

TSL Education Group Limited

**Annual Report and Financial Statements
for the year ended 31 August 2012**

TSL Education Group Limited
Annual Report and Financial Statements
for the year ended 31 August 2012

Contents

Directors' Report for the year ended 31 August 2012	2 – 8
Independent Auditors' Report to the members of TSL Education Group Limited	9 - 10
Group Profit and Loss Account for the year ended 31 August 2012	11
Group Balance Sheet as at 31 August 2012	12
Company Balance Sheet as at 31 August 2012	13
Group Cash Flow Statement for the year ended 31 August 2012	14
Notes to the Financial Statements for the year ended 31 August 2012	15 – 33

TSL Education Group Limited

Directors' Report

for the year ended 31 August 2012

The directors present their report and the audited financial statements for the Company and Group for the year ended 31 August 2012.

Principal Activities

The principal activities of the Group are the publication of the TES (Think, Educate, Share) and the Times Higher Education (THE). The publications are long established and leaders in each of their respective fields with the TES having been published since 1910 and the THE since 1971. The website, TES Connect, provides one of the world's largest online social networks for teachers, provides a vast library of teaching resources and is the UK's leading online recruitment platform for schools and colleges looking to find new teaching and support staff. TES HireWire is a free web-based recruitment service that allows schools to leverage online technology to manage their recruitment, thereby saving time, money and resources and providing a better service to candidates. In addition the Company runs education-related events (TSL Events) and provides a specialist search and selection recruitment service (TES Prime) for leadership vacancies within the education industry.

A key objective of the Group is to drive up the quality of UK education by helping the right people to find the right jobs, by giving professionals a platform to discover and share resources, by providing content that enables people in the profession to develop, by encouraging debate about the best ways forward in education and by keeping the education community well-informed through news, views and comment. The principal activity of the Company is a holding company.

Review of Business Activities

At the start of the new academic year in September 2011, the TES was relaunched as a new, large format, glossy magazine. The recruitment section remains in tabloid-sized supplements, but on improved paper and the entire publication was redesigned. It is the first time in the TES's 100-year history that it has undergone such a radical transformation. The new format represents a big investment in the future of the Group and the launch follows many months of research and planning. Included within the new magazine is TESpro, a new weekly pull out and keep magazine on teaching practice designed to explore and share cutting-edge practice in teaching today. The changes were well received by readers and advertisers alike.

The inventory of free teaching resources hosted and shared on TES Connect, and the number of teachers accessing these, continued to grow rapidly during the year. Over 520,000 teaching resources have now been uploaded to TES Connect (by teachers themselves) and these resources were downloaded on a weekly average of 1.5 million times during the last twelve months, a significant increase over the prior year. In May 2012, over 9.5 million resources were downloaded in the month, the highest ever monthly total achieved. This growth in the scale of the content inventory and the user base is set to continue. The Group believes that the sharing of teaching resources and of best practice, in this manner, will be a key cornerstone to raising classroom standards and in driving substantial efficiencies for the UK education sector.

In December 2011, the Group acquired a 50% stake in Sandgate Systems Limited, the owner of PropertyPrefect. PropertyPrefect and TES BuyWire, now rebranded as TES Foundation, provide a web-based software tool enabling schools to manage all operational areas more effectively. This is the largest area of unplanned expenditure in schools. It is also an area in which the school leadership team has personal liability. In July 2012, TSL Education Limited acquired the remaining 50% interest in BrightSpark Education Limited for a consideration of £1.

In February 2012, the Group entered into a joint venture with the American Federation Teachers to develop a digital platform, to enable teachers to collaborate and share their teaching resources in the United States. The US version of TES online user-generated materials, aims to engage 7 million American Education Professionals, enabling them to share their lesson plans and to join together to build a free resource platform around the newly-introduced Common Core curriculum. The website, Share My Lesson (SML, www.sharemylesson.com), is a place where educators can come together to create and share their very best teaching resources. Developed by teachers for teachers, this free platform gives access to high-quality teaching resources and provides an online community where teachers can collaborate with, encourage and inspire each other. SML has a significant resource bank for Common Core State Standards, covering all aspects of the standards, from advice and guides to help with dedicated resources that support the standards.

A new version of TES Connect for the Indian market went live in October 2012. TES India (www.tesindia.com) as well as hosting all of our 500,000 resources and community platform also has a local jobs board with jobs in the 8 largest cities in India.

TSL Education Group Limited

Directors' Report for the year ended 31 August 2012 (continued)

Review of Business Activities (continued)

The Group continues to achieve recognition for the quality of its products and outstanding contribution of its employees. During the year, at the 2012 PPA Awards, TES magazine was named Business Magazine of the Year and TES Connect was awarded the much-coveted Digital Product of the Year (Business Media). This is the third year in a row that the site has won the Digital Product accolade at this Awards show. At the PPA Scottish Magazine awards, Gillian Macdonald, editor of the TESS, won the PPA Scottish Business and Professional Magazine Editor of the Year award. Winning these awards is a fantastic achievement for the Group and a huge endorsement of our employees, products and our business. At the annual PPA Credit Management awards, the Credit Control team was named PPA Magazine Credit Team of the Year and Julie Tillott won the Magazine Credit Controller of the Year. In addition, the Group was shortlisted for a number of other awards including Paul Jump, THE reporter, for Business Media Writer of the Year, and the TES for the Business Media Brand of the Year. The Group Subscriptions Marketing Team was also shortlisted across three categories at the 2012 PPA Customer Direct Awards, the Business Magazine of the Year, the Customer Direct Marketing Team of the Year and the Customer Retention Strategy of the Year.

Future Developments

Despite the continued difficult economic environment, the directors are satisfied with the prospects of the Group. The print business has been strengthened following the relaunch of the TES, whilst the digital offering continues to strengthen. The next 12 months will see further services added to the electronic platform and a further increase in the number of online resources, together with a significant functionality improvement to the jobs section on TES Connect.

Fair Review of the Business Market Environment

Over the past few years, education in the UK has been subject to large scale change, particularly in England with a complete overhaul of the education system. Changes include steps towards an overhaul of the curriculum and examination system, the organisation of teacher training¹, the conversion of large numbers of schools into academies (2,027 converted and sponsored academies in England as of August 31st 2012 compared with 1,103 as of August 31st 2011²) and the introduction of new "Free" schools to the educational landscape (55 Free Schools opened in September 2012 compared with 24 in September 2011³).

In addition to the political and structural changes, the increased number of children entering formal education is challenging the existing primary school system. Projected to reach the secondary sector by 2015⁴, this rise in rolls can be expected to impact on the recruitment and resources market in education.

All the above changes will have an impact on the resourcing requirements for the UK Education market. The directors believe that the business is well placed to capitalise on market opportunities.

Trading Performance in the Year

The majority of the Group's revenue is derived from the advertising of teacher/academic vacancies in its publications. This can vary from year to year and therefore the Group's income may vary. In the year ended 31 August 2012, the Group generated revenue of £73.8 million compared with £59.6 million in the prior year. The increase in revenue is a direct result of an increase in the rate of teacher turnover, reflecting the improvement from the recessionary factors experienced throughout the advertising industry during the prior year. All trading activities within the Group are in TSL Education Limited, which also operates the activities of Education Data Surveys Limited, EnglishTeaching.co.uk Limited and Electronic Blackboard Limited. The Group's future financial performance will be influenced by the strength of advertising revenue in the TES. The directors believe that, following a significant level of investment, the Group is in a good position to benefit from the improvement in teacher mobility once the recession ends.

