

TRIBAL

Tribal Group plc Institutional presentation

Interim Results

Six months ended 30 September 2006

28 November 2006

A photograph of two women with long, wavy hair. The woman on the left is wearing a yellow top and has her head tilted towards the woman on the right. The woman on the right is wearing a purple and orange striped top and is smiling. The background is plain white.

Services for life

- Six months ended 30 September 2006:
 - as anticipated, results impacted by more pronounced weighting to the second half, but also by challenging trading conditions in certain specific market areas
 - revenues have reduced in consultancy services by 15%
 - profit before tax* £3.1m (2005: £7.3m) and adjusted EPS* 3.4p (2005: 6.3p)
 - education and technology - a solid performance, successful merger
 - consulting services - impacted by difficult markets and management changes
 - corporate efficiency initiatives underway, will deliver benefits in 2007/8
 - Mercury Health - strong results, possible demerger announced
 - in response to reduced revenue in consulting services, performance improvement and cost reduction actions have been taken
- Overall, the Group expects FY results to be significantly impacted by slow start to the year and likely continuation of challenging trading in the second half:
 - prospects for education and technology encouraging
 - consulting services expected to deliver a much stronger second half
 - Mercury Health's results will be held back by increased investment
- The prospects for 2007/8 are more encouraging; initiatives underway to grow revenues and improve margins

- Public sector markets are generally more challenging
- However, there is no shortage of new opportunities
- *Education* – generally robust market conditions although funding changes and restructuring impacting some areas. Significant opportunities to deliver integrated services and more through direct delivery contracts
- *Health* – very challenging market (PFI delays, continuing downturn in recruitment, re-organisation of PCTs and SHAs). However, major opportunities for growth – particularly in commissioning and performance improvement. Opportunities to develop delivery capacity/partnership with NHS Trusts
- *Housing and regeneration* – strong markets and Tribal well placed. Opportunity to diversify offering
- *Local government* – White Paper “stronger and prosperous communities” has set policy direction. Opportunities for long term consulting/service delivery contracts
- *Central government* – buoyant market. Tribal is growing fast but it still has small market share. New framework contracts starting slowly. Opportunity to develop new specialist consultancy businesses

Strategy for consultancy and support services

	Health	Local/regional government	Housing	Central government	Education
Consulting	■	■	■	■	■
Resourcing	■	■	■	■	■
Communications	■	■		■	■
Property	■				■
IT services					■
Learning and publishing					■
Support services					■

■ Consulting services

■ Education and technology

- Continued focus on UK public sector
- Build consultancy and support services
- Leverage consultancy services to develop new delivery businesses eg NHS commissioning
- Definition of core activities
 - become No 1, 2 or 3 in each service area
 - exit sub-scale business unless they have strong growth potential
 - exit low day rate customers
 - all business areas to be capable of £1m plus profit
- Providing an integrated package of services
 - enabling differentiation from competition
 - opportunity for bundled services

Growth

- Sustained organic revenue growth through:
 - headcount increases in consultancy
 - development of new services
 - increasing investment in bid activity
 - strengthening of regional presence

- Margin improvement through:
 - continued improvement in quality of services
 - moving up day rate
 - tightening job costing and project management
 - rigorous performance management – robust control of the cost base
 - careful selection of customers and contract opportunities
 - continue increasing the size of the average contract
 - major Group initiatives to achieve procurement savings

	Period ended 30 September 2006 £000	Period ended 30 September 2005 £000
Revenue	35,748	35,382
Operating profit	4,327	4,725
Operating profit margin	12.1%	13.4%

Our activities

- One of the leading UK education services businesses
- Strong position in three main markets: schools, post-16, higher education
- Operating through three business streams:
 - Learning and publishing: e-learning, distance learning, training delivery, national programmes
 - Services: inspection, consultancy, managed services
 - IT: software products, systems development, IT services
- Increasingly moving into delivery of national programmes

Business highlights

- Successful merger of education and technology in April
- New management arrangements in place
- Strong performances in software, inspection and e-learning/distance learning
- Slow start to the year in consulting
- Important contract wins
 - Elwa - consultancy (Preferred Bidder)
 - Thames Valley Police – managed learning
 - HE: Edinburgh University and University of West of England - student administration
 - “Move On” - basic skills
 - McDonalds and Compass - e-learning
 - Children’s Work Force Development Council – professional development training (Preferred Bidder)

Future prospects

- Business continues to be H2 weighted
- Some funding pressures in FE
- Opportunities
 - development of HE business
 - Academies and Skills Academies
 - national managed learning contracts
 - commissioning
 - shared services
- In 2007/8 will increase bidding capacity and development of new market propositions

