditors

During the year PricewaterhouseCoopers LLP resigned as auditors and BDO LLP were appointed.

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

Directors' responsibility statement

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

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

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

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

Directors' report continued

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors of the ultimate parent Company are responsible for the maintenance and integrity of the of the ultimate parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed in Directors' responsibility statement confirm that, to the best of their knowledge:

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

Corporate Governance

The Company's statement on corporate governance compliance can be found in the Corporate Governance report on pages 38 to 41 of the Annual Report and Accounts. The Corporate Governance report forms part of this Directors' report and is incorporated by reference.

Statement of disclosure of information to auditors

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

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

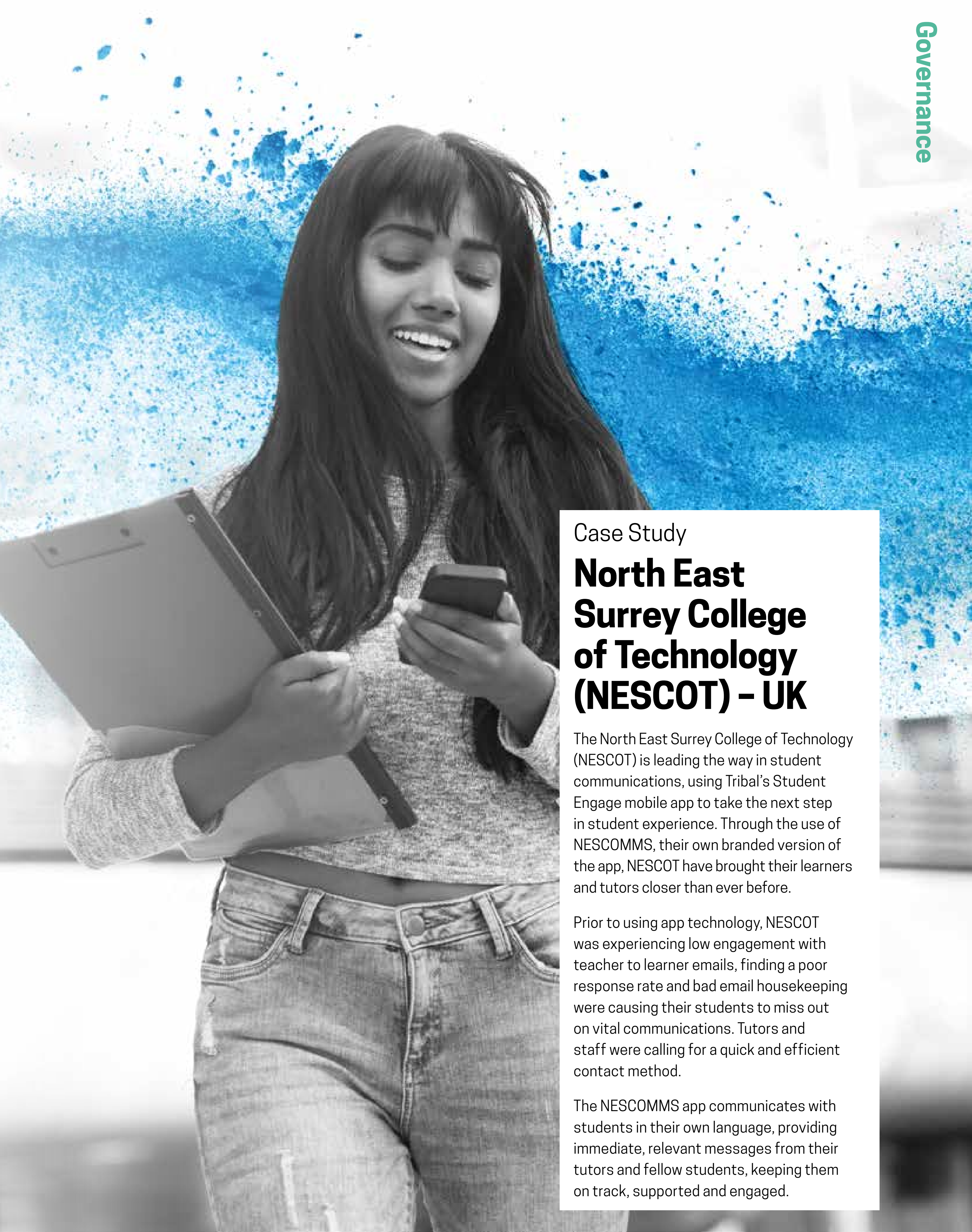
Approved by the Board of Directors and signed on its behalf by;

Mark Pickett
Chief Executive Officer

Kings Orchard
1 Queen Street
Bristol
BS2 0HQ

Registered number 4128850

19 March 2019



Case Study

North East Surrey College of Technology (NESCOT) – UK

The North East Surrey College of Technology (NESCOT) is leading the way in student communications, using Tribal's Student Engage mobile app to take the next step in student experience. Through the use of NESCOMMS, their own branded version of the app, NESCOT have brought their learners and tutors closer than ever before.

Prior to using app technology, NESCOT was experiencing low engagement with teacher to learner emails, finding a poor response rate and bad email housekeeping were causing their students to miss out on vital communications. Tutors and staff were calling for a quick and efficient contact method.

The NESCOMMS app communicates with students in their own language, providing immediate, relevant messages from their tutors and fellow students, keeping them on track, supported and engaged.

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Independent Auditors’ Report to the Members of Tribal Group plc

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Tribal Group Plc (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and parent company balance sheet, consolidated and parent company statement of changes in equity, consolidated cash flow statement and notes to the financial statements, including summaries of significant accounting policies applicable to the consolidated and company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards including FRS 101 Reduced Disclosures Framework (‘United Kingdom Generally Accepted Accounting Practice’).

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 December 2018 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the parent company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Our response
Revenue recognition Judgements are involved in determining the appropriate timing of revenue recognition for the licence revenue stream as highlighted in note 2 of the financial statements. Judgement is also required in the associated risk of recoverability of any associated receivables and contract assets where invoicing and/or payment is subject to certain future milestones. This is also first year of IFRS 15 adoption which has required the group to re-assess its revenue recognition policies in line with the new standard. In view of the judgements required to be made by management in this area and the new accounting standard we have determined that revenue recognition is a significant risk of material misstatement in the audit.	Our audit procedures including assessing the appropriateness of the revenue recognition policies implemented over the different revenue streams. We performed detailed testing, on a sample basis, of sales transactions across the year for each revenue stream by agreeing to underlying contracts, calculations and sales orders to provide evidence for the existence of the recorded transactions and to assess whether revenue recognised was in line with contractual terms, the group's recognition policy and IFRS 15. We held meetings with project managers and project directors on the material projects with multiple performance obligations to support management's assessment of the timing of revenue recognition and the appropriateness of the IFRS 15 implementation. For any contracts tested spanning the year end, the accrued and deferred revenue elements of the contracts were recalculated. Contracts which include set-up fees were reviewed to ensure that the revenue has been appropriately recognised. Recoverability of associated receivables and contract assets was also assessed and substantively tested. We also performed detailed cut off procedures to test transactions around the year end and agreed to contracts or sales orders to provide evidence that the transactions were recorded in the correct period.
Legal claim As disclosed in note 30 of the financial statements the group received a letter of claim on the 24th January 2019. Judgement is required by management to determine the probability of a successful claim as this affects the disclosure of the matter in the financial statements and potential need for a provision.	We considered management's assessment that whilst the claim demonstrated the existence of a contingent liability, given the early stages of the process there was no need to recognise a provision in respect of any possible liability. We assessed the evidence available and reviewed correspondence with their legal team and historic documentation. We further obtained confirmation from the group's appointed solicitor of the accuracy of the disclosure. We considered management's assessment of the impact a successful claim might have on the group's going concern ability by reviewing the impact of cash flow forecasts and concurred with management that the matter did not give rise to a material uncertainty in this respect.

Independent Auditors' Report to the Members of Tribal Group plc continued

Share based payments The group accounts for equity-settled share based payments to certain employees in line with the provisions of IFRS 2 Share based payments as disclosed in note 1 and note 23. Management values the share options using the Black-Scholes model for long term incentive plans without market conditions, and the Monte-Carlo method of valuation for share options with market conditions. Inherent in the valuation of share options, are management's estimates and assumptions specifically around the volatility of the share prices relative to the market and risk free rates used in the valuations.	We obtained assistance from our valuation experts we considered the appropriateness of management's estimates of volatility and risk free rates used in the valuation of the share options. The risk free rates were benchmarked against equivalent yield sovereign government bonds as well as using other freely available external sources of information. No material differences were identified in our comparison of the risk free rates applied. We compared the group's volatility rates applied against a 50 day rolling median standard deviation as well as sector benchmarking. No material differences were identified. We assessed the appropriateness of the models used in the valuation of share options granted. We further analysed the terms of the option agreements to ensure compliance with the standard and the Companies Act with regards to the exercise price of the share options.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of the audit work and in evaluating the results of our work.