During the year, the Group generated an operating profit of £21.3 million (2011: £8.4 million profit), an increase of £12.9 million in the year due to revenue growth and a reduction in exceptional costs. Exceptional costs of £nil were incurred during the year (2011: £3.3 million), being restructuring costs incurred in relation to debt refinancing. The Group's main revenue driver is the level of teacher turnover in the UK. Teacher turnover improved during the year, but the directors continue to expect teacher turnover to return to historical levels in the long term.

¹ <http://www.education.gov.uk/schools/careers/traininganddevelopment/initial/b00205704/school-direct>

² <http://www.education.gov.uk/schools/leadership/typesofschools/academies/b00208569/open-academies>

³ <http://www.education.gov.uk/schools/leadership/typesofschools/freeschools/b0066077/open-free-schools>

⁴ <http://www.education.gov.uk/researchandstatistics/datasets/a00211339/national-pupil-projections-july-2012>

TSL Education Group Limited

Directors' Report

for the year ended 31 August 2012 (continued)

Trading Performance in the Year (continued)

The net interest charge for the year was £62.5 million (2011: £44.9 million) and relates to net cash payments due on the Group's loans of £17.0 million (2011: £17.5 million), rolled over interest of £9.0 million (2011: £7.5 million) in respect of the Group's mezzanine and PIK facilities, £0.9 million (2011: £0.9 million) of amortised debt fees, £35.5 million (2011: £18.8 million) accrued preference share dividends and £0.2 million (2011: £0.2 million) bank fees. The loss for the year after taxation was £44.5 million (2011: £35.5 million). The directors do not recommend the payment of a dividend (2011: £nil).

The financial position of the Group is presented in the balance sheet. Total shareholders' deficit and net liabilities at 31 August 2012 was £415.1 million (2011: £370.6 million) comprising fixed assets of £125.8 million (2011: £131.8 million), net current assets of £27.7 million (2011: £22.9 million), long term liabilities of £334.9 million (2011: £327.1 million) and preference share capital and accrued preference share dividends of £233.7 million (2011: £198.2 million). Long term liabilities of £334.9 million (2011: £327.1 million) consist of bank loans of £334.9 million (2011: £326.8 million). Bank loans repayable within 2 to 5 years total £300.7 million (2011: £210.2 million), with £34.2 million (2011: £116.6 million) repayable in more than five years. The first repayment is due in 2015.

Key Performance Indicators

There are a number of key performance indicators (KPIs) measuring the financial and operational performance and strength of the Group⁵:

	31 August 2012	31 August 2011
EBITDA	£32.9 m	£24.3 m
EBITDA margin	44%	41%
Net cash inflow from operations / EBITDA	97%	85%
Cash cover ratio	1.48	1.33
Interest cover ratio	1.88	0.96
Leverage ratio	8.5	11.72
Advertising revenue growth	27%	(15%)
Days sales outstanding	33	33
Staff turnover	25%	22%
Number of registered members ⁶	2.1 m	1.5 m
Number of resources ⁷	524,609	155,382
Number of resource downloads ⁸	157.1 m	77.4 m

⁵ All information provided has been sourced from the audited financial statements or TSL internal data.

⁶ To TES website

⁷ Available on the TES website

⁸ From the TES website

TSL Education Group Limited

Directors' Report for the year ended 31 August 2012 (continued)

Directors

The directors during the year and up to the date of the signing of the financial statements were as follows:

Mr D Aldred
Mr A Mornington
Mr M O'Sullivan
Ms L Rogers
Mr W Donoghue
Mr J Arnell

Board Composition

Mr D Aldred, Mr A Mornington and Mr J Arnell are directors of TSL Education Group Limited and have been appointed by Charterhouse General Partners (VIII) Limited, the ultimate controlling party of the Group. Charterhouse General Partner (VIII) Limited have not appointed any directors in any of the subsidiary companies of TSL Education Group Limited.

Employee Involvement

A staff association is in operation comprising elected employee representatives. The meetings provide the framework for the Group's consultative process and representatives provide invaluable input on a wide range of issues. On a biannual basis, the Company holds a meeting for all employees to provide an update on the performance of the business and to discuss key business priorities and strategic initiatives.

Employment of Disabled Persons

The Group values the individual contribution of all its employees and prospective employees from all sectors of the community at large. The Group recognises its social, moral and statutory duty to employ people with disabilities and it will do all that is practicable to meet this responsibility. It is the policy of the Group that disabled people, whether registered or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants.

All those involved in recruitment within the group have a responsibility to be open to all candidates based on their skills and expertise and to ensure they discuss special needs with any disabled candidates. In this way recruiters can explore any special accommodations that may be required to ensure that disabled candidates are able to compete fairly in the selection process.

Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining. The Group is prepared to modify procedures or equipment, wherever this is practicable, so that full use can be made of an individual's abilities. The Group encourages the training, the career development and the promotion of those disabled persons employed.

Social and Community Issues

The Group participates in a number of social and community initiatives both in the UK and in the wider global community:

Matched Giving Scheme

To show support for the community, the Group runs a Matched Giving scheme for employees who take part in charitable activities to raise money for UK-registered charities. The Group match amounts of up to £500 per team per year and £200 for individuals. In the 31 August 2012 year, the Group matched £630.

£30,000 to Build a School in Pakistan

The Group raised almost £30,000 to help build a new primary school in Pakistan in association with The Citizens Foundation (TCF). Around 3.5 million people are born in Pakistan each year - around half of these people will never go to school. TCF is a charity founded in 1995 to bring education into the lives of children living in some of the country's poorest areas who might otherwise be deprived of the opportunity to attend.

Sponsorships

The TES has supported Music for Youth (MFY) for over 30 years and is one of organisation's major sponsors. MFY is a national music education charity providing free performance opportunities for young people aged 21 and under through an annual season of nationwide festivals and concerts, including the MFY Schools Prom, which is held annually at the Royal

TSL Education Group Limited

Directors' Report

for the year ended 31 August 2012 (continued)

Social and Community Issues (continued)

Albert Hall. In addition MFY stages a series of free concerts, performed by young people for young people, providing first-hand experience of live music-making.

Awards

The Group also hold a number of annual awards to recognise outstanding contributions of UK learning institutions and individuals in the community. These include the TES School Awards, which were established to celebrate and reward the professionalism and flair of those teams making an outstanding contribution to primary, secondary and special needs schools in both the maintained and independent sectors in the UK. TES FE Awards recognise the outstanding provision in all aspects of further education: colleges, work based learning providers, adult and community learning providers, offender learning establishments and specialist designated institutions. Times Higher Education (THE) Leadership and Management Awards recognise institutions who demonstrate great breadth and depth of leadership and management skills and the THE Awards which aim to recognise the collaborative and interdisciplinary work that is taking place in universities to promote the arts.