	Period ended 30 September 2006 £000	Period ended 30 September 2005 £000
Revenue	51,942	59,958
Operating profit	3,233	7,655
Operating profit margin	6.2%	12.8%

Our activities

- Management consulting – local government/regions, housing, health, central government
- Resourcing – advertising, executive and interim search and managed services
- Property – architectural, project management and town planning
- Communications – PR and communication

Future prospects

- Platform now in place to create leading management consultancy business
- Opportunities:
 - outsourced HR delivery contracts
 - commissioning framework – opportunity to create new delivery business
 - strengthen consulting services in: corporate finance, programme management, performance improvement
 - new start-ups in communications

Business highlights

- Slow start to the year – half year trading impacted by increased bid costs (£600k), slow start on new frameworks (£300k), continued decline in resourcing market (£700k), on-going delay in PFI projects (£1.5m)
- Strong performances in central government and housing consulting
- Benefits of new management arrangements in property and consulting
- Contract wins:
 - won 16 of 30 Catalyst Framework contracts
 - shortlisted on majority of NHS commissioning framework
 - central government wins: Defra, Foreign and Commonwealth Office, Immigration and Nationality Directorate
 - health wins: board development with King's Fund - integrated service improvement programme
 - property wins: five major projects through All Wales Framework; Royal Liverpool Hospital; Bury, Thameside and Glossop LIFT, Bournemouth University; Colchester and West Herts FE Colleges
 - communication wins: School Food Trust, Early Years, Learndirect
 - recruitment advertising wins: PASA (one of seven on NHS Framework); Oxfordshire Council (£2m pa), Wakefield (£750k pa); six FE colleges (£1.5m pa), two universities (£1.5m pa); four housing associations (£500k pa)

- Centralisation of corporate services
- Major projects underway:
 - strategic sourcing – centralisation of procurement across Group has delivered £0.25m savings in 2006/7 and expected to deliver £1m plus savings in 2007/8
 - property rationalisation – reduced number of offices from 50 to 40
 - centralisation of IT – single network and support team in place by April 2007 (for 80% of the business), improving quality of services and mitigating risk
 - move to single finance system – procurement underway, project roll-out from April 2007 to September 2008 will improve job costing, performance management, cash control
 - marketing – centralisation of marketing/communications and move to Tribal brand across the Group, now completed

	Period ended 30 September 2006 £000	Period ended 30 September 2005 £000
Revenue	17,576	2,693
Operating profit	1,795	(214)
Operating profit margin	10.2%	(7.9)%

Our activities

- Significant market share of Independent Sector Treatment Centre programme – Wave 1 circa £2bn and Wave 2 circa £3.6bn
- Centres now operational in Wycombe (diagnostics), Medway (daycase surgery), Portsmouth (diagnostics, walk-in centre, daycase surgery), Sussex (orthopaedics)
- Havant (diagnostics) due to open in 2008
- Partners:
 - elective surgery: Health Inventures (US), Hospital for Special Surgery (US)
 - diagnostics: Heart of England FT and Euromedic (Hungary)
 - primary care: Frome Medical Practice