We determined materiality for the financial statements as a whole as follows:

Group materiality	£540,000
Basis for materiality	5% of adjusted operating profit

Rationale for the benchmark adopted: The group use adjusted operating profit as their main measure of performance internally and to the market. Adjusted operating profit is calculated excluding the other items as disclosed in note 7 to the financial statements.

Parent Company materiality	£512,700
Basis of materiality	3% net assets capped at 95% of group materiality

Rationale for benchmark adopted: The parent company does not recognise any external revenue therefore an asset measure is considered appropriate.

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. In setting the level of performance materiality we considered a number of factors including the areas of estimation with the financial statements and the type of audit testing to be completed. Group performance materiality was set at £324,000, and the Parent company performance materiality was set at £307,620 representing 60% of materiality.

For each significant component in the group we allocated a planning materiality lower than our overall group planning materiality in the range of £117,000 to £532,000 with a similar restriction of 60% for performance materiality. The materiality level was calculated by reference to a proportion of group materiality appropriate to the relative scale of the component concerned.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the audit in excess of £11,000 for group purposes and £5 800 for the parent company only. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining and understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

In determining the scope of our audit we considered the size and nature of each component within the group to determine the level of work to be performed at each in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements as a whole. The components identified as significant were the components Tribal Education Ltd and Tribal Group PTY, these entities were subject to full scope audits. The Group operates principally from the UK and Australia. As the finance function for the Group is performed in the United Kingdom, BDO LLP were able to perform all audit procedures for group reporting purposes. There are 16 other components around the world that were not considered to be significant components of the group on the basis that their results do not make up a significant proportion of the group as a whole. For these companies an analytical review was performed on their year end results.

We obtained an understanding of the internal control environment related to the financial reporting process and assessed the appropriateness, completeness and accuracy of the group journals and other adjustments performed on consolidation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the Members of Tribal Group plc continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Sarah Joannidi (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Bristol
19 March 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

For the year ended 31 December 2018

	Note	Adjusted £'000	Other items (see note 7) £'000	Year ended 31 December 2018 Total £'000	Adjusted £'000	Other items (see note 7) £'000	Year ended 31 December 2017 Total £'000
Continuing operations							
Revenue	4	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	5,6	10,795	(6,212)	4,583	8,542	(4,815)	3,727
Investment income	9	46	–	46	20	–	20
Finance income/(costs)	7,10	(54)	274	220	(179)	(128)	(307)
Profit before tax		10,787	(5,938)	4,849	8,383	(4,943)	3,440
Tax (charge)/credit	11	(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	13	4.6p	(2.5)p	2.1p	3.4p	(2.1)p	1.3p
Diluted	13	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

	Note	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	27	430	55
Deferred tax on measurement of defined benefit pension schemes	22	(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	14	20,517	21,113
Other intangible assets	15	12,718	13,863
Property, plant and equipment	16	1,762	1,577
Deferred tax assets	22	3,776	4,004
Contract assets		77	150
		38,850	40,707
Current assets			
Trade and other receivables	17	12,840	13,625
Contract assets		3,750	4,851
Current tax assets		73	106
Deferred tax assets	22	228	271
Cash and cash equivalents	18	19,974	14,082
		36,865	32,935
Total assets		75,715	73,642
Current liabilities			
Trade and other payables	19	(6,755)	(6,888)
Accruals		(7,941)	(8,593)
Contract liabilities		(20,872)	(17,934)
Current tax liabilities		(1,097)	(2,573)
Provisions	21	(879)	(1,250)
		(37,544)	(37,238)
Net current liabilities		(679)	(4,303)
Non-current liabilities			
Other payables	19	(62)	(551)
Deferred tax liabilities	22	(713)	(1,276)
Contract liabilities		(707)	(113)
Retirement benefit obligations	27	(1,002)	(1,718)
Provisions	21	(213)	(194)
		(2,697)	(3,852)
Total liabilities		(40,241)	(41,090)
Net assets		35,474	32,552
Equity			
Share capital	24	9,803	9,803
Share premium		15,539	15,539
Other reserves	25	25,020	22,783
Accumulated losses		(14,888)	(15,573)
Total equity attributable to equity holders of the parent		35,474	32,552

Notes 1 to 33 form part of these financial statements. The Company's registered number is 4128850.

The financial statements on pages 67 to 113 were approved by the Board of Directors and authorised for issue on 19 March 2019 and were signed on its behalf by:

Richard Last
Director

Mark Pickett
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Note	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	23	–	–	1,393	–	1,393
Tax credit on charge to equity for share-based payments	11	–	–	–	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	3	–	–	–	(1,511)	(1,511)
Tax effect of IFRS 15	3	–	–	–	265	265
Total Effect of IFRS 15	3	–	–	–	(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	23	–	–	2,265	–	2,265
Foreign exchange difference on share-based payments	23	–	–	(28)	–	(28)
Tax credit on charge to equity for share-based payments	11	–	–	–	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	28	14,241	11,117
Investing activities			
Interest received		46	20
Purchases of property, plant and equipment	16	(1,203)	(803)
Expenditure on intangible assets	15	(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	18	19,974	14,082

Notes to the Financial Statements

1. Accounting policies

General information

Tribal Group plc (the Company) is a company incorporated, registered and domiciled in England and Wales in the United Kingdom under the Companies Act. The Company is a public limited company which is listed on the Alternative Investment Market (AIM). The address of the registered office is given on page 113. The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in note 5 and in the Strategic Report on pages 6 to 33. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements on pages 67 to 113 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretation Committee (IFRS IC) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation and the Companies Act 2006 applicable to Companies reporting under IFRS.

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

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

Adoption of new and revised standards

In the current financial year, the Group has applied a number of amendments to IFRSs and new interpretations by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting period that begins on or after 1 January 2018 including IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' which have been adopted for the first time in 2018. The impact of their adoption is detailed in note 3.

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

IFRS 2 (amendments)	Share based payments
IFRS 16	Leases
IFRS 17	Insurance contracts
IFRS 4 (amendments)	'Insurance contracts' regarding the implementation of IFRS 9 'Financial Instruments'
IFRIC 22	Foreign currency transactions and advance consideration
IFRIC 23	Uncertainty over income tax treatments
Annual Improvements 2016–2018 Cycles	

The Group has assessed the impact of adopting IFRS 16. This will result in the group recognising right-of-use assets and lease liabilities. For leases currently classified as operating leases, under current accounting requirements the group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term. The Group will apply the simplified transition approach method and therefore will only recognise leases on balance sheet as at 1 January 2019. Comparative amounts for the year prior to the first adoptions will not be restated. In addition it has been decided to measure right-of-use assets by reference to the measurement of the lease liability on that date, less adjustments for future dilapidation costs.

The key assumptions used in this assessment are as follows: Straight line amortisation of the right-of-use assets; amortisation period being equivalent to the length of the lease; and implicit rate used in the calculations being 1.8% + LIBOR.

As at 1 January 2019 the Group will recognise a right-of-use asset of £4,947,000, a lease liability of £4,613,000, and provision of £951.000.

There are no other standards expected to have an impact.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company:

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

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

Adoption of the going concern basis

The Directors, having considered the cash-flow forecast, and while noting the Group has net current liabilities, have performed a risk assessment of likely downside scenarios and associated mitigating actions, and have a reasonable expectation that adequate financial resources will continue to be available for at least 12 months from the date of approval of the financial statements. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration receivable from the provision of goods and services to third party customers in the normal course of business. Revenue is stated excluding sales tax and trade discounts. The particular recognition policies applied in respect of the various potential elements of short-term or repeat service contracts are as set out below. Analysis has been provided by revenue stream:

Student Information Systems:

- Revenue on perpetual software licenses is recognised on the commencement of software implementation and related consultancy. Revenue will be recognised over the duration of the project implementation period on a percentage complete basis being the number of days complete compared to the number of days expected for the project based on timesheet records. Performance obligations are considered to be met when the installation of software is complete;
- Where there is a short implementation, as with most Further Education and Work-based Learning sales, there will be little, if any, impact. For the larger deals, which may 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 immediate, upfront recognition;
- Revenue from term software licenses is spread over the period of the license;
- Revenue from contracts for software maintenance and support is recognised on a pro rata basis over the contract period, reflecting the Group's obligation to support the relevant software products and update their content over the contract period;
- Other services that are purchased for a specific term are recognised on a pro rata basis over the contract period. This includes services such as hosting and managed IT services;
- Revenue from software implementation, consultancy and other services that involve the purchase of a number of days is recognised as the service is provided.