TES School's Partner scheme

From July 2012, TES employees have been working with UK schools on a number of initiatives. The project allows partnered schools to get involved in the research and development of ideas and provide insights and honest feedback on TES new products and projects. TES classroom and reading volunteers go to partnered schools to read or help in the classroom. TES also offers work placements for secondary school students.

Political Donations

The Group did not make any political donations during the year (2011: £nil).

Principal Risks and Uncertainties

The principal risks and uncertainties, including financial risks, facing the business are set out below:

Market risk

Changes in teacher turnover influence the Group's revenue and therefore future performance may be affected by changes in teacher mobility. The Group performs periodic market reviews to identify any underlying changes in the rate of teacher turnover. Teacher turnover is influenced by a number of factors, including public sector spending and recessionary pressures.

Competitive risk

A key objective of the Group is to drive up the quality of UK education. This will continue to deliver value to our customers. The main competitive threats facing the Group are from current competitors, potential new entrants and potential technological changes in the industry. In the opinion of the directors, the TES has a sufficiently well-established position in the market place to defend against potential threats.

Interest rate risk

The Group currently has a high level of debt and changes in interest rates could have a significant impact on the Group's financial performance. To mitigate this risk, the Group has entered into interest rate swap agreements effectively resulting in fixed interest rate charges for the majority of the Group debt.

Credit risk

The Group ensures that appropriate credit checks are made on potential customers before sales are made. Management regularly reviews outstanding receivables and debtor recovery plans, together with credit limits across most of our largest customers. The Group's policy is to deposit surplus cash with internally approved banks. These banks are reviewed at least annually to ensure that appropriate credit ratings are maintained.

Cash flow/ liquidity risk

The Group has sufficient funds to cover the annual service of financing. Iden Capital Partners LLP is the lender to the Group of over two thirds of its debt, having acquired the debt in a series of transactions with third parties in March 2011. Iden Capital Partners LLP is a UK limited liability partnership ultimately controlled by Charterhouse Capital Limited. Charterhouse Capital Limited is also the ultimate controller of the Group's majority shareholder, Charterhouse General Partners (VIII) Limited, in its capacity as general partner of the Charterhouse Capital Partners (VIII) funds.

TSL Education Group Limited

Directors' Report for the year ended 31 August 2012 (continued)

Principal Risks and Uncertainties (continued)

The debt covenants were reset in April 2011 to a level consistent with the future trading forecasts of the business. The Group has complied with these covenants and the directors believe that it will continue to do so.

Price risk

Future revenue remains sensitive to changes in advertising rates in the TES. The Group performs periodic market reviews to ensure that all rates remain competitive.

Directors and Officers Indemnity

The Group maintains liability insurance for its directors and officers and had this in place throughout the year and up to the date of signing the financial statements.

Going Concern

The Directors, having reviewed the Group's liquid resources and access to borrowings facilities, and the Group's future cash flow forecasts, have a reasonable expectation that the Group has adequate resources to continue as a going concern. Therefore these financial statements have been prepared on that basis.

Essential Contractual and other arrangements

The Group has a number of important relationships with its customers, suppliers and bankers. These relationships are managed by key managers and directors. The three primary relationships are:

- Suppliers – 2e2 provide IT managed services which are essential to successfully running the business.
- Finance – The Group has arranged its debt finance through the Lloyd's Banking Group and Iden Capital Partners LLP to access the level of funding required for its continued operations.
- Property – The lease on the main property occupied by the Group has been extended until January 2023.

Environmental Measures

The Group is fully committed to reducing its carbon emissions and play its part in the fight to combat climate change. The 'Switch Off' initiative ensures that computer equipment is shut down and monitors are turned off on a daily basis, whilst the Group also has an automatic 'Lights Off' function across all TSL floors at Red Lion Square. The Group recycles waste paper and cardboard on a weekly basis and has recycling bins on each floor for plastic bottles and aluminum cans. The Group prints all its publications on Programme for the Endorsement of Forest Certification accredited paper. The Group uses biodegradable film for all of its products and encourages paper recycling by the end user through in-paper advertising.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

TSL Education Group Limited

Directors' Report for the year ended 31 August 2012 (continued)

Statement of Directors' Responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Independent Auditors

The auditors are deemed to be re-appointed in accordance with the provision of s487 of the Companies Act 2006. PricewaterhouseCoopers LLP have indicated their willingness to serve as auditors for the coming year and they will therefore continue to serve as auditors for the Company.

By order of the board



M O'Sullivan
Company secretary
17 December 2012

Registration Number: 06141077

TSL Education Group Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TSL EDUCATION GROUP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of TSL Education Group Limited for the year ended 31 August 2012 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 August 2012 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

TSL Education Group Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TSL EDUCATION GROUP LIMITED (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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.



Julie Cavin (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, 17 December 2012

TSL Education Group Limited

Group Profit and Loss Account for the year ended 31 August 2012

	Note	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Turnover including share of joint ventures	2	73,835	59,556
Less: Share of joint venture turnover		(36)	-
Group Turnover		73,799	59,556
Cost of sales		(15,107)	(14,115)
Gross Profit		58,692	45,441
Administrative expenses			
Excluding exceptional items		(37,430)	(33,702)
Exceptional items	3	-	(3,322)
Administrative expenses including exceptional items		(37,430)	(37,024)
Group Operating Profit	4	21,262	8,417
Share of Operating loss of joint ventures		(81)	-
Operating Profit including Joint Ventures Loss on Ordinary Activities before Interest		21,181	8,417
Net interest payable and similar charges	6	(62,513)	(44,863)
Loss on Ordinary Activities before Taxation		(41,332)	(36,446)
Tax on loss on ordinary activities	7	(3,189)	943
Loss for the Financial Year	18	(44,521)	(35,503)

The results disclosed above relate entirely to continuing operations.

There are no other recognised gains and losses in the year other than those reflected in the profit and loss account above and therefore no separate statement of total recognised gains and losses is presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

The notes on pages 15 to 33 form part of these financial statements.

TSL Education Group Limited

Group Balance Sheet as at 31 August 2012

	Note	31 August 2012 £'000	31 August 2011 £'000
Fixed Assets			
Intangible assets	9	118,805	126,348
Tangible assets	10	7,126	5,434
Investment in joint ventures:			
Share of gross assets	37	-	-
Share of gross liabilities	(132)	-	-
	(95)	-	-
		<u>125,836</u>	<u>131,782</u>
Current Assets			
Debtors	12	5,021	4,214
Cash at bank and in hand		<u>34,105</u>	<u>27,910</u>
		<u>39,126</u>	<u>32,124</u>
Creditors: Amounts Falling Due Within One Year	13	<u>(11,467)</u>	<u>(9,260)</u>
Net Current Assets		<u>27,659</u>	<u>22,864</u>
Total Assets Less Current Liabilities		<u>153,495</u>	<u>154,646</u>
Creditors: Amounts Falling Due After More Than One Year	14	<u>(334,919)</u>	<u>(327,049)</u>
Net Liabilities before Preference Share Capital and Accrued Preference Share Dividends		<u>(181,424)</u>	<u>(172,403)</u>
Preference Share Capital and Accrued Preference Share Dividends	15	<u>(233,698)</u>	<u>(198,198)</u>
Net Liabilities		<u>(415,122)</u>	<u>(370,601)</u>
Capital and Reserves			
Called up share capital	17	250	250
Share premium account	18	2,250	2,250
Profit and loss account	18	<u>(417,622)</u>	<u>(373,101)</u>
Total Shareholders' Deficit	19	<u>(415,122)</u>	<u>(370,601)</u>

The financial statements on pages 11 to 33 were approved by the board of directors on 17 December 2012 and were signed on its behalf by:



L Rogers
Director

The notes on pages 15 to 33 form part of these financial statements.

