

TSL Education US
Holdings Ltd
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Registered number 11727093 (England and Wales)

Tes Topco Limited
Annual report and consolidated financial statements
for the period ended 31 August 2019



TES TOPCO LIMITED ANNUAL REPORT DISCLAIMER

This annual report has been prepared on the basis of information available to Tes Topco Limited and its subsidiaries (the “**Group**”) as at the date hereof.

This annual report contains forward-looking statements. Forward-looking statements include, without limitation, statements concerning plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions and other statements, which are not statements of historical facts. These statements are often, but not always, made through the use of words or phrases such as “will likely result”, “are expected to”, “will continue”, “believe”, “anticipated”, “estimated”, “intends”, “expect”, “plan”, “seek”, “projection”, “suggest”, “outlook”, “should”, “could”, “would”, “may”, “will”, “forecast”, and other similar expressions or, in each case, their negative or other variations or comparable terminology.

These statements involve predictions of our future financial condition, performance, plans and strategies, and are thus dependent on a number of factors including, without limitation, assumptions and data that may be imprecise or incorrect. Forward-looking statements are subject to risks and uncertainties. Actual results or outcomes may differ materially from those expressed in any forward-looking statements made in this annual report. We caution you not to place undue reliance on any of these forward-looking statements.

Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to publically update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

This annual report contains financial information prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This annual report contains non-GAAP measures and ratios. The non-GAAP measures and ratios may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation. Information needed to reconcile such non-GAAP financial measures to the most directly comparable measures under IFRS can be found in the *Strategic Report* section of the Annual Report.

Tes Topco Limited
Annual report and consolidated financial statements
for the period ended 31 August 2019
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TES Topco Limited

Directors and advisers

Directors

Mr R Grimshaw
Mr E Hughes
Mr D Leigh
Mr D Rammal
Mr P Simpson
Mr P Wilde
Mr J Johnson

Company Secretary

Mr P Simpson

Registered Number

11727093

Registered Office

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London
WC1R 4HQ
United Kingdom

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Tes Topco Limited

Strategic report

Introduction

Tes Topco Limited ("TTC") is the parent undertaking for the trading activities of Tes Global Limited and its subsidiaries ("Tes"). Tes is a global digital education technology business helping teachers and schools succeed by providing essential software and services. Our mission is to support and connect teachers and schools worldwide, helping them to improve children's lives through education.

Business review

Tes employs over 600 people in five countries working collaboratively with our customers and the broader education community around the world. We provide a number of different services to teachers and schools, with revenue categorised into the following:

- **Attract** – predominantly subscription-based recruitment platform for schools encompassing a digital recruitment platform and bespoke recruitment services
- **Train** – teacher training services covering blended online training through specific subject knowledge enhancement and initial teacher training through to online licenses for duty of care and safeguarding training
- **Empower** – technology tools for schools and teachers covering classroom needs planning, pupil behaviour management and an online marketplace for free and premium teaching resources
- **Supply** – the provision of supply teaching services to schools

Alongside these market leading offerings, we remain the preeminent source of the latest news and information covering schools and the wider education sector, having published news and opinion for over 100 years. Our news site averages approximately 55 thousand visits each day and our weekly magazine, of which there are over 14 thousand subscribers, is read by multiple people per subscription.

Tes.com is home to a network of over 13 million educators and education enthusiasts worldwide. In addition to our news content, online discussion forums and recruitment platform, we host a global marketplace enabling educators to discover, share and sell paid and free classroom resources and lesson plans each year. In the twelve months to August 2019, 36.7m such resources were downloaded.

Tes.com/jobs is the largest recruitment platform in the UK for permanent teaching roles, with 100% of our job listings advertised online, with a significant presence globally through customer relationships with well over 1,000 International schools. We have a very successful recruitment subscription offering allowing schools to benefit from unlimited adverts and cost certainty. All advertising schools have access to our School Portal which combines a seamless recruitment process for schools (from job posting to application management) with access to additional Tes services.

The recruitment platform is driven by a highly engaged user base of global teaching professionals whose consumption of news, resources and training solutions generate in excess of one million unique users each month. Teacher engagement with these services means that Tes remains the platform where schools are most likely to find the highest quality candidates for their vacancies, whether they are active or passive jobseekers.

Our strategy is to continue to invest in our existing capabilities whilst developing new solutions ourselves and acquiring suitable businesses that complement our approach. Tes sees significant opportunity to expand our business within the UK and internationally building on our existing reputation and footprint.