There are no changes to the timing of the recognition of Implementation or Support & Maintenance revenue. As customers simultaneously receive and consume all the benefits provided, these revenue streams are not impacted by IFRS 15.

Quality Assurance Services and i-graduate:

Revenue from the sale of services is recognised upon transfer of control to the customer and assessment of performance obligations. This is generally when services are performed for customers. The method by which the Group measures the service being performed varies depending on the nature of the contract, but will typically be driven by either time incurred or deliverables delivered as appropriate to the particular arrangement with the customer. Following the introduction of IFRS15 there are no changes to the timing of the recognition of i-graduate or QAS revenue. Performance obligations are considered complete upon the transfer of deliverables as defined in the contract.

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

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

Notes to the Financial Statements continued

1. Accounting policies continued

Revenue recognition continued

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

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

A practical expedient has been taken in relation to using the modified retrospective method whereby contracts that are completed before the beginning of the comparative period and/or end in the same annual reporting period are not restated. A practical expedient has also been taken in relation to recognising the cost to obtain a contract in the income statement if the expected amortisation period is less than one year.

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. There are limited variables outside the contracted price which impact the transaction price allocated to performance obligations.

Deferred contingent consideration

The Group has a deferred non-contingent consideration obligation arising from a previous acquisition. This acquisition is now outside of the measurement period for fair value acquisition accounting.

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

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

Goodwill

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

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

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

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

Merger reserve

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Tangible and Intangible assets are amortised over their estimated useful lives (see notes 15 and 16).

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

The recoverable amount is the higher of fair value less costs to sell and the value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Business systems

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

Internally generated intangible assets – research and development costs

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

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

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

Internally generated intangible assets are amortised on a straight-line basis over their useful economic lives of 2 to 7 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Acquired Intangibles

Acquired intangibles are stated at cost, net of amortisation and any recognised impairment loss. These assets are amortised on a straight line basis over their useful economic lives of 5 years.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of each asset, other than properties in the course of construction, by equal instalments over their estimated useful economic lives as follows:

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

Notes to the Financial Statements continued

1. Accounting policies continued

Leases

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

Other items

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

The Group has adopted a policy of disclosing separately on the face of its Group income statement the effect of any components of financial performance considered by the Directors to be not directly related to the trading business or regarded as exceptional, or for which separate disclosure would assist in a better understanding of the financial performance achieved.

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

Retirement benefit costs

The Group operates two defined contribution pension schemes that are established in accordance with employment terms set by the employing companies. The assets of these schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes, where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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

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

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

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

Foreign currencies

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

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

Share-based payments

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

Fair value is measured by use of an adjusted Black-Scholes model for the LTIPs awarded pre 2016, 2016 matching shares, 2017 and 2018 LTIPs (including the CSOP), and a Monte-Carlo model for the LTIPs awarded in 2016, as these will vest dependent on market conditions.

Tax

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

Research and development tax credits are recognised in operating profit.

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

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

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

Notes to the Financial Statements continued

1. Accounting policies continued

Financial instruments

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'amortised cost'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group does not currently hold any assets at fair value through profit or loss.

Amortised cost

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables) and cash and cash equivalents. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment of financial assets

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of credit losses. During this process the probability of the non-payment of the trade receivable is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the expected credit loss for the trade receivables. Provisions are recorded net in a separate provision account with the loss being recognised in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of provision is based on whether there has been a significant increase in credit risk since the initial recognition of the asset.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents.

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'amortised cost'. The Group does not currently hold any financial liabilities 'at FVTPL'.

Dividends

Dividends are recognised when they become legally payable. In the case of final dividends, this is when approved by the shareholders at the AGM.

Contingent liabilities

Contingent liabilities are disclosed when cashflows are not probable.

2. Critical accounting judgements and sources of estimation uncertainty

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

Goodwill and other intangible assets

The carrying value of goodwill at the year-end is £20.5m (2017: £21.1m). An annual impairment review is required under IAS 36 'Impairment of assets' involving judgement of the future cash flows and discount rates for cash-generating units. The Group prepares such cash flow forecasts derived from the most recent budgets approved by the Board of Directors. Further details of the other assumptions used are given in note 14.

Other intangible assets

The carrying value of other intangible assets is £12.7m (2017: £13.9m). Judgement is required to assess whether costs meet the criteria for capitalisation set out in IAS 38, the useful life of those assets, and subsequently the consideration of the potential need for impairment of these assets, in particular in relation to their expected ability to generate future revenue. Further details of the other assumptions used are given in note 15.

Revenue recognition

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

3. 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. Please see notes 17 and 31. 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.

Notes to the Financial Statements continued

3. Effect of new accounting standards continued

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)

4. 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 5.

31 December 2018	UK £000	Australia £000	Other APAC £000	North America and rest of the world £000	Total £000
License 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
License 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.

License 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. See note 31.

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.

Notes to the Financial Statements continued

4. Revenue for contracts with customers continued

Remaining performance obligations

License 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
License 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.

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 5. 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 license revenues recognised as a result of a periodic review of our license entitlement resulting from changes in our customers' enrolled student numbers.

There is no revenue in respect of discontinued operations.

5. 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;
- 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 (see note 7)			(1,787)	(2,034)
Other items (see note 7)			(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 described in note 1. Segment profit represents the profit earned by each segment, without allocation of central administration costs, including Directors' salaries, finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

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.

Notes to the Financial Statements continued

5. Business segments continued

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

6. Operating profit for the year

	Note	2018 £'000	2017 £'000
Operating profit for the year is stated after charging/(crediting):			
Staff costs (excluding amounts capitalised)	8	44,919	49,527
Depreciation and other amounts written off property, plant and equipment	16	995	1,190
Amortisation of acquired IFRS 3 intangible assets	15	1,787	2,034
Amortisation of software licenses	15	85	134
Amortisation of business systems	15	487	642
Amortisation of development costs and acquired Intellectual Property	15	1,757	1,632
Impairment of development costs	15	983	–
Net impairment (gain)/loss on trade receivables	17	(986)	820
Research and development expenditure		7,094	8,769
Net foreign exchange losses		27	331

The analysis of auditors' remuneration is as follows:

	2018 £'000	2017 £'000
Fees payable to the Company's current auditors for the audit of the Company's annual report	86	–
Fees payable to the Company's previous auditors for the audit of the Company's annual report	–	110
Fees payable to the Company's current auditors and its associates for other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	109	–
Fees payable to the Company's previous auditors and its associates for other services to the Group:		
– the audit of the Company's subsidiaries pursuant to legislation	–	159
Total audit fees	195	269
– audit related assurance services	35	40
– non-audit related assurance services	30	–
Total non-audit fees	65	40
Total auditor's remuneration	260	309

Non-audit fees in 2017 (£40,000) and 2018 (£35,000) arose as a result of the half year review performed by the Company's previous auditors and in 2018 as a result of corporate activity by the current auditors (£30,000).

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

7. 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).

Share based payments (see note 23): 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.

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) (see note 15).

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.

8. Staff numbers and costs

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

	2018 number	2017 number
Selling, operations and marketing	783	802
Finance and administration	100	123
	883	925

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	40,296	43,303
Social security costs	3,389	3,720
Other pension costs	1,941	2,228
Restructuring costs	985	996
Share option charge*	2,312	1,393
	48,923	51,640

The total payroll costs above include £4,004,000 (2017: £2,135,000) capitalised as development costs (see note 15).

Net interest expense relating to pension schemes of £42,000 (2017: £42,000) and administrative expenses of £21,000 (2017: £21,000) are reported elsewhere and are therefore excluded from the figures above.

* Includes £47,000 cash paid on dividends on share options that have met performance conditions.

9. Investment income

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

Notes to the Financial Statements continued

10. Finance (income)/costs

	2018 £'000	2017 £'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

11. 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

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

	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.

12. 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 2016: 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

Notes to the Financial Statements continued

13. 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 66 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

14. 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.

Notes to the Financial Statements continued

15. Other intangible assets

	Software £'000	Customer contracts & relationships £'000	Acquired Intellectual Property £'000	Development costs £'000	Business systems £'000	Software licenses £'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 to 6 years and 3 to 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, amortisation for software, customer contracts and relationships, business systems and software licenses 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 and 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 7) 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.