TSL Education Group Limited

Company Balance Sheet as at 31 August 2012

	Note	31 August 2012 £'000	31 August 2011 £'000
Fixed Assets			
Investments	11	-	-
Current Assets			
Debtors	12	-	-
		-	-
Creditors: Amounts Falling Due Within One Year	13	-	-
Net Current Assets		-	-
Total Assets Less Current Liabilities		-	-
Preference Share Capital and Accrued Preference Share Dividends	15	(233,698)	(198,198)
Net Liabilities		(233,698)	(198,198)
Capital and Reserves			
Called up share capital	17	250	250
Share premium account	18	2,250	2,250
Profit and loss account	18	(236,198)	(200,698)
Total Shareholders' Deficit	19	(233,698)	(198,198)

The financial statements on pages 11 to 33 were approved by the board of directors on 17 December 2012 and were signed on its behalf by:



L Rogers
Director

The notes on pages 15 to 33 form part of these financial statements.

TSL Education Group Limited

Group Cash Flow Statement for the year ended 31 August 2012

	Note	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Operating Activities			
Net cash inflow from operations	23	31,291	19,778
Returns on Investment and Servicing of Finance			
Interest received		198	187
Interest paid		(17,253)	(17,775)
		(17,055)	(17,588)
Taxation			
Corporation tax payment		(1,300)	(1,168)
Net Cash Inflow From Operating Activities		12,936	1,022
Capital Expenditure and Financial Investment			
Payments to acquire tangible fixed assets	10	(4,441)	(1,569)
Acquisitions and Disposals			
Cash paid for acquisitions	26	(446)	(218)
Net cash outflow from acquisitions and disposals		(446)	(218)
Net Cash Inflow / (Outflow) Before Financing Activities		8,049	(765)
Financing Activities			
Repayment of Senior facilities	14	(1,854)	-
Net Cash Outflow From Financing Activities		(1,854)	-
Increase / (Decrease) in Cash	24, 25	6,195	(765)

The notes on pages 15 to 33 form part of these financial statements.

TSL Education Group Limited

Notes to the Financial Statements for the year ended 31 August 2012

1 Accounting Policies

a) Basis of Preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

A statement of going concern is included in the Directors' Report. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore can continue to adopt the going concern basis in preparing the financial statements.

b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings as listed in note 11. The results of subsidiaries during the year are included in the profit and loss account. All Group transactions, balances, income and expenses are eliminated on consolidation. Uniform accounting policies have been consistently applied across the Group.

In accordance with FRS 9 'Associates and Joint Ventures', joint ventures are included in the accounts under the gross equity method of accounting, whereby the Group's share of profits and losses of joint ventures is included in the consolidated profit and loss account, and the Group's share of the gross assets and gross liabilities is included in the consolidated balance sheet.

c) Revenue Recognition

Turnover is the net amount receivable by the Group in the ordinary course of its business, excluding trade discounts and value added tax. Revenue from circulation is recognised in the week in which the paper is published. Refunds from circulation returns are debited to revenue. Advertising revenue is recognised on a straight line basis over the period that an advert is run. Exhibition income is recognised on a straight line basis over the period when the exhibition occurs. Amounts received in advance of an exhibition are deferred until the period when the exhibition occurs. TES Prime revenue from attraction packages is recognised as performance of the service occurs. TES Prime revenue from selection and search packages is recognised in line with the performance of the service related to each element of the package.

d) Publishing Rights and Titles

Publishing rights and titles are stated at cost less amortisation and any provision made for impairment. Publishing rights and titles are amortised in equal annual instalments over a 20-year period being the expected useful economic life, subject to acceleration of write-off where impairment is indicated. Impairment reviews are carried out at the end of the first financial period after acquisition and, thereafter, where there is any indication of impairment.

e) Purchased Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Under the accounting standard FRS 10 "Goodwill and Intangible assets", goodwill arising on the acquisitions has been capitalised and is being amortised on a straight line basis over a period not exceeding 20 years, being the expected period of benefit. The Group evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

1 Accounting Policies (continued)

f) Depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Provision is made against those assets that, in the opinion of the directors, have a value in use or net realisable value that is lower than their net book value. The value in use is calculated using a discounted cash flow methodology in accordance with applicable Financial Reporting Standards.

The discounting rate used in assessing the value in use of the assets is the estimated weighted average cost of capital employed by the Group. This has been calculated as the weighted average of the internal rate of return applied in the equity funding and the Group's bank debt interest rate.

Assets in the course of construction are not depreciated. When such assets come into use they are transferred to the appropriate fixed asset category and depreciated accordingly.

Other fixed assets are depreciated over their expected useful economic lives or anticipated length of use by the Group in order to write off their cost less estimated residual value. The principal rates, using the straight-line basis, are as follows:

<u>Category</u>	<u>Rates of Depreciation</u>
Fixtures and fittings	20% to 25% per annum
Computer equipment	25% to 100% per annum

g) Fixed Asset Investments

Investments are stated at cost less provision for impairment. Reviews for impairment are carried out by the Group at each balance sheet date and whenever there is any indication that an investment may be impaired. If there is any indication that investments have suffered an impairment loss, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the loss. Impairment losses are recognised immediately in the profit and loss account.

h) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The provisions included within these financial statements were estimated based on the expected amount of the future obligation. The calculations were not discounted, as the time value of money did not have a material effect on quantifying the provisions.

i) Pensions

Pension contributions, which are made to a defined contribution Group Personal Pension Plan, are charged to the profit and loss account as incurred. These contributions are invested separately from the Group's assets.

j) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

1 Accounting Policies (continued)

k) Leases

Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term. Lease incentives are amortised over the shorter of the period to which the rental reverts to market based rates and the first break clause (if any).

l) Interest Rate Swaps

Interest rate swaps are used to hedge interest rate risks. The interest differential amounts in relation to the next set of contractual payments on the swap are accrued until settlement date and are recognised as an adjustment to interest expense so that the profit and loss account reflects the economic substance of the hedging.

m) Capitalisation of Finance Costs

Group bank loans and preference shares are stated net of unamortised issue costs. These costs are being amortised at constant effective interest rates over the terms of the loans.

n) Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

o) Translation of Foreign Currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions; monetary assets and liabilities at the balance sheet date are translated to sterling at the year-end rate of exchange. All exchange differences arising are reported as part of the profit or loss for the year.

2 Turnover

Substantially all of the turnover, profits and net assets are derived, by both origin and destination, from publishing activities, exhibitions for education related events and specialist search and selection recruitment services in the United Kingdom.

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

3 Exceptional Administrative Expenses

<u>Exceptional Costs</u>	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Administrative expenses		
Refinancing costs	-	3,322
	-	3,322

There were no exceptional costs for the year ended 31 August 2012.