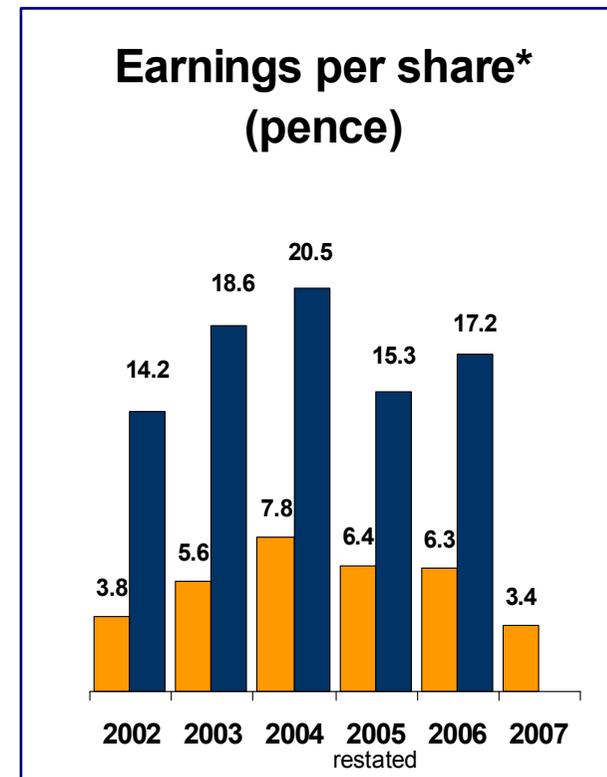
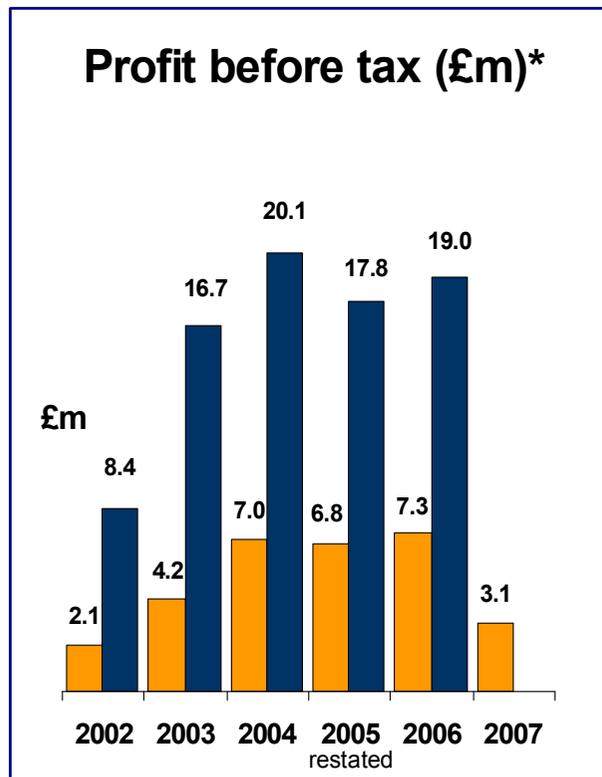
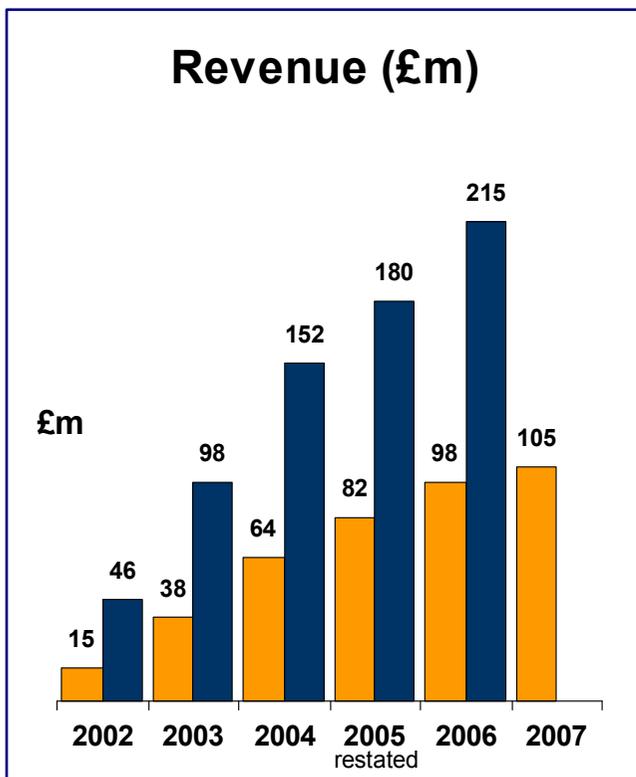
Business highlights

- Continued good progress
- Further strengthening of management team
- Mid-Sussex opened in June; ramp-up continuing
- Operational performance in H1 in line with plan
- Patient referrals increasing, clinical outcomes good
- Preferred bidder on circa £160m West Midlands diagnostic contract
 - financial close due in second half
- Shortlisted on new elective surgery contract in Essex
- Primary care contract in City & Hackney now implemented; ahead of plan

Future prospects

- H2 will be held back by ramp-up in Sussex, planned investment in bid costs and business development
- Strong growth potential through contract wins
- Government initiatives: Patient Choice (choose and book), Growing Capacity, Payment by Results
- Patricia Hewitt, Secretary of State for Health, now announced no limits on independent sector involvement
- Pipeline of primary care contracts
- Strong outlook for 2007/8 and 2008/9

- Mercury Health – now a major independent provider of diagnostics and elective surgery; well-positioned in developing primary care market
- Platform created to develop a major healthcare company
- Board has now taken the decision, in principle, to demerge Mercury Health
 - Mercury will be able to develop as an independent listed company
 - led by Peter Martin, as CEO
 - Tribal Group will benefit – released from guarantees, removal of conflict of interest and able to focus on core activity
- Market potential for Mercury very good; opportunity to:
 - make complementary acquisitions
 - bid for additional national and regional contracts
 - build a national primary care business



Note: 2002 to 2004 under UK GAAP. 2005 restated under IFRS

■ Full year ■ Interim

* Before amortisation of intangibles, share option costs, exceptional items and IAS 32/39 finance costs