16. Property, plant and equipment

	Leasehold improvements £'000	Fixtures, fittings and other equipment £'000	Total £'000
Cost			
At 1 January 2017	2,782	4,247	7,029
Additions	49	754	803
Disposals	(12)	(125)	(137)
Exchange differences	(19)	(46)	(65)
At 31 December 2017 and 1 January 2018	2,800	4,830	7,630
Additions	333	870	1,203
Disposals	–	(39)	(39)
Exchange differences	(31)	(82)	(113)
At 31 December 2018	3,102	5,579	8,681
Accumulated depreciation and impairment			
At 1 January 2017	2,115	2,933	5,048
Charge for the year	287	903	1,190
Disposals	(12)	(125)	(137)
Exchange differences	(6)	(42)	(48)
At 31 December 2017 and 1 January 2018	2,384	3,669	6,053
Charge for the year	290	705	995
Disposals	–	(39)	(39)
Exchange differences	(31)	(59)	(90)
At 31 December 2018	2,643	4,276	6,919
Net book value			
At 31 December 2018	459	1,303	1,762
At 31 December 2017	416	1,161	1,577

There are £6.3m (2017: £4.5m) worth of assets that are fully depreciated within property, plant and equipment.

Notes to the Financial Statements continued

17. 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

The Group's principal financial assets are cash and cash equivalents and trade and other receivables which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's credit risk is primarily related to its trade receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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

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

Trade receivables

Trade receivables are measured at amortised cost. The average credit terms on sales is 30 days (2017: 30 days). The Group sells the majority of its services to the public sector or related bodies and institutions, and as such there is a low incidence of default. experience.

Of the total trade receivables balance at the end of the year, two customers (2017: four) held balances outstanding of more than 5%, being £0.5m and £0.5m (2017: £1.1m, £1.0m,£0.7m and £0.6m). The average age of receivables is 37 days (2017: 47 days).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and accrued income. To measure expected credit losses on a collective basis, trade receivables and accrued income are grouped based on similar credit risk and ageing. See note 31.

At 31 December 2018 the lifetime expected loss provision for trade receivables and accrued income is as follows:

	Expected loss rate	Gross carrying amount £'000	Loss provision £'000
Current	3%	7,395	71
30–60 days	7%	635	10
60–90 days	8%	619	14
90–120 days	9%	549	11
120+ days	7%	254	31
Total		9,452	137

Movement in the impairment allowance for trade receivables are as follows:

	2018 £'000	2017 £'000
Balance at the beginning of the year	1,713	1,578
IFRS9 expected credit loss adjustment	(144)	–
Provision for receivables impaired	27	1,073
Amounts written off during the year	(590)	(685)
Unused amounts reversed	(869)	(253)
Balance at the end of the year	137	1,713

Contract liabilities

Contract liabilities are measured at amortised cost. Contract liabilities inherently have some contractual risk associated with them related to the specific and ongoing risks in each individual contract with a customer. These are subject to the expected credit loss impairment under IFRS9.

Impairments recognised in the income statement in respect of accrued income amount to £0.1m (2017: £0.1m).

18. Cash and cash equivalents

Cash and cash equivalents of £20.0m (2017: £14.1m) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Of the above balance, £nil (2017: £0.2m) represents funds restricted in use by the relevant commercial terms of certain trading contracts. These terms have been complied with.

The credit quality of cash at bank can be assessed by reference to external credit ratings. The Group has not changed its risk appetite during the year, however one of the Group's main banks has been downgraded in the period. The following table has been sourced from Moodys credit ratings.

	2018 £'000	2017 £'000
Aa1	1,571	–
Aa3	11,169	3,836
A1	4,730	6,970
A2	–	3,021
A3	2,345	–
Baa1	–	39
Baa2	159	216
	19,974	14,082

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

	2018 £'000	2017 £'000
Cash and cash equivalents	19,974	14,082
	19,974	14,082

Notes to the Financial Statements continued

19. 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

20. Borrowings

As at 31 December 2018 the Group has the following committed borrowing facilities: a £2.0m committed overdraft facility in the UK. The overdraft is committed for a 12 month period ending September 2019. The revolving credit facility reduced to £11.0m in January 2018 and was not renewed when it expired at 30 June 2018. As at 31 December 2018, the Group had net cash of £20.0m (2017: of £14.1m). The Directors estimate that the book values of the Group's borrowings reflect the fair values thereof.

At the year-end there was £2.0m available but undrawn in respect of the UK overdraft facility.

21. Provisions

	Property related £'000	Onerous contracts £'000	Legal claims £'000	Restructuring £'000	Total £'000
At 1 January 2018	926	170	342	6	1,444
Increase/(release) in provision	(270)	(170)	(342)	652	(130)
Utilisation of provision	(215)	–	–	(6)	(221)
Exchange rate movement	(1)	–	–	–	(1)
At 31 December 2018	440	–	–	652	1,092

The provisions are split as follows:

	Property related £'000	Onerous contracts £'000	Legal claims £'000	Restructuring £'000	Total £'000
2018					
Within one year	227	–	–	652	879
After more than one year	213	–	–	–	213
Total	440	–	–	652	1,092
2017					
Within one year	732	170	342	6	1,250
After more than one year	194	–	–	–	194
Total	926	170	342	6	1,444

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Property related provision relates to the dilapidation costs arising from exiting leasehold properties.

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

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

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

22. Deferred tax

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

	2018 £'000	2017 £'000
Deferred tax assets		
Depreciation in excess of capital allowances	557	661
Other timing differences	1,020	920
Share-based payments	1,257	771
Tax losses	1,000	1,631
Retirement benefit schemes	170	292
	4,004	4,275
Deferred tax liabilities		
Intangible assets	(713)	(1,276)
	(713)	(1,276)
	3,291	2,999

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

The Group has recognised a deferred tax asset of £1,000,000 (2017: £1,631,000) on tax losses carried forward in the UK of £5,882,000 (2017: £9,596,000).

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

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

	Temporary differences on non-current assets £'000	Retirement defined benefit schemes £'000	Other temporary differences £'000	Total £'000
At 1 January 2017	1,096	293	615	2,004
Adjustments to opening balances	(364)	–	364	–
Foreign exchange differences	–	–	16	16
(Charge)/credit to income statement	(71)	8	706	643
Items taken directly to equity	–	–	345	345
Charge recognised in consolidated statement of comprehensive income	–	(9)	–	(9)
At 31 December 2017 and 1 January 2018	661	292	2,046	2,999
Adjustments to opening balances – IFRS15	–	–	265	265
Foreign exchange differences	333	–	(339)	(6)
(Charge)/credit to income statement	(437)	(49)	421	(65)
Items taken directly to equity	–	–	171	171
Charge recognised in consolidated statement of comprehensive income	–	(73)	–	(73)
At 31 December 2018	557	170	2,564	3,291

Included in other temporary differences are deferred tax assets of £1,000,000 (2017: £1,631,000) relating to tax losses carried forward and other timing differences of £2,277,000 (2017: £1,691,000). The balance also includes a deferred tax liability, in relation to intangible assets of £713,000 (2017: £1,276,000).

There are no unrecognised deferred tax liabilities.

The deferred tax assets are expected to be settled as follows: £228,000 less than 12 months from 31 December 2018 and £3,776,000 greater than 12 months from 31 December 2018.

The impact of changes in tax rates on deferred tax balances of £89,000 (2017: £214,000) has been charged to the income statement and is included within the total charge to the income statement of £65,000 (2017: credit of £643,000) disclosed above.

23. Share-based payments

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

	2018 £'000	2017 £'000
LTIPs (incorporating the CSOP) awarded in 2018	529	–
LTIPs (incorporating the CSOP) awarded in 2017	648	317
LTIPs awarded in 2016	551	567
Matching	509	509
Total	2,237	1,393

Notes to the Financial Statements continued

23. Share-based payments continued

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

LTIPs awarded in 2016

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

Matching shares

The matching shares are only subject to a time-limit conditions. The matching share options will vest equally over three years and may be exercised at any time during the period of two years from the applicable vesting dates (1 January 2017, 1 January 2018 and 1 January 2019), but not sold during that period. Two thirds of these options have now vested as at 31 December 2018. In December 2018 the exercise date of the first tranche was extended by 12 months to 1 January 2020, in line with the exercise date for the second trance.

LTIPs awarded in 2017 (including the CSOP)

Awards in 2017 to Ian Bowles (348,387) and Mark Pickett (247,678) will vest on 29 June 2020 and are subject to a time-limit condition and continued employment. The options may not be exercised before 30 June 2020.

Awards in 2017 under the new CSOP scheme (as part of the 2010 LTIP Plan) can only be exercised after a three year period if the share price is above 80p. The options may not be exercised before 25 March 2021.

LTIPs awarded in 2018 (including the CSOP)

New awards in 2018 to Ian Bowles (339,196) and Mark Pickett (251,256) will vest on 22 May 2021. These awards were granted subject to performance conditions based on the Group's Adjusted Operating Profit for the year ended 31 December 2018.