Exceptional costs for the year ended 31 August 2011 relate to debt refinancing costs of £3.3 million.

Non-recurring Costs

In addition to the above there are non-recurring costs included in Administrative expenses excluding exceptional items for the year ended 31 August 2012 relating to legal and redundancy costs incurred in restructuring the business.

	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Restructuring costs	606	759
	606	759

4 Operating Profit

	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Operating profit is stated after charging:		
Auditors' remuneration		
- other services	100	253
Depreciation of owned tangible assets (note 10)	2,749	3,583
Rentals under operating leases on land and buildings	1,433	1,435
Amortisation of intangible assets (note 9)	8,003	8,007

For the year ended 31 August 2012, the auditors' remuneration from the Company for audit services of £17,885 (2011: £17,000) was borne by the Company's subsidiary undertaking, TSL Education Limited. No amounts were recharged to the Company.

Auditor's remuneration for the Group is included within other services. The total amount for other services of £100,000 (2011: £253,000) includes £75,000 (2011: £73,500) for the auditing of financial statements of all Group companies, together with tax advice of £20,000 (2011: £19,500), debt refinancing advice of £nil (2011: £155,000) and reporting on banking covenants of £5,000 (2011: £5,000).

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

5 Staff Costs

Group	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Wages and salaries	15,588	12,959
Social security costs	1,873	1,468
Other pension costs (note 27)	1,015	914
	<u>18,476</u>	<u>15,341</u>

The average monthly number of employees, including directors, during the year was made up as follows:

	Year ended 31 August 2012 Number	Year ended 31 August 2011 Number
Editorial	53	55
Distribution	99	88
Digital Media	46	56
Resources	23	8
Production	8	8
Administration	39	36
BrightSpark	2	1
	<u>270</u>	<u>252</u>

The Company had no employees for the year ended 31 August 2012 (2011: nil).

Directors' Remuneration

	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Aggregate emoluments (excluding pension contributions)	1,559	1,171
Compensation for loss of office	-	188
Amounts payable to third parties in respect of directors' services	200	200
Company contributions to defined contribution schemes	59	61
	<u>1,818</u>	<u>1,620</u>
Highest paid director		
Total amount of emoluments	<u>711</u>	<u>409</u>

Company contributions were made during the year under the Group Personal Pension Plan, a defined contribution scheme, in respect of three directors (2011: three directors) of £59,000 (2011: £61,000). Company contributions made under the Group Personal Pension Plan in respect of the highest paid director is £36,000 (2011: £30,000). No shares were received or receivable by the highest paid director in respect of qualifying services under a long-term incentive scheme (2011: £nil).

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

6 Net Interest Payable and Similar Charges

	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Interest receivable and similar income		
Bank interest receivable	150	166
Interest payable and similar charges		
Bank loans and overdrafts – cash interest	(16,999)	(17,566)
Bank loans – rolled-over interest	(9,031)	(7,500)
Bank loans – agency fees	(115)	(115)
Bank loans – facility fees	(100)	(100)
Amortisation of issue costs of bank loans and preference shares	(918)	(915)
Preference share dividends	(35,500)	(18,833)
	<u>(62,663)</u>	<u>(45,029)</u>
Net interest payable and similar charges	<u>(62,513)</u>	<u>(44,863)</u>

The agency and facility fees incurred relate to the Group's bank loans.

7 Tax on Loss on Ordinary Activities

	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Analysis of tax for the year		
Current tax		
Total current corporation tax	2,945	-
Adjustments in respect of previous years	-	(6)
Total current tax	<u>2,945</u>	<u>(6)</u>
Deferred tax		
Current year – origination and reversal of timing differences	147	(957)
Rate change	97	20
Total deferred tax (note 16)	<u>244</u>	<u>(937)</u>
Tax on loss on ordinary activities	<u>3,189</u>	<u>(943)</u>

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

7 Tax on Loss on Ordinary Activities (continued)

Factors affecting current tax charge for the year

The tax assessed for the year is higher (2011: higher) than the standard rate of corporation tax in the UK of 25.17% (2011: 27.17%). The main rate of UK corporation tax fell from 26% to 24% with effect from 1 April 2012. A reconciliation of the current tax charge for the year, to the tax on loss at the standard rate, is shown below:

	Year ended 31 August 2012 £'000	Year ended 31 August 2011 £'000
Loss on ordinary activities before taxation	(41,332)	(36,446)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25.17% (2011: 27.17%)	(10,401)	(9,902)
Tax impact of adjustments		
Preference share dividends – for which no tax relief is available	8,934	5,116
Amortisation of intangible assets – for which no tax relief is available	2,014	2,174
Accelerated capital allowance	49	879
Other expenses not deductible for tax	26	464
Utilisation of general provisions	(77)	159
Unutilised losses	107	75
Interest not expected to be paid within 12 months disallowed	2,273	1,035
Joint Venture loss not deductible for tax	20	-
Current tax charge for the year	2,945	-
Adjustments in respect of previous years	-	(6)
Current tax charge for the year	2,945	(6)

Deferred tax is measured on a non-discounted basis at the tax rates which are expected to apply in the periods in which such timing differences reverse based on tax rates and laws substantively enacted at the balance sheet date. The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in the financial statements.

In addition to the changes in rates of Corporation tax disclosed in note 7 a number of further changes to the UK Corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012 and was substantively enacted on 3 July 2012, and therefore is included in these financial statements.

A further reduction to the main rate is proposed to reduce the rate to 22% from 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

8 Loss of the Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as a part of the financial statements. The Company's loss for the year ended 31 August 2012 was £35,500,000 (2011: £18,833,000).

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

9 Intangible Fixed Assets

Group	Goodwill £'000	Publishing rights and titles £'000	Total £'000
Cost			
At 1 September 2011	357,500	62,062	419,562
Additions	460	-	460
At 31 August 2012	357,960	62,062	420,022
Accumulated amortisation			
At 1 September 2011	274,112	19,102	293,214
Charge for the year	4,909	3,094	8,003
At 31 August 2012	279,021	22,196	301,217
Net book value			
At 31 August 2012	78,939	39,866	118,805
At 31 August 2011	83,388	42,960	126,348

Goodwill represents amounts paid primarily for TSL Education Holdings Limited. Publishing rights and titles relates to the titles TES and THE, which are held by TSL Education Limited, a Group subsidiary undertaking. The additions in the year relate to the creation of a joint venture by an indirect subsidiary undertaking, TSL Education SPV 4, with Sandgate Systems Limited for a cash consideration of £199,000 and goodwill valued at £14,000 and a joint venture by an indirect subsidiary undertaking of the company, TSL Education US Inc with SML JV LLC for a consideration of £247,000.

Publishing rights and titles are tested for impairment where appropriate. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment test has been carried out as described below. The impairment test has been performed based on fair value calculations of the recoverable amount of the assets using an income approach. For the income approach, a discounted cash flow analysis was prepared. This is an analysis of the unlevered cash flow projections derived from financial budgets approved by the management team covering a five year period. They reflect management's expectation of revenue growth, operating costs and margin for the business based on past experience. Cash flows beyond the four year period have been extrapolated using an estimated terminal growth rate of 2.2%. This rate does not exceed the average long-term growth rate for the UK. The discount rate applied to the unlevered cash flow projections is based on the post-tax weighted average cost of capital for the Company at 11.5%.