Business development

Acquisition of Tes by fund advised by Providence Equity Partners LLC ("Providence")

On 17 December 2018, Providence agreed to acquire Tes Global Group Limited which was the parent undertaking of Tes. This acquisition completed on 31 January 2019. Providence is a premier global asset management firm with approximately \$45 billion of assets under management and has a strong track record of successfully developing global education technology businesses.

Tes Topco Limited

Strategic report (continued)

Business development (continued)

Acquisitions of Educare Learning Limited ("Educare") on 23 August 2019

During the financial period Tes acquired Educare, a provider of online training for duty of care and safeguarding in schools. Educare has helped to provide essential duty of care and safeguarding knowledge to over 4 million people, thereby creating a safer environment for children, young people and adults at risk. Revenue and management adjusted EBITDA included within the period in respect of Educare was £80k and £9k, respectively.

Acquisition of Edval Education Pty Limited ("Edval") and Tutor In Limited ("Tutor In")

Following the end of our financial period, 31 August 2019, Tes acquired Edval and Tutor In. These acquisitions continue our strategy of strengthening our service offering with complementary capability and skills. Edval is a market leading provider of school timetabling software, with their tools simplifying and improving the process of school timetabling. Edval is well established in the Australian market and has enjoyed early success within the broader international and UK school systems. Tutor In is an online recruitment toolkit that helps find candidates for jobs through its Two Sigmas service.

Impact of COVID-19

A detailed review of the impact of Covid-19 on the Group is included in the Directors' Report.

Business overview and financial highlights

Reported performance in the period reflects the seven months to 31 August 2019 from date of the acquisition of Tes by TTC. For this period TTC reported revenue of £82,929k, net revenue of £58,359k, and a management adjusted EBITDA of £25,041k and a loss for the period of £36,965k. In order to provide year over year comparability of growth in the consolidated Group, we have presented below certain key pieces of pro-forma financial information for Tes. The commentary below refers to the 12 months ending 31 August 2018 and 2019.

These results are summarised as:

	Year ended 31 August 2018 £'000	Year ended 31 August 2019 £'000	% change	5 months ended 31 January 2019 £'000	7 months ended 31 August 2019 £'000
Attract	61,879	60,765	(2)%	24,731	36,034
Train	8,453	9,563	13%	2,920	6,643
Empower	9,493	11,344	22%	4,868	6,476
Supply	15,548	16,578	7%	7,372	9,206
Other	72	-	(100)%	-	-
Net revenue	95,445	98,250	3%	39,891	58,359
Other income	-	1,540	100%	668	872
Management adjusted EBITDA	38,632	41,237	7%	16,196	25,041
	40%	42%		41%	43%

Note: Pro-forma results in the table above are for the years ending August 2018 and 2019 alongside the seven month period to August 2019 and the five month period to 31 January 2019 and are presented in order to provide comparability for the users of the financial statements. These pro-forma results do not include pre-acquisition results for entities acquired by the Group during the period (Educare) but are adjusted to reflect the separation and exclusion of THE WUR Inc in Tes Global Limited ("TesG").

Management Adjusted EBITDA is a non GAAP measure used to monitor the performance of the business and is defined as operating profit before depreciation, amortisation, impairment, other non-recurring and separately reported items (note 2), foreign exchange and fair value adjustments and one off other costs that management deem should be adjusted to show an underlying profit number used in order to manage, drive and value the business.

Tes Topco Limited

Strategic report (continued)

Business development (continued)

The year to August 2019 was a successful year for the business with net revenue growing 3% to £98,250k (2018: 95,445k) and management adjusted EBITDA improving by 7% to £41,237k (2018: £38,632k). These results benefitted from the consolidation of the activities of Edukey Limited from July 2018 reported in the Empower revenue line, generating net revenues of £3,442k and management adjusted EBITDA of £1,771k.

All areas of our business performed in line with expectation, with Attract revenue declining to £60,765k (2018: £61,879k) reflecting the continuing adoption of our subscription products, which grew to £37,634k (2018: £30,489k) at the expense of our transaction products, which declined to £17,740k (2018: £25,747k). The timing of customers entering into new subscription contracts resulted in a lower growth rate compared to the decline in transactional revenues.

Empower revenue growth of 22% benefitted from a full year's consolidation of our Edukey business, of which Tes became majority owner in July 2018.

During the latter part of the 2018 financial year, the Group entered enlarged office premises in Sheffield. A number of specific teams were then recruited in Sheffield with London colleagues leaving the business following a transitional handover of tasks. The combined impact of this and the revenue growth achieved in 2019 means that management adjusted EBITDA grew 7% to £41,237k (2018: £38,632k).