Eligible employees received awards under the CSOP scheme on 26 March 2018. These can only be exercised after a three year period if the share price is above 79.6p.

Options outstanding during the year are as follows:

	Matching		LTIP – nil cost		LTIP (inc CSOP)	
	Number of options thousands	Weighted average exercise price*	Number of options thousands	Weighted average exercise price*	Number of options thousands	Weighted average exercise price
Outstanding at 1 January 2018	3,406	£0.05	6,549	£0.05	3,535	£0.80
Exercised during the year	–	–	–	–	–	–
Granted during the year	–	–	591	£0.05	3,975	£0.80
Lapsed during the year	–	–	–	£0.05	(972)	£0.80
Outstanding at 31 December 2018	3,406	£0.05	7,140	£0.05	6,538	£0.80
Exercisable at 31 December 2018	2,271	–	3,754	£0.05	–	–
Weighted average remaining contractual life (years)	2.0	–	8.1	–	9.0	–
Weighted average share price at date of exercise	–	–	–	–	–	–

Share options outstanding at the year-end have the following exercise prices: LTIP: £0.05, Matching shares £0.05 and CSOP £0.80.

* Under Companies Act 2006 rules a nominal value must be paid to issue new shares, however under the rules of the LTIP and Matching share schemes the Company will pay the nominal value to the participants as a bonus.

LTIPs awarded in 2018 (including the CSOP) continued

The Group has used a Monte-Carlo valuation model for the LTIPs awarded in 2016 and an adjusted Black-Scholes valuation model for the pre 2016 LTIP awards, Matching shares, 2017 and 2018 LTIP awards (including the new CSOP plan) in order to incorporate discount factors into the fair value to reflect the performance conditions of the LTIP grants and Matching shares. The following table sets out the information about how the fair value of the grants are calculated:

Date of grant	19 April 2016	28 June 2016	30 June 2016	30 June 2016*	30 June 2017*	2 July 2017	26 March 2018	22 May 2018
Type of grant	Matching	LTIPs	LTIPs	LTIPs	LTIPs	LTIPs (inc CSOP)	LTIPs (Inc CSOP)	LTIPs
Share price	£0.44875	£0.505	£0.505	£0.5075	£0.838	£0.78	£0.796	£0.78
Exercise price	£0.05	£0.05	£0.05	£0.05	£0.05	£0.80	£0.796	£0.05
Expected dividend yield	0%	0%	0%	0%	0%	0%	1%	1%
Risk-free interest rate	1.17%	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%
Expected volatility	75%	68.04%	68.04%	68.04%	61%	61%	61%	74%
Term (years)	3.0	3.0	3.0	3.0	3.0	5.0	5.0	5.0
Option fair value	£0.449	£0.316	£0.318	£0.508	£0.79	£0.407	£0.374	£0.664
Expiry date	01 January 2021	27 June 2026	29 June 2026	29 June 2026	30 June 2027	2 July 2027	26 March 2028	22 May 2028
No of options issued	3,405,996	3,591,020	611,621	611,620	1,935,351	3,535,000	3,975,000	590,452
No of options outstanding	3,405,996	3,391,020	611,621	611,620	1,935,351	3,053,347	3,484,315	590,452

* These awards have no market based performance conditions.

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

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

There are 1,339,286 options over shares that have not been recognised in accordance with IFRS 2. These options were issued to the vendors of Sky Software Pty in 2017 as part of the deferred consideration payable. These options are subject to a performance condition measured over a maximum 3 year period ending 30 June 2020.

24. Share capital

	2018 number	2018 £'000	2017 number	2017 £'000
Allotted, called up and fully paid				
At beginning of the year	196,051,181	9,803	195,380,299	9,769
Issued during the year	–	–	670,882	34
At end of the year	196,051,181	9,803	196,051,181	9,803

The Company has one class of ordinary shares of 5p each which carry no right to fixed income.

Notes to the Financial Statements continued

25. Other reserves

	Capital reserve £'000	Merger reserve £'000	Own share reserve £'000	Share-based payment reserve £'000	Total £'000
At 1 January 2017	9,545	11,304	(856)	886	20,879
Movement in relation to share-based payment (net)	–	–	–	1,904	1,904
At 31 December 2017 and 1 January 2018	9,545	11,304	(856)	2,790	22,783
Movement in relation to share-based payment (net)	–	–	–	2,237	2,237
At 31 December 2018	9,545	11,304	(856)	5,027	25,020

The capital reserve of £9.5m (2017: £9.5m) resulted from a share exchange when Tribal Group plc was listed in February 2001.

The merger reserve of £11.3m (2017: £11.3m) relates to the premium arising on shares issued subject to the provisions of section 612 of the Companies Act 2006 (previously section 131 of the Companies Act 1985), net of cumulative goodwill impairment of £58.7m (2017: £58.7m) in respect of related acquisitions deemed to be impaired.

The own share reserve of £(0.9)m (2017: £(0.9)m) represents the cost of 827,692 shares (2017: 827,692) in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group's share option schemes.

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

26. Lease commitments

	2018 £'000	2017 £'000
The Group as lessee		
Minimum lease payments under operating leases recognised as an expense in the year	1,017	1,529

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 £'000	2017 £'000
Within one year	1,098	895
In the second to fifth years inclusive	3,432	1,402
After five years	864	426
	5,394	2,723

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

27. Retirement benefit schemes

The Group operates a number of defined contribution and defined benefit pension schemes within individual subsidiaries and contributes to certain employees' personal pension plans. The pension charge for the year ended 31 December 2018 was £1.9m (2017: £2.2m), of which £1.9m (2017: £2.0m) related to defined contribution schemes and £nil (2017: £0.2m) to defined benefit schemes.

Contributions amounting to £0.2m (2017: £0.2m) were payable to the funds at the year end and are included in current liabilities.

Defined benefit schemes

At 31 December 2018, the Group operated two defined benefit pension schemes for the benefit of certain deferred employees of its subsidiaries in the UK. These schemes are administered by separate funds that are legally separated from the Company. The trustees of the pension funds are required by law to act in the interest of the funds and of all relevant stakeholders in the schemes. The trustees of the pension funds are responsible for the investment policy with regard to the assets of the funds.

Scheme 1– the Prudential Platinum Pension Fund

Tribal Education Limited, a Group subsidiary, participates in the Prudential Platinum Pension Fund ('PPP'), which is a defined benefit arrangement. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 December 2015.

The Tribal Education section of the Prudential Platinum Pension Fund had 34 deferred members at the year-end. Employer contributions amounting to £21,000 were paid in the year ended 31 December 2018 (2017: £21,000). The accounting figures have been calculated using the valuation as at 31 December 2015, updated on an approximate basis to 31 December 2018 by a qualified independent actuary.

Scheme 2 – the Federated Pension Plan

Tribal Education Limited, a Group subsidiary, participates in the Federated Pension Plan ('FPP'), which is a defined benefit arrangement. The Ofsted employees were transferred back to Ofsted in March 2017 and the plan closed to future accrual. All of the active members at 31 March 2017 were transferred to the deferred section of the plan. On 11 September 2018 there was a bulk transfer of 45 deferred members into a government scheme and a settlement gain of £380,000 has crystallised. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 5 April 2015.

The Tribal Education section of the Federated Pension Plan had 161 deferred members at the year-end. Employer contributions amounting to £nil were paid in the year ended 31 December 2018 (2017: £185,000). The accounting figures have been calculated using the valuation as at 5 April 2015, updated on an approximate basis to 31 December 2018 by a qualified independent actuary.

The schemes are exposed to a number of risks, including:

- Investment risk: movement of discount rate used against the return from plans
- Interest rate risk: decreases/increases in the discount rate used will increase/decrease the defined benefit obligation
- Longevity risk: changes in the estimation of the mortality rates of current and former employees

The assets of the funds have been taken at market value and the actuarial assumptions used to calculate scheme liabilities under IAS 19 'Employee Benefits' for both schemes are:

	2018 % per annum	2017 % per annum
Inflation	2.50–3.50	2.40–3.40
Salary increases	nil	nil
Rate of discount	2.7	2.4
Pension in payment increases	2.50–3.50	2.40–3.40

The salary increase assumption is nil as both the FPP and PPP only have deferred members.

The mortality assumptions adopted at 31 December 2018 imply the following life expectations:

	Males	Females
Aged 60 in 2018	86.6	88.6
Aged 60 in 2038	88.1	90.2

Notes to the Financial Statements continued

27. Retirement benefit schemes continued

Defined benefit schemes continued

Scheme 2 – the Federated Pension Plan continued

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

	2018 £'000	2017 £'000
Equities	4,357	7,101
Corporate Bonds	2,296	3,677
Gilts	127	127
Cash	66	108
Total fair value of scheme assets	6,846	11,013

All equities and corporate bonds are quoted on active markets.