The fair values of the assets have been calculated at year end and are greater than the present carrying values. As the fair value exceeds the assets' carrying amounts, the assets have been concluded as not impaired. In the year ended 31 August 2010, an impairment charge of £217.5 million was recognised. The impairment review remains sensitive to a change in the key assumptions used, most notably the discount rate, the perpetuity growth rate and expected future cash flows. The forecasts are most sensitive to changes in the projected revenue growth rates. However there is reasonable headroom based on the sensitivity analysis performed by management, so no further provision for impairment has been booked.

In the opinion of the directors, TSL's titles have a sufficiently well-established position in the market place to be defended against threats arising from current competitors, potential new entrants and potential technological

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

9 Intangible Fixed Assets (continued)

changes in the industry. The directors believe that the carrying amount fairly reflects the recoverable amount at the balance sheet date.

Company

The Company had no intangible assets during the year under review (2011: £nil).

10 Tangible Fixed Assets

Group

	Assets in the course of construction £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 September 2011	1,144	13,442	1,741	16,327
Additions	3,011	1,430	-	4,441
Transfers	(1,144)	1,144	-	-
At 31 August 2012	3,011	16,016	1,741	20,768
Accumulated depreciation				
At 1 September 2011	-	9,180	1,713	10,893
Charge for the year	-	2,723	26	2,749
Disposals	-	-	-	-
At 31 August 2012	-	11,903	1,739	13,642
Net book value				
At 31 August 2012	3,011	4,113	2	7,126
At 31 August 2011	1,144	4,262	28	5,434

Assets in the course of construction primarily relate to the refit of Red Lion Square and functionality improvements to the TES websites which were in progress at the end of the year.

Company

The Company had no tangible fixed assets during the year under review (2011: £nil).

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

11 Fixed Asset Investments

Company

	Subsidiary Undertakings £'000
Cost	
At 1 September 2011 and 31 August 2012	10,941
Provision for impairment	
At 1 September 2011	10,941
Charge for the year	-
At 31 August 2012	10,941
Net book value	
At 31 August 2012	-
At 31 August 2011	-

The balance above represents the Company's investment in TSL Education SPV2 Limited. Teacher turnover dropped significantly during the year ended 31 August 2010 due to the recession, resulting in the value in use of the underlying subsidiaries no longer supporting the value of the investment. Although the directors expect teacher turnover to return to historical levels in the long term, an exceptional impairment charge was made in the year ended 31 August 2010 in the Company to reflect the impact on the business.

The details of the Company's subsidiary and joint venture undertakings as at 31 August 2012 are as follows:

	Country of registration	Nature of business	Percentage holding of ordinary shares
Direct subsidiary undertakings			
TSL Education SPV 2 Limited	England and Wales	Holding Company	100%
Indirect subsidiary undertakings			
TSL Education SPV 3 Limited	England and Wales	Holding Company	100%
TSL Education SPV 4 Limited	England and Wales	Holding Company	100%
TSL Education Holdings Limited	England and Wales	Holding Company	100%
TSL Education Acquisition Limited	England and Wales	Holding Company	100%
TSL Education Finance Limited	England and Wales	Holding Company	100%
TSL Education Limited	England and Wales	Publisher	100%
The Times Educational Supplement Limited	England and Wales	Dormant	100%
The Times Higher Education Supplement Limited	England and Wales	Dormant	100%
Educational Exhibitions Limited	England and Wales	Dormant	100%
Nursery World Limited	England and Wales	Dormant	100%
Education Data Surveys Limited	England and Wales	Information Provider	100%
Englishteaching.co.uk Limited	England and Wales	Information Provider	100%
Electronic Blackboard Limited	England and Wales	Information Provider	100%
BrightSpark Education Limited	England and Wales	Online Tutoring Service	100%
TSL Education US, Inc	United States of America	Holding Company	100%
Joint venture			
Sandgate Systems Limited	England and Wales	Software Management Systems	50%
SML JV LLC	United States of America	Information Provider	50%

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

11 Fixed Asset Investments (continued)

In July 2012, an indirect subsidiary undertaking of the company, TSL Education Limited, acquired the remaining 50% interest in BrightSpark Education Limited for a consideration of £1. All companies over which the group is able to exercise a dominant influence are consolidated as subsidiary undertakings.

12 Debtors

	Group	Company	Group	Company
	31 August	31 August	31 August	31 August
	2012	2012	2011	2011
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	1,634	-	969	-
Deferred taxation (note 16)	965	-	1,209	-
Amounts owed by Group undertakings	-	120,939	-	120,939
Provision for impairment	-	(120,939)	-	(120,939)
Other debtors	676	-	532	-
Other tax and social security	391	-	207	-
Prepayments and accrued income	1,355	-	1,297	-
	5,021	-	4,214	-

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand. Other debtors include a loan to TSL Education SPV 5 Limited (note 28) of £372,000 (2011: £372,000) which is unsecured, interest free and repayable on demand.

13 Creditors: Amounts Falling Due Within One Year

	Group	Company	Group	Company
	31 August	31 August	31 August	31 August
	2012	2012	2011	2011
	£'000	£'000	£'000	£'000
Trade creditors	310	-	550	-
Other creditors	254	-	313	-
Other tax and social security	675	-	760	-
Corporation taxation	1,645	-	-	-
Accruals and deferred income	8,583	-	7,637	-
	11,467	-	9,260	-

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

14 Creditors: Amounts Falling Due After More Than One Year

	Group 31 August 2012 £'000	Company 31 August 2012 £'000	Group 31 August 2011 £'000	Company 31 August 2011 £'000
Bank loans	334,919	-	326,824	-
Other creditors	-	-	225	-
	334,919	-	327,049	-

Other creditors relate to the deemed rent liability during the rent free period of £nil (2011: £125,000), which is being amortised over the life of the lease, and deferred consideration of £nil (2011: £100,000). The lease expires on 29 January 2013.

Drawn bank loan facilities: maturity table

	Group 31 August 2012 £'000	Group 31 August 2011 £'000
Amounts repayable:		
In more than two years but not more than five years		
Senior B term loan	211,117	212,782
Second lien term loan	21,828	-
Mezzanine loan	70,539	-
Less: unamortised issue costs	(2,792)	(2,584)
	300,692	210,198
In more than five years:		
Second lien term loan	-	22,000
Mezzanine loan	-	64,495
PIK loan	32,427	29,440
Capex facility	1,984	2,000
Less: unamortised issue costs	(184)	(1,309)
	34,227	116,626
	334,919	326,824

At 31 August 2012 the Group had drawn non-instalment bank loans of £334.9 million (2011: £326.8 million) net of related unamortised fees of £3.0 million (2011: £3.9 million). These balances represent fully drawn balances on the Group's term and mezzanine credit facilities. The bank loans are secured by fixed and floating charges over certain of the Group's assets.

Senior B term loan

This loan of £195 million was drawn down on 8 June 2007 and is repayable through a single payment on 7 June 2015. The loan bears interest at LIBOR plus a margin of 2.50% per annum.