It is not possible, as a result of the previous Group structure, funding arrangements and the THE business carve out in December 2018, to provide pro-forma cash flow information in respect of the Group.

A reconciliation of management adjusted EBITDA to profit for the 7 month period reported and the 12 month comparative, from continuing operations is provided as follows:

	7mths ended 31 August 2019 £'000	12mths ended 31 August 2019 £'000
EBITDA *	24,690	40,591
THE EBITDA to 14 December ⁽¹⁾	-	(631)
Pro-forma adjustment for TSA revenue ⁽²⁾	-	446
Central costs incurred ⁽³⁾	352	831
Management adjusted EBITDA	25,042	41,237
Depreciation and amortisation (note 2)	(12,054)	(18,418)
Non-recurring and separately reported costs (note 2)	(8,150)	(61,823)
Fair value adjustment on consolidated deferred revenue (note 4)	(5,007)	-
Impairment of goodwill and intangibles (note 9)	(23,975)	-
Foreign exchange	377	(9)
Operating profit	(23,768)	(39,013)
Finance income (note 5)	22	44
Finance cost (note 5)	(15,342)	(30,244)
Income tax expense (note 6)	2,557	2,111
Loss for the period from continuing operations	(36,531)	(67,102)

Note EBITDA is a further measure of financial performance which takes management adjusted EBITDA and adds back central costs, the profit from THE prior to hive off, and a pro-forma adjustment for TSA revenue. EBITDA and Management adjusted EBITDA is not a measure of financial performance under IFRS, but is presented because we believe that it is a relevant measure for assessing our performance as it adjusts for certain items which we believe are not indicative of our underlying operating performance.*

(1) THE EBITDA up to the point of sale in December is eliminated to reflect results from continuing operations;

(2) TSA revenue is viewed by Management on an LTM (last twelve months) basis and therefore, the full twelve months impact is reflected;

(3) The costs incurred in Group Holding companies are added back as a non-operating cost.

Tes Topco Limited

Strategic report (continued)

Business overview and financial highlights (continued)

The financing available to the Group is held in Tes Acquisitions Limited ("TACL"), management adjusted EBITDA for the Group up to TACL level, is presented as follows:

	7mths ended 31 August 2019 £'000	12mths ended 31 August 2019 £'000
Management adjusted EBITDA	25,042	41,237
Costs incurred in Tes Topco Limited company*	40	-
Management adjusted EBITDA for Group up to Tes Acquisition Limited	25,082	41,237

Note costs incurred in the Tes Topco Limited company comprise the salary costs of a non-Executive Director, refer to Note 22.*

Liquidity and Capital Resources

Capital Resources

Our primary sources of liquidity consist of cash generated from operating activities and available drawings under the Revolving Credit Facility of £25m, of which £5m was drawn down and remained in place as at the period end. The cash balance at the end of the period was £12.0m.

As a result of the global pandemic resulting from COVID-19, the Group drew down the full revolving credit facility available in March 2020 in order to support the Group's ability to meet its obligations throughout a period of uncertainty.

Further commentary is made with regards to the wider impact of COVID-19 on the Group in the Going Concern assessment, however, in spite of the uncertainties faced by the Group, we believe that the sources of funding available are sufficient to fund our debt servicing requirements as they become due and working capital requirements for the next 12 months from the date of approval of these financial statements. Our ability to generate positive cash flow from operations will depend on our future performance, which is driven by previously discussed factors.

Net cash generated from operating activities

Net cash generated from operating activities amounted to £20.0m for the period ended 31 August 2019.

Net cash used in investing activities

The net cash outflow in relation to investing activities was £6.4m for the period ended 31 August 2019, being £2.4m of plant, property and equipment purchased, £3.9m of intangible assets acquired and the net cash impact of acquisitions of £0.2m.

Net cash used in financing activities

Net cash from financing activities was a £1.6m outflow for the period ended 31 August 2019. Comprising a draw down in August 2019 of £5.0m from the RCF facility, interest repaid on the senior loan facility in the period of £5.8m and £0.2m of interest on lease liabilities, as well as cash outflows in respect of lease liabilities of £0.5m.

Material Contractual Commitments

The table below sets forth our contractual obligations and commercial commitments as at 31 August 2019 that are expected to have an impact on liquidity and cash flow in future periods. The following table excludes any future interest payments on our Term Loan that we would be required to make. The table also excludes any amount that would be available under the Revolving Credit Facility Agreement if it were to be utilised. The information presented in this table reflects management's estimates of the contractual payment streams of our current obligations, which may differ significantly from the actual payments made under these obligations.