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase by 0.5%	Decrease by 13%
Rate of inflation	Increase by 0.5%	Increase by 12%
Rate of mortality	Increase by one year	Increase by 3%

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

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

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

	2018 £'000	2017 £'000
Present value of defined benefit obligations	(7,848)	(12,731)
Fair value of scheme assets	6,846	11,013
Deficit in schemes	(1,002)	(1,718)
Liability recognised in the balance sheet	(1,002)	(1,718)

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

	2018 £'000	2017 £'000
Fair value of scheme assets at beginning of year	11,013	10,192
Expected return on assets	261	265
Actuarial (losses)/gains due to investment returns different from the return implied by the discount rate	(593)	484
Contributions by employer	21	206
Contributions by scheme participants	–	23
Benefits paid	(219)	(136)
Settlements	(3,615)	–
Administration expenses	(22)	(21)
Fair value of scheme assets at end of year	6,846	11,013

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

	2018 £'000	2017 £'000
Defined benefit obligation at beginning of year	12,731	11,917
Current service cost	52	191
Interest cost	302	307
Contributions by scheme participants	–	23
Actuarial (gain)/loss – experience	(98)	68
Actuarial (gain)/loss – demographic assumptions	(391)	50
Actuarial (gain)/loss – financial assumptions	(534)	311
Benefits paid	(219)	(136)
Settlements	(3,995)	–
Defined benefit obligation at end of year	7,848	12,731

The Group's contribution rate for 2018 was 0% (2017: 0%) for the Prudential Platinum Fund and 0% (2017: 43.8%) for the Federated Pension Plan.

The Group expects to make contributions of £52,000 to the defined benefit schemes during the next financial year.

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

	2018 £'000	2017 £'000
Current service cost	52	191
Administration expenses	22	21
Recognised in arriving at operating profit	74	212
Other finance (income)costs		
Settlement gain	(380)	–
Interest on pension scheme liabilities	302	307
Expected return on pension scheme assets	(261)	(265)
Net finance (credit)/expense	(339)	42
Total (credit)/charge to income statement	(265)	254

Analysis of actuarial gains and losses in the consolidated statement of comprehensive income:

	2018 £'000	2017 £'000
Actual return less expected return on pension scheme assets	(593)	484
Experience gains and losses arising on the scheme liabilities	1,258	(118)
Changes in assumptions underlying the present value of scheme liabilities	(235)	(311)
Total actuarial gains recognised in the consolidated statement of comprehensive income	430	55

Notes to the Financial Statements continued

27. Retirement benefit schemes continued

Defined benefit schemes continued

Scheme 2 – the Federated Pension Plan continued

Cumulative actuarial losses recognised in the consolidated statement of comprehensive income since 1 April 2004 are £945,000 (2017: losses of £1,375,000).

The history of experience adjustments is as follows:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Present value of defined benefit obligations	(7,848)	(12,731)	(11,917)	(8,604)	(8,149)
Fair value of scheme assets	6,846	11,013	10,192	8,692	8,270
(Deficit)/surplus in the scheme	(1,002)	(1,718)	(1,725)	88	121
Experience adjustments arising on scheme assets:					
Amount	(593)	484	863	(166)	267
Percentage of the scheme assets	(9%)	4%	8%	(2%)	3%
Experience adjustments arising on scheme liabilities:					
Amount	1,258	118	789	77	(64)
Percentage of the present value of the scheme liabilities	16%	1%	7%	1%	(1%)

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

28. 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

29. Analysis of net cash

	2018 £'000	2017 £'000
Cash and cash equivalents (note 18)	19,974	14,082
Net cash	19,974	14,082

Analysis of changes in net cash	2018 £'000	2017 £'000
Opening net cash	14,082	8,833
Net increase in cash and cash equivalents	6,088	5,492
Effect of foreign exchange rate changes	(196)	(243)
Closing net cash	19,974	14,082

30. Contingent liabilities

On 24 January 2019 the Group received a letter of claim from lawyers acting for a provider of a software platform on which a number of the Group's material 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. 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 intend to defend these claims vigorously at this stage and are of the opinion that the claims can be successfully resisted. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

From time to time the Group is subject to potential and actual litigation claims. On the basis of legal advice, claims are being robustly contested as to both liability and quantum. A provision of £nil (2017: £0.4m) has been made for defending and settling these claims, where appropriate (see note 21).

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

The Company and its subsidiaries have provided performance guarantees issued by its banks on its behalf, in the ordinary course of business, totalling £1.0m (2017: £1.5m). These are not expected to result in any material financial loss.

As disclosed in note 33, Tribal Holdings Limited and International Graduate Insight Group Limited have taken advantage of the exemption available under Section 394A/ 479A of the Companies Act 2006 in respect of the requirements for audit. As a condition of the exemption, the Company has guaranteed the year-end liabilities of these subsidiaries until they are settled in full. The liabilities of the subsidiaries at the year-end was £25,967,000 (2017: £21,145,000). These are inclusive of intercompany liabilities.

Notes to the Financial Statements continued

31. Financial instruments

Capital risk management

The Group manages its capital to ensure the entities in the Group will be able to continue as going concerns, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of cash and cash equivalents (see note 18) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Consolidated Statement of Changes in Equity and notes 24 and 25.

Gearing ratio

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

	2018 £'000	2017 £'000
Net cash	19,974	14,082
Equity	35,474	32,552
Net cash to equity ratio	56.3%	43.3%

Significant accounting policies

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

Categories of financial instruments

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

31 December 2018	Financial assets measured at amortised cost £'000	Financial Liabilities measured at amortised cost £'000	Total £'000
Financial assets			
Cash and cash equivalents	19,974	–	19,974
Trade receivables and other receivables*	9,690	–	9,690
	29,664	–	29,664
Financial liabilities* **			
Trade payables and other payables**	–	3,254	3,254
Accruals	–	7,941	7,941
Deferred non-contingent consideration	–	473	473
	–	11,668	11,668

31 December 2017	Financial assets measured at amortised cost £'000	Financial Liabilities measured at amortised cost £'000	Total £'000
Financial assets			
Cash and cash equivalents	14,082	–	14,082
Trade receivables and other receivables*	11,005	–	11,005
	25,087	–	25,087
Financial liabilities* **			
Trade payables and other payables**	–	3,620	3,620
Accruals	–	8,593	8,593
Deferred non-contingent consideration	–	1,223	1,223
	–	13,436	13,436

* Excluding amounts that relate to non-financial instruments of tax, prepayments and contract assets.

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

*** All financial liabilities are due within one year.

The above tables have been stated at undiscounted values with the exception of deferred consideration. The undiscounted value of the deferred consideration is £485,000 (2017: £1,341,000), versus a discounted value of £473,000 as at 31 December 2018 (2017: £1,223,000).

There are no financial instruments held at fair value (2017 : £nil).

Financial risk management objectives

Treasury management is led by the Group finance team, which is responsible for managing the Group's exposure to financial risk. It operates within a defined set of policies and procedures reviewed and approved by the Board. This includes both foreign exchange risk and interest rate risk. The Group's exposure to interest rate fluctuations on its interest-bearing assets and liabilities is selectively managed, using interest rate swaps where appropriate. This is an ongoing risk and the Board will continue with this policy. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. No interest rate swaps were in place at 31 December 2018 (2017: none).

Market risk

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

Notes to the Financial Statements continued

31. Financial instruments continued

Foreign currency risk management

The Group undertakes an increasing number of transactions denominated in foreign currencies. Here, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters and the Group enters into forward foreign exchange contracts where appropriate. No forward contracts were in place at 31 December 2018 (2017: none).

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

	Assets		Liabilities	
	31 December 2018 £'000	31 December 2017 £'000	31 December 2018 £'000	31 December 2017 £'000
Euros	792	815	159	22
Australian Dollar	3,725	5,847	–	–
United States Dollar	354	1,130	45	23
Saudi Arabian Riyal	94	89	–	–
South African Rand	192	1,032	–	–
New Zealand Dollar	1,233	2,660	–	–
Canadian Dollar	407	247	–	–
Philippine Peso	158	206	–	–
United Arab Emirates Dirham	2,316	3,836	–	–
Malaysian Ringgit	1,961	1,037	–	7
Bahraini Dinar	56	57	–	–
Other	70	6	–	–
	11,358	16,962	204	52

Foreign currency sensitivity analysis

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

If Sterling were to strengthen or weaken by 10% against the relevant foreign currencies, the balances in the table above would give rise to an increase/reduction in profit of £1,144,000 (2017: £1,695,000). This sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates.