The loan agreement allowed for an increase in the facility of £15.0 million plus rolled up interest on the payment-in-kind (PIK) facility if certain conditions were met. These conditions were achieved on 5 August 2008, the facility was increased by £15.0 million plus rolled up interest of £2.8 million. The increase in the facility had to be used to repay part of the PIK facility. The increased facility is repayable through a single payment on 7 June 2015. The loan bears interest at LIBOR plus a margin of 2.50% per annum. During the year, £1,666,000 was repaid.

Second lien term loan

This loan of £22.0 million was drawn down on 8 June 2007 and is repayable through a single payment on 7 December 2016. The loan bears interest at LIBOR plus a margin of 4.25% per annum. During the year £172,000 was repaid.

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

14 Creditors: Amounts Falling Due After More Than One Year (continued)

Mezzanine loan

This loan of £50.0 million was drawn down on 8 June 2007 and is repayable through a single payment on 7 June 2017. The loan bears interest at LIBOR plus a margin of 2.00% per annum; in addition, PIK interest is added to the outstanding capital amount of the loan at a rate of 5.50% per annum. With effect from 1 January 2011, the Group elected under the terms of the loan agreement to roll up the cash element of the interest for a period of 18 months. During this period, the loan bears PIK interest at LIBOR plus a margin of 8.00% per annum.

PIK loan

This loan of £33.0 million was drawn down on 8 June 2007 and is repayable through a single payment on 7 December 2017. The loan bears PIK interest at LIBOR plus a margin of 9%, both of which are added to the outstanding capital amount of the loan.

The loan agreement allowed for £15.0 million of the facility plus rolled up interest to be re-paid if certain conditions were met. These conditions were achieved on 5 August 2008, £15.0 million plus rolled up interest of £2.8 million of the facility was repaid. The repayment was financed by an increase in the Senior B term loan of £17.8 million.

Issue costs

Group bank loans are stated net of unamortised issue costs at 31 August 2012 of £3.0 million (2011: £3.9 million). These costs are being amortised at constant effective interest rates over the terms of the loans.

Capex facility

The Group has a £2.0 million facility with its existing lenders, which has been drawn down in full under the terms of this facility. The loan drawn on this facility bears interest at 2.5% above LIBOR and is repayable in full on 7 June 2015. During the year, £16,000 was repaid.

Interest rate swap

The Group has entered into interest rate swap agreements effectively resulting in fixed interest rate charges for the majority of the Group debt. The interest differential amounts in relation to the next set of contractual payments under the swap agreements are accrued until settlement date and are recognised as an adjustment to the interest expense charged on the loans so that the profit and loss account reflects the economic substance of the hedging. In total the Group has swapped £227 million (2011: £227 million) to a fixed interest rate and the fair value of the swap as at 31 August 2012 is a £9.7 million (2011: £1.8 million) liability.

15 Preference Share Capital and Accrued Preference Share Dividends

	Group 31 August 2012 £'000	Company 31 August 2012 £'000	Group 31 August 2011 £'000	Company 31 August 2011 £'000
Preference share capital	129,704	129,704	129,704	129,704
Accrued preference share dividends	103,994	103,994	68,494	68,494
	<u>233,698</u>	<u>233,698</u>	<u>198,198</u>	<u>198,198</u>

128,397,204 preference shares of £1 each were created on 8 June 2007. These shares are cumulative and redeemable and bear fixed preferential dividends at 15.35% per annum. In prior financial years the dividends were calculated at a calendar year cumulative rate of 10.50% per annum. On 1 September 2011, this was adjusted to a fixed rate of 15.35% per annum of the Issue Price per share prescribed in the amended TSL Education Group Limited Articles of Association (Article 4.2). The preference shares carry no voting rights and rank ahead of the ordinary shares and A ordinary shares in any return of capital. On 8 June 2007, 89,480,977 preference shares were issued at

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

15 Preference Share Capital and Accrued Preference Share Dividends (continued)

a price of £89.5 million. During the year ended 31 August 2008, the remaining 38,916,227 preference shares were issued at a price of £40.2 million.

Dividends on preference shares can only be paid if the Group achieves certain financial criteria; otherwise, on an annual basis, accrued dividends are fixed. In the opinion of the directors, the Group will not attain the dividend payment financial criteria and accordingly the preference dividend liability will not fall due for payment within the next year.

The preference shares will be redeemed by the Company in the event of either a sale or flotation of the Company. The holders of the preference shares may require the Company to redeem the shares if: (i) the Company has not redeemed the shares in the event of either a sale or flotation; (ii) there has been a resolution for the winding-up of the Company, a resolution for a reduction in the capital of the Company or a resolution varying any of the voting rights attaching to the Preference Shares; or (iii) the Company is in material breach of any of the terms on which banking facilities or bank loans have been made available to the Group.

On redemption, the Company will pay 100% of the issue price and all accruals and / or unpaid amounts of preference dividends.

16 Deferred Taxation

	Group 31 August 2012 £'000	Company 31 August 2012 £'000	Group 31 August 2011 £'000	Company 31 August 2011 £'000
As at the start of the year	1,209	-	272	-
Recognised in the year	(147)	-	957	-
Impact of rate change on opening balance from 25% to 23% (2011:27% to 25%)	(97)	-	(20)	-
As at the end of the year	965	-	1,209	-
Analysis of timing differences:				
Accelerated capital allowances	858	-	1,017	-
Short-term timing differences	107	-	192	-
	965	-	1,209	-

Deferred tax is measured on a non-discounted basis at the tax rates which are expected to apply in the periods in which such timing differences reverse based on tax rates and laws substantively enacted at the balance sheet date. The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in the financial statements.

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

17 Called Up Share Capital

The share capital of the Group and Company is shown below.

	Authorised 31 August 2012		Allotted, issued and fully paid 31 August 2012	
	Number	£'000	Number	£'000
Equity				
Ordinary shares of 10p each	662,055	66	662,055	66
A Ordinary Shares of 10p each	1,837,945	184	1,837,945	184
	<u>2,500,000</u>	<u>250</u>	<u>2,500,000</u>	<u>250</u>

	Authorised 31 August 2011		Allotted, issued and fully paid 31 August 2011	
	Number	£'000	Number	£'000
Equity				
Ordinary shares of 10p each	662,055	66	662,055	66
A Ordinary Shares of 10p each	1,837,945	184	1,837,945	184
	<u>2,500,000</u>	<u>250</u>	<u>2,500,000</u>	<u>250</u>

The A Ordinary shares carry the same voting and dividend rights as the Ordinary shares and rank alongside the Ordinary shares in any return of capital as if they constituted one class of shares.

The share capital of the Group Joint Ventures is shown below.

Sandgate Systems Limited

	Authorised		Allotted and fully paid	
	Number	£	Number	£
Equity				
Ordinary Shares of £1 each – 31 August 2012 and 30 November 2011	200	200	200	200

TSL Education SPV 4 has a 50% interest in the joint venture and this equates to 100 ordinary shares at £1 each.

SML JV LLC

The Membership Capital of the joint venture is \$500,000. TSL Education US Inc, has a 50% interest in the joint venture which equates to a Membership Capital allocation of \$250,000 and is equal to 50 member units.