Tes Topco Limited

Strategic report (continued)

Liquidity and Capital Resources (continued)

£'m	Payments due by period			
	Less than 1 year	1 - 5 years	More than 5 years	Total
Term loan ⁽¹⁾	-	-	195.0	195.00
RCF drawn down ⁽²⁾	5.0	-	-	5.0
Lease liabilities ⁽³⁾	1.8	5.8	1.5	9.1
Put/call options ⁽⁴⁾	7.9	-	-	7.9
Preference shares ⁽⁵⁾	-	-	129.1	129.1
Total	14.7	5.8	325.6	346.1

(1) Represents the aggregate principal amount of the Term Loan

(2) Represents the amount drawn down against the available RCF facility of £25m

(3) Represents the rent on our corporate headquarters and other leased office space

(4) Relates to options to acquire the remaining interest in EduKey (£7.9m)

(5) Represents the value of allotted preference shares (£129.1m)

Term Loan

A term loan of £195m was provided on 31 January 2019 with a termination date of 31 January 2026. Interest accrues at a rate of 5% plus LIBOR and is payable on a semi-annual basis.

The terms of the loan restrict the ability of the Group to, among other things, incur more debt, pay dividends, repurchase stock and make distributions and certain other payments and investments, create liens, enter into transactions with affiliates, transfer or sell assets, impair security interest, provide guarantees of other debt, agree to restrictions on dividends by subsidiaries, expand into unrelated businesses and merge or consolidate. The Group is required to submit annual audited financial statements and covenant compliance certificates under the terms of the Term Loan.

Revolving Credit Facilities Agreement

On 31 January 2019, the Company, together with other members of the Group, entered into the Revolving Credit Facilities Agreement, which provides for £25m of committed financing, all of which can be drawn by way of loans, ancillary facilities or letters of credit. This facility is available to the Group for the duration of the Senior Loan Facility, up to 31 January 2026.

Working Capital

Our successful progress in driving adoption of advertising subscription packages has resulted in a more predictable and less volatile working capital profile in the business. Historic high working capital periods in January to March are now much lower reflecting lower transaction revenue.

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 turnover 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. Management performs periodic reviews to identify any underlying changes in the level of demand.

In relation to the global pandemic COVID-19 in March 2020, detailed commentary has been provided in the Directors' Report. However, the key risk to the Group is the prolonged closure of schools across the world and a severe economic downturn, which may in turn reduce the turnover of staff in schools.

Tes Topco Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Competitive risk

Tes supports schools by attracting the right teachers to the right jobs. 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, Tes has a sufficiently well-established position in the market place to defend against potential threats.

Cyber risk

The Group uses and provides to its customers a wide range of technology and is therefore at risk of harm from illegal cyber activity. The Group has implemented a range of policies and procedures and employs an experienced team of technicians who continue to review and react to potentially harmful cyber activity.

People risk

The Group competes across the market for a wide range of specific skills. In order to retain and attract these skills, there is a continual investment in the health and wellbeing of employees through training and support programs. The provision of technology and communication facilities, allows employees the ability to work from any location, which in turn allows for the employment of specific skill sets outside the location of Group offices.

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 service the annual cost of its financing. The Group has access to a £25m revolving credit facility. As at 31 August 2019, £5m of this facility was drawn down, leaving £20m available to the Group.

Price risk

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

Renewal risk

Future revenues will be impacted by subscription renewal rates as we migrate an increasing proportion of schools to subscription products. The Group is investing in account management and additional products and services that are of value to the customer even outside traditional recruitment periods, together with focusing on delivering a high quality service to ensure good renewal rates.

On behalf of the board on 15 June 2020.



Mr P Simpson
Director

Tes Topco Limited

Directors' report

The directors present their report and the audited consolidated financial statements of the Group and the Company for the period ended 31 August 2019.

The Company was incorporated on 14 December 2018 and commenced trading with the acquisition of the Tes Group on 1 February 2019.

Principal activity

The principal activity of Tes Topco Limited is that of a holding company for the trading activities of Tes Global Limited and its subsidiaries.

Dividends

The directors do not recommend a dividend for the period ended 31 August 2019.

Political donations

The Group did not make any political donations during the period.