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

Interest rate risk management

The Group is exposed to interest rate risk because entities hold cash deposits. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied. There are no hedges in place as at 31 December 2018 (2017: nil).

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

Credit risk management

The Group's principal financial assets are cash and cash equivalents and trade and other receivables. The Group's credit risk is relatively low because a high proportion of trade and other receivables have a sovereign or close to sovereign rating. Of the total trade receivables balance at the end of the year, £1.0m is due from two customers (2017: £3.4m from four customers).

Trade receivables and contract assets.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability if the customers to settle the receivables. In the absence of any seasonality to the business, 2% increase in defaults was considered appropriate and supportable as the risk of bad debts is relatively low.

Before applying the expected loss rate percentage to each respective ageing category of trade receivables an assessment of specific customers has occurred and these amounts have been excluded from the general loss allowance. The expected credit loss for these customers is separately assessed (using the same logic as above) and relates to customers where the probability of default is higher.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for both trade receivables and contract assets:

31 December 2018 £'000	Current	30 – 60	61 – 90	91 – 120	120+	Total
Expected loss rate	2.69%	6.83%	8.25%	8.78%	7.07%	
Trade receivables	7,395	635	619	549	254	9,452
Contract assets	3,826	–	–	–	–	3,826
General loss allowance	71	9	14	11	32	137

1 January 2018 £'000	Current	30 – 60	61 – 90	91 – 120	120+	Total
Expected loss rate	0.47%	2.15%	4.37%	6.88%	5.92%	
Trade receivables (adjusted)	6,383	2,086	769	895	677	10,810
Less amounts previously provided for under IAS 39 not assessed separately					(321)	(321)
Trade receivables reported	6,383	2,086	769	895	356	10,489
Contract assets	4,400	–	–	–	–	4,400
General loss allowance	50	45	34	62	40	231
Case by case loss allowance	–	–	–	–	1,453	1,453
Total loss allowance	50	45	34	62	1,493	1,684

Notes to the Financial Statements continued

31. Financial instruments continued

Credit risk management continued

The expected credit losses on trade receivables and contract assets has been calculated using the simplified approach and when compared to the bad debt provisions recognised pre-adoption of IFRS 9 adoption was considered insignificant and hence unadjusted. A reconciliation of closing loss allowances for trade receivables and contract assets as at 31 December 2018 to the opening loss allowances is in note 17.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

Other financial assets at amortised cost include, loans to related parties and key management personnel and other receivables. The loss allowance for other financial assets at amortised cost as at 31 December 2018 was nil.

Contract risk management

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

Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities, and by continuously monitoring forecast and actual cash flows. The Group has access to committed financing facilities; being a short-term UK overdraft facility of £2.0m.The total unused amount was £2.0m at the balance sheet date and no interest is being incurred on this balance (2017: £7.5m). The Group expects to meet its obligations from operating cash flows. The Group also had cash balances at 31 December 2018 of £20.0m (2017: £14.1m) as detailed in note 18. Interest is received on this at applicable bank rates.

32. Related party disclosures

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

On 26 March 2018, Tribal Group plc ('the Company') granted company share options over a total of 3,975,000 ordinary shares (representing approximately 2.0% of the Company's issued shares) to members of the senior management team under the Company share option plan. All of the Options are exercisable at 79.6p per Ordinary Share. The Options may not be exercised before 25 March 2021.

On 22 May 2018, Tribal Group plc ('the Company') granted nil-cost options over a total of 590,452 ordinary shares (representing approximately 0.30% of the Company's issued shares) to Ian Bowles and Mark Pickett under the terms of its 2010 Long Term Incentive Plan. This award has been granted subject to performance conditions based on the Group's Adjusted Operating Profit for the year ending 31 December 2018. The options may not be exercised before 21 May 2021.

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. The members of the Group Board and the Group's Executive Board are considered to be the key management personnel of the Group.

Remuneration of key management personnel

	2018 £'000	2017 £'000
Salaries and short-term employee benefits	3,674	3,824
Termination benefits	291	–
Share-based payments	2,164	1,277
	6,129	5,101

Included within Directors' emoluments are pension costs of £37,000 (2017: £74,000) in respect of accruals and payments made to two (2017: two) Directors' individual defined contribution pension schemes. Disclosures on Directors' remuneration, share options, long-term incentive schemes, and pension contributions are contained in the Directors' remuneration section within the audited part of the Remuneration report on pages 51 to 55 and form part of these audited financial statements. Arrangements with the Group's pension schemes are set out in note 27.

33. Subsidiaries

The Group consists of a parent Company (limited by shares) Tribal Group plc, incorporated and domiciled in England and Wales and a number of subsidiaries held directly and indirectly by Tribal Group plc, which operate and are incorporated around the world. Tribal Education Limited also operates branches in New Zealand, South Africa, Hungary, Botswana and Abu Dhabi.

Tribal Group plc has guaranteed the liabilities of Tribal Holdings Limited and International Graduate Insight Group Limited in order that they qualify for the exemption from audit under Section 394A/479 of the Companies Act 2006 in respect of the year ended 31 December 2018.

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

Name of Entity	Address of the registered office	Nature of Business	Proportion of ordinary shares held directly by parent (%)	Proportion of ordinary shares held by the Group (%)
Tribal Education Limited	Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK	Education related systems and solutions	100%	100%
Tribal Holdings Limited	Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK	IP holding Company	100%	100%
International Graduate Insight Group Limited	Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK	Educational consultancy services	–	100%
Human Edge Software Corporation PTY Limited	Level 1, 17 Madden Grove, Richmond, VIC 3121. Australia	Education related systems and solutions	–	100%
Tribal Campus PTY Limited	West 7 - 8 Federal Mills Park, 3-35 Mackey Street, Geelong, North Victoria, 3215, Australia	Education related systems and solutions	–	100%
Tribal Group PTY Limited	West 7 - 8 Federal Mills Park, 3-35 Mackey Street, Geelong, North Victoria, 3215, Australia	Education related systems and solutions	–	100%
Callista Software Services PTY Limited	West 7 - 8 Federal Mills Park, 3-35 Mackey Street, Geelong, North Victoria, 3215, Australia	Education related systems and solutions	–	100%
Tribal Middle East SPC Limited	81, 1901 Road 1704, Manama, Alhoora, Kingdom of Bahrain	Education related systems and solutions	100%	100%
Tribal Group (Malaysia) SDN	Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia	Education related systems and solutions	–	100%
Tribal Group South Africa (PTY) Limited	2 Alexandra Avenue, Unit 8, Craighall. Gauteng, 2196, South Africa	Education related systems and solutions	–	100%
Tribal Systems Canada Limited	1100 One Bentall Centre, 505 Burrard Street, Box 11, Vancouver, BC V7X 1M5, Canada	Education related systems and solutions	–	100%
Tribal Education INC	3835 Cleghorn Avenue, Suite 250, Nashville, TN 37215, USA	Dormant Company*	–	100%
Human Edge Software Philippines	Units 1001,1005,1006, 10th floor Cyberpod One, Eton Centris, Barangay Pinahan, Quezon City, Philippines 1100	Education related systems and solutions	–	100%
i-graduate USA LLC	1007 N Orange Street, 9th Floor, Wilmington, Delaware, 19801, USA	Educational consultancy services	–	100%
Class Measures INC	100 Tower Park Drive, Suite A, Woburn MA 01801, USA	Education related systems and solutions	–	100%
Class Measures Limited	Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, UK	Dormant Company	–	100%
Tribal Group Asset Company Limited	West 7 - 8 Federal Mills Park, 3-35 Mackey Street, Geelong, North Victoria, 3215, Australia	Dormant Company	–	100%

* This company is in the process of being struck off.

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

Company only Balance Sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
Investments	36	66,758	65,993
Current assets			
Debtors	37	5,952	2,561
Deferred tax assets	38	927	949
Cash at bank and in hand		1	1
Total current assets		6,880	3,511
Total assets		73,638	69,504
Creditors: amounts falling due within one year	39	(20,032)	(26,262)
Net current liabilities		(13,152)	(22,751)
Total assets less current liabilities		53,606	43,242
Net assets		53,606	43,242
Capital and reserves			
Called up share capital	40	9,803	9,803
Share premium	41	15,539	15,539
Merger reserve	41	11,304	11,304
Own share reserve	41	(856)	(856)
Share-based payment reserve	41	5,027	2,790
Retained earnings:			
At 1 January		4,662	3,975
Profit for the year attributable to the owners		10,019	394
Equity dividend paid		(1,952)	–
Other changes in retained earnings		60	293
At 31 December		12,789	4,662
Equity shareholders' funds		53,606	43,242

Notes 34 to 44 form part of these financial statements.