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

18 Reserves

Group	Share Premium account £'000	Profit and Loss Account £'000
At 1 September 2011	2,250	(373,101)
Loss for the financial year	-	(44,521)
At 31 August 2012	2,250	(417,622)

Company	Share Premium account £'000	Profit and Loss Account £'000
At 1 September 2011	2,250	(200,698)
Loss for the financial year	-	(35,500)
At 31 August 2012	2,250	(236,198)

19 Reconciliation of Movements in Shareholders' Deficit

	Group 31 August 2012 £'000	Company 31 August 2012 £'000	Group 31 August 2011 £'000	Company 31 August 2011 £'000
Opening shareholders' deficit	(370,601)	(198,198)	(335,098)	(179,365)
Loss for the financial year	(44,521)	(35,500)	(35,503)	(18,833)
Closing shareholders' deficit	(415,122)	(233,698)	(370,601)	(198,198)

20 Contingent Liabilities

At 31 August 2012, the Company and the Group had £nil of contingent liabilities (2011: £nil).

21 Capital Commitments

At 31 August 2012, the Company and the Group had £nil of capital commitments (2011: £nil).

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

22 Other Financial Commitments

Group

The Group had annual commitments to make payments under non-cancellable operating leases and other financial commitments expiring as follows:

	Land and buildings – operating leases	Other operating leases	Other financial commitments	Land and buildings – operating leases	Other operating leases	Other financial commitments
	31 August 2012 £'000	31 August 2012 £'000	31 August 2012 £'000	31 August 2011 £'000	31 August 2011 £'000	31 August 2011 £'000
Within one year	-	-	944	-	-	-
In two to five years	33	-	-	1,733	-	944
Over five years	1,156	-	-	-	-	-
	1,189	-	944	1,733	-	944

At 31 August 2012, the Group had £944,000 of other financial commitments for provision of IT managed services (2011: £944,000). There are no other financial commitments which have not been provided for.

Company

At 31 August 2012, the Company had £nil financial commitments under non-cancellable operating leases (2011: £nil).

23 Reconciliation of Operating Profit to Net Cash Inflow

	31 August 2012 £'000	31 August 2011 £'000
Operating profit	21,181	8,417
Depreciation of owned tangible assets	2,749	3,583
Amortisation of intangible assets	8,003	8,007
Non-recurring administrative expenses (note 3)	205	147
Share of operating loss of joint ventures	81	-
Change in debtors	(1,042)	245
Change in creditors	114	(621)
Net cash inflow from operations	31,291	19,778

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

24 Reconciliation of Net Debt

	31 August 2012 £'000	31 August 2011 £'000
Opening net debt	497,112	469,099
Increase in borrowings from preference shares	35,500	18,833
Rolled-over interest	9,031	7,500
Amortised bank loan and preference share issue costs	918	915
Repayment of senior facilities	(1,854)	-
(Increase) / decrease in cash in the year	(6,195)	765
Net debt at end of year (note 25)	534,512	497,112

25 Analysis of Changes in Net Debt

	Cash at bank and in hand £'000	Bank loans £'000	Preference share capital £'000	Accrued preference share dividends £'000	Total £'000
At 1 September 2011	(27,910)	326,824	129,704	68,494	497,112
Net cash inflow before financing activities	(6,195)	-	-	-	(6,195)
Repayment of senior facilities	-	(1,854)	-	-	(1,854)
Preference share dividends	-	-	-	35,500	35,500
Rolled-over interest	-	9,031	-	-	9,031
Amortisation of issue costs	-	918	-	-	918
At 31 August 2012	(34,105)	334,919	129,704	103,994	534,512

26 Acquisitions

On 2 December 2011, a direct subsidiary undertaking of the Company, TSL Education SPV 4 Limited, entered into a joint venture with Sandgate Systems Limited for a cash consideration of £199,000. In July 2012, an indirect subsidiary undertaking of the company, TSL Education Limited, acquired the remaining 50% interest in BrightSpark Education Limited for a consideration of £1. In February 2012, an indirect subsidiary undertaking of the company, TSL Education US Inc, acquired a 50% interest in SML JV LLC for a consideration of £247,000.

27 Pension Costs

The Group operates a defined contribution scheme in the form of a Group Personal Pension Plan for its employees. The assets of the Plan are held separately from those of the Group in an independently administered fund. The Group pays a fixed percentage contribution for each employee who is a member of the Group Personal Pension Plan. Contributions payable by the Group to the fund in respect of the year ended 31 August 2012 amounted to £1,015,000 (2011: £914,000). Out of this amount, £nil was accrued at 31 August 2012 (2011: £nil).

TSL Education Group Limited

Notes to the Financial Statements (continued) for the year ended 31 August 2012

28 Related Party Transactions

The Group has taken advantage of the exemption contained under paragraph 3(c) from the provisions of FRS 8, "Related Party Disclosures", not to disclose transactions entered into between two or more members of a group, provided any subsidiary undertaking which is a party to the transaction is wholly owned by a member of that group.

The Group had the following related party transactions during the year which require disclosure in accordance with FRS 8:

Directors' fees of £200,000 (2011: £200,000) are payable to Charterhouse General Partners (VIII) Limited and are included within Directors' emoluments as set out in note 5. Of these fees, £33,333 was outstanding at 31 August 2012 (2011: £283,000). Annual fees of £200,000 (2011: £200,000) are due quarterly in arrears in return for Charterhouse General Partners (VIII) Limited providing the investor directors to sit on the board and provide management advice.

Iden Capital Partners LLP is the lender to the Group of over two thirds of its debt, having acquired the debt in a series of transactions with third parties in March 2011. Iden Capital Partners LLP is a UK limited liability partnership ultimately controlled by Charterhouse Capital Limited. Charterhouse Capital Limited is also the ultimate controller of the Group's majority shareholder, Charterhouse General Partners (VIII) Limited, in its capacity as general partner of the Charterhouse Capital Partners (VIII) funds.

In 2010 the Group made a loan to TSL Education SPV 5 Limited of £372,000. TSL Education SPV 5 Limited is not a member of the TSL Education Group, but both companies have the same ultimate controlling party in Charterhouse General Partners (VIII) Limited. The loan is unsecured, repayable on demand and interest free. At 31 August 2012, £372,000 (2011: £372,000) remained outstanding.

An indirect subsidiary undertaking of the Company, TSL Education Limited, had £141,000 (2011: nil) of related party transactions which relate to net costs incurred by the Company on behalf of Sandgate Systems Limited. This is included within other debtors as set out in note 12.

29 Ultimate Controlling Party

The directors consider that the ultimate controlling party of the Company is Charterhouse General Partners (VIII) Limited, a company incorporated in England & Wales, on behalf of the funds under its management. Charterhouse General Partners (VIII) Limited is the investor in the business and an investment agreement governs the running of the Group. Charterhouse General Partners (VIII) Limited is entitled to appoint two persons to the board and provide management advice.

The parent undertaking of both the largest and smallest group of undertakings for which group financial statements are drawn up, and of which the Company is a member, is TSL Education Group Limited, a Company incorporated in England & Wales.

Copies of the consolidated financial statements are available from The Company Secretary, TSL Education Group Limited, 26 Red Lion Square, London WC1R 4HQ.

TSL Education Group Limited

**Notes to the Financial Statements (continued)
for the year ended 31 August 2012**