Period to 30 September	2006 £m	2005 £m	Growth %
Turnover	124.8	123.8	+1%
Revenue	104.5	98.0	+7%
Operating profit*	6.2	9.4	-34%
<i>Operating margin</i>	<i>5.9%</i>	<i>9.6%</i>	
Interest	(3.1)	(2.1)	
Profit before tax*	3.1	7.3	-58%
Tax	0.1	(2.0)	
Profit after tax*	3.2	5.3	-40%
Adjusted fully dilute EPS* (pence)	3.4p	6.3p	-46%
No of WA diluted shares ('000)	83,888	81,365	+3%

- Revenue slowdown consulting services of 15%
- Significant organic revenue growth for Mercury Health due to successful operational phase
- Operating profit* and margins impacted by:
 - public sector recruitment slowdown – £0.7m
 - delays to PFI hospital schemes – £1.5m
 - higher bid costs – £2.1m (2005: £1.3m)
 - benefit of £0.3m from capitalised development expenditure
- Profit before tax* impacted by higher interest costs - £3.1m (2005: £2.1m)
- Tax credit due to prior year bid costs now signed off by HMRC
- Forward order book of £289m (2005: £345m)
 - Mercury Health £177m (2005: £212m)
- Secured income for 2006/7 – 81% of budget
- Bidding pipeline at £520m
- Interim dividend unchanged at 1.05p

	September 2006 £m	March 2006 £m
Intangible assets	208.4	209.7
Other non-current assets	46.9	42.1
Net cash/(debt) – core	(62.5)	(55.7)
Senior debt – Mercury Health	(21.8)	(20.2)
Deferred consideration payable	(6.3)	(6.2)
Net working capital	(2.0)	(7.6)
Net assets	162.7	162.1
Share capital	85.8	84.8
Profit and loss reserves	13.3	15.2
Minority interest	1.2	1.2
Other reserves	62.4	60.9
Total equity and reserves	162.7	162.1

- Goodwill impairment of £2m in NHS supply
- Mercury Health capital expenditure now at £38m following construction of Mid-Sussex ISTC site
- £5.3m out of the deferred consideration is payable in December 2006 leaving one earn-out to be settled in December 2007
- Improved working capital management
- Minority interest relates to three start-up businesses – all trading well

Period to 30 September	2006 £m	2005 £m
Operating profit	3.8	9.0
Depreciation/amortisation	5.0	2.1
Other non-cash items	0.2	0.2
Working capital movement	(3.9)	(10.0)
Operating cash flow	5.1	1.3
Interest	(2.0)	(2.4)
Tax	(2.6)	(0.5)
Free cash flow	0.5	(1.6)
Expenditure on tangible/intangible assets	(9.4)	(17.4)
Acquisitions	(0.3)	(2.9)
Financing – new loans	2.8	4.3
Net change in cash	(6.4)	(17.6)

- Operating profit to cash flow conversion (including Mercury Health) of 83% (2005: 13%)
- Good cash collection with DSO days of 45 (2005: 47)
- Capital expenditure movement significant with £7.1m spent on Mercury Health ISTC site commissioning
- Prior period tax payments reflect a £1.2m refund

	September 2006 £m	March 2006 £m
Group net debt	84.3	75.9
Less Mercury Health non-recourse net debt	(21.8)	(20.2)
Group recourse net debt	<u>62.5</u>	<u>55.7</u>
Bank revolver facilities	<u>105.0</u>	<u>125.0</u>
Bank headroom	<u>42.5</u>	<u>69.3</u>

- Current bank facilities for the core business due for renewal in 2010
 - revolver £105m
 - performance bond £60m
 - loan note guarantee £15m
- Interest rate hedging instruments for £50m of core debt and Mercury Health non-recourse debt of £33.5m
- Effective blended interest rate of 6.4%
- Bank covenant headroom:

	Actual	Covenant
Interest cover	x3.3	>x3.0
Debt to EBITA	x3.3	<x4.0

- Results impacted by increased seasonal weighting to H2 and difficult market conditions in specific areas
- In response to the 15 per cent reduction in consulting services revenue, action has been taken to reduce operating costs
- Outlook for H2 in education and technology encouraging. Trading in consultancy services expected to improve. Mercury Health will be held back by planned increased investment
- The proposed demerger expected to allow Mercury to develop as a strong independent healthcare business
- Tribal will remain focused on delivering consultancy and support services to the UK public sector and seek opportunities to develop delivery services
- Full year results will be significantly impacted by the slow start to the year and continued difficult trading in some areas
- The outlook for 2007/8 is more encouraging; initiatives underway to grow revenue and improve margins