The financial statements on pages 114 to 120 of Tribal Group plc (registered number 4128850) were approved by the Board of Directors and authorised for issue on 19 March 2019. They were signed on its behalf by:

Richard Last
Director

Mark Pickett
Director

Company only Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Called up Share capital £'000	Share premium £'000	Merger reserve £'000	Own share reserve £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017		9,769	14,989	11,304	(856)	886	3,975	40,067
Profit and total comprehensive income for the year		–	–	–	–	–	394	394
Issue of share capital		34	550	–	–	–	–	584
Charge to equity for share-based payments	23	–	–	–	–	1,904	–	1,904
Tax credit on charge to equity for share-based payments		–	–	–	–	–	293	293
Contributions by and distributions to owners		34	550	–	–	1,904	293	2,781
At 31 December 2017 and 1 January 2018		9,803	15,539	11,304	(856)	2,790	4,662	43,242
Profit and total comprehensive profit for the year		–	–	–	–	–	10,019	(1,481)
Equity dividend paid	8	–	–	–	–	–	(1,952)	(1,952)
Charge to equity for share-based payments	23	–	–	–	–	2,265	–	2,265
Foreign exchange differences on share-based payments	23	–	–	–	–	(28)	–	(28)
Tax credit on charge to equity for share-based payments		–	–	–	–	–	60	60
Contributions by and distributions to owners		–	–	–	–	2,237	(1,892)	345
At 31 December 2018		9,803	15,539	11,304	(856)	5,027	12,789	53,606

Notes to the Company Balance Sheet

34. Significant accounting policies

Tribal Group plc is a public limited company incorporated and domiciled in England and Wales.

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial information has been prepared on the going concern and historical cost basis. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

35. Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The loss for the Company (before dividends received and paid) amounted to £1.5m (2017: profit of £0.4m). Dividends paid amounted to £1,952,000 and the dividend received from Tribal Holdings Limited amounted to £11,500,000. The independent auditors' remuneration for audit services to the Company was £86,000 (2017: £110,000).

36. Investments

	Shares in subsidiary undertakings £'000	Long-term loans £'000	Total £'000
Cost			
At 1 January 2017	14,646	48,818	63,464
Capital contribution relating to share-based payments	834	–	834
Movement in long-term loans	–	5,430	5,430
Impairments	(3,735)	–	(3,735)
At 31 December 2017 and at 1 January 2018	11,745	54,248	65,993
Capital contribution relating to share-based payments	765	–	765
At 31 December 2018	12,510	54,248	66,758

Long-term loans are treated as investments as they are non repayable.

The Directors have considered the value of the above investments and are satisfied that the aggregate value of each investment is not less than its carrying value. The investments in subsidiaries are all stated at cost less provision.

Details of the Companies subsidiaries are given in note 33 to the consolidated financial statements.

37. Debtors

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	5,795	2,425
Other debtors	157	136
	5,952	2,561

All amounts owed by group undertakings are unsecured, have no fixed repayment date, no interest is charged and amounts are repayable on demand. All debtors fall due within one year.

38. Deferred tax asset

	2018 £'000	2017 £'000
Deferred taxation		
At start of year	949	190
(Charge)/credit to income statement	(82)	466
Items taken directly to equity	60	293
At end of year	927	949

The deferred tax asset is analysed as follows:

	2018 £'000	2017 £'000
Share schemes	927	665
Other timing differences	–	284
	927	949

Deferred tax assets are all non-current assets.

The Company has an unrecognised deferred tax asset of £nil (2017: £nil) in relation to tax losses carried forward of £nil (2017: £nil).

39. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Amounts owed to group undertakings	18,215	24,810
Trade and other creditors	527	505
Current tax	406	–
Accruals	884	947
	20,032	26,262

All amounts owed to group undertakings are unsecured, have no fixed repayment date, no interest is charged and amounts are repayable on demand. All creditors fall due within one year.

40. Called up share capital

	2018 number	2018 £'000	2017 number	2017 £'000
Allotted, called up and fully paid				
At beginning of the year	196,051,181	9,803	195,380,299	9,769
Issued during the year	–	–	670,882	34
At end of the year	196,051,181	9,803	196,051,181	9,803

Notes to the Company Balance Sheet continued

40. Called up share capital continued

Details of options in respect of shares outstanding at 31 December 2018 are as follows:

Employee share option schemes:	Number outstanding '000	Exercise price payable	Date from which exercisable
2016 LTIP	4,003	£0.05	June 2019
2016 LTIP	611	£0.05	June 2017
2017 LTIP	1,936	£0.05	June 2020
2018 LTIP	591	£0.05	July 2021
	7,141		
2016 Matching	3,406	£0.05	January 2017, 2018, 2019
2017 LTIP (inc CSOP)	3,053	£0.80	July 2020
2018 LTIP (inc CSOP)	3,485	£0.796	March 2021
Total Tribal Group plc share option schemes	17,085		

Details of share-based payments are given in note 23 to the consolidated financial statements.

41. Share premium and other reserves

	Merger reserve £'000	Share premium reserve £'000	Own share reserve £'000	Share-based payment reserve £'000	Retained earnings £'000
At 1 January 2017	11,304	14,989	(856)	886	3,975
Profit for the year	–	–	–	–	394
Issue of share capital	–	550	–	–	–
Charge to equity for share-based payments	–	–	–	1,904	–
Tax on charge to equity for share-based payments	–	–	–	–	293
At 31 December 2017 and 1 January 2018	11,304	15,539	(856)	2,790	4,662
Loss for the year	–	–	–	–	(1,481)
Equity dividend paid	–	–	–	–	(1,952)
Equity dividend received	–	–	–	–	11,500
Charge to equity for share-based payments	–	–	–	2,265	–
Foreign exchange differences on share-based payments	–	–	–	(28)	–
Tax on charge to equity for share-based payments	–	–	–	–	60
At 31 December 2018	11,304	15,539	(856)	5,027	12,789

The merger reserve of £11.3m (2017: £11.3m) relates to the premium arising on shares issued subject to the provisions of section 612 of the Companies Act 2006.

The own share reserve of £(0.9)m (2017: £(0.9)m) represents the cost of 827,692 (2017: 872,692) shares in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group's share option schemes. See note 23 of the consolidated accounts for details of the Group's share options schemes.

The retained earnings reserve is distributable.

42. Contingent liabilities

On 24 January 2019 the Group received a letter of claim from lawyers acting for a provider of a software platform on which a number of the Group's material 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. 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 intend to defend these claims vigorously at this stage and are of the opinion that the claims can be successfully resisted. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

A cross-guarantee exists between Group companies in respect of bank facilities which was £nil as at 31 December 2018 (2017: £nil).

In addition the Company and its subsidiaries have provided performance guarantees issued by its bank on its behalf in the ordinary course of business, totalling £1.0m (2017: £1.5m). They are not expected to result in any material financial loss.

As disclosed in Note 33, Tribal Holdings Limited and International Graduate Insight Group Limited have taken advantage of the exemption available under Section 394A/ 479A of the Companies Act 2006 in respect of the requirements for audit. As a condition of the exemption, the Company has guaranteed the year-end liabilities of these subsidiaries until they are settled in full. The liabilities of the subsidiaries at the year-end was £25,967,000 (2017: £21,145,000). These are inclusive of intercompany liabilities.

43. Financial Instruments

All Company risks are aligned to those of the Group. Details of the risks relating to the Group are given in note 31 to the consolidated financial statements.

31 December 2018	Financial Assets measured at amortised cost £'000	Financial Liabilities measured at amortised cost £'000	Total £'000
Financial assets			
Cash	1	–	1
Debtors*	5,795	–	5,795
	5,796	–	5,796
Financial liabilities			
Creditors	–	19,626	19,626
	–	19,626	19,626

31 December 2017	Financial Assets measured at amortised cost £'000	Financial Liabilities measured at amortised cost £'000	Total £'000
Financial assets			
Cash	1	–	1
Debtors*	2,425	–	2,425
	2,426	–	2,426
Financial liabilities			
Creditors	–	26,262	26,262
	–	26,262	26,262

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

Notes to the Company Balance Sheet continued

44. Staff numbers and costs

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

	2018 number	2017 number
	5	5

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	1,124	1,026
Social security costs	154	454
Other pension costs	37	34
Share option charge	1,719	1,070
	3,034	2,584

Cost of Directors' emoluments were incurred by the Company and are included in the Remuneration Report on pages 51 to 55.

Company Information

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

To register for e-communications, please visit https://www.signalshares.com

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

To receive just one Annual Report and Accounts and one cheque for each dividend payment, please contact the Company's registrars, Link Asset Services, on 0871 664 0300, and ask for your accounts to be amalgamated.

(Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales).

Financial calendar
Annual General Meeting	24 April 2019

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