Directors

The Directors of the Company who were in office during the period and up to the date of signing the financial statements are as follows:

Name	Title	
Mr R Grimshaw	CEO	Appointed 31 January 2019
Mr E Hughes	Shareholder Director	Appointed 31 January 2019
Mr D Leigh	Non-Executive Director	Appointed 24 April 2019
Mr D Rammal	Shareholder Director	Appointed 31 January 2019
Mr P Simpson	CFO	Appointed 31 January 2019
Mr P Wilde	Shareholder Director	Appointed 24 April 2019
Mr S Krnic	Shareholder Director	Appointed 14 December 2018 and resigned 31 January 2019
Mr J Johnson	Non-Executive Director	Appointed 4 December 2019

Jo Johnson was appointed as a non-executive Director on 4 December 2019. Jo was an active member of the Conservative party and had previously served as the Member of Parliament for Orpington from 2010 to 2019. Additionally, he served as Minister of State for Universities, Science, Research and Innovation from July to September 2019, as well as previously from 2015 to 2018. As well as his involvement with Tes, he is also a Senior Fellow at the Harvard Kennedy School, and President's Professorial Fellow at King's College London.

Rob Grimshaw is the CEO of TES Global, having joined the Company in November 2014. Previously, Rob led the successful development of digital at the Financial Times ("FT") in his role as Managing Director, FT.com. He was also responsible for the FT's print subscriptions, events business and its New York Institute of Finance professional development subsidiary. Rob joined the FT in 1998, holding a series of commercial roles before taking responsibility for FT.com. He holds a Bachelor's degree in Philosophy & Politics from the University of Warwick.

Paul Simpson serves as CFO and oversees finance, legal, corporate development and IT and operations. Prior to joining Tes in May 2018, Paul was the Group CFO of KCOM PLC, a UK-listed provider of telecommunications and IT services, for 12 years. Before this he worked in transaction services with EY in the UK and PW in the UK and Italy. He qualified as a chartered accountant with PW in 1994 and is an Economics graduate from Coventry University.

Tes Topco Limited

Directors' report (continued)

Employment of disabled persons

The Group endeavours to promote and ensure equal opportunities to all its employees, job applicants and former employees irrespective of race (including colour, nationality and ethnic and national origins), religion, belief, disability, gender, marital or civil partnership status, sex or sexual orientation, age or trade union membership. The Group values the individual contribution of all its employees and prospective employees from all sectors of the community. We recognise our social and moral duty to employ people with disabilities and we will do all that is practicable to meet this responsibility and comply with our legal responsibilities under the Equality Act 2010. All those involved in recruitment have the additional responsibility to be open to all candidates based on their skills and expertise. Recruiters can explore any reasonable adjustments that may be required to ensure that disabled candidates are able to compete fairly in the selection process and once they have been appointed. If members of staff become disabled the group continues employment where possible, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employment involvement

The Group and its leadership works hard to communicate its strategy, progress and updates to global staff, while investing in an open and collaborative culture that supports a shared common purpose. Communication is driven through several different channels, including a collaborative global intranet for news and collaboration, staff newsletters, town hall meetings and leadership blogs. Staff associations meet regularly with the management team to ensure the views of our employees are represented and taken into account when making decisions that are likely to affect their interests. The ambition is to ensure that employees understand the contribution they make to the business in achieving its goals both from a social purpose and a financial perspective.

Human rights

The Group is fully committed to respecting the human rights of our employees and to compliance with all applicable laws regarding, among other things:

- prohibition of child, forced, bonded or indentured labour;
- providing compensation and benefits that are competitive and comply with applicable minimum wages, overtime hours, and mandated benefits;
- respecting the cultures, customs and values of the people in communities in which we operate;
- promoting workplace diversity;
- protecting the privacy of employees;
- promoting environmental stewardship;
- promoting health and safety practices; and,
- promoting ethical behaviour, business integrity and fair competition.

The Group seeks to provide consistent and comprehensive guidance to our employees through internal training regarding human rights and employment issues across the Group. As a responsible corporate citizen, the Group operates in accordance with all applicable human rights laws and respects and promotes human rights through our employment policies and practices, through our supply chain and through the responsible provision of our products and services. Through our various efforts to promote human rights, we seek to drive a consistent message that human rights form a part of our corporate culture and principles.

Social and community issues

The Group believes in the power of great teaching and supports the sharing of free classroom resources created by teachers all over the world. Research from Stanford professors has shown that these resources have a positive impact on the standard of teaching in the classroom and on teacher wellbeing.

Other core initiatives that support and celebrate the teaching profession include a number of annual awards to recognise outstanding contributions of learning institutions and individuals in the community. These include the Tes Schools 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. The 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.

Tes Topco Limited

Directors' report (continued)

Social and community issues (continued)

The Group participates in a number of social and community initiatives through its staff and locations. A 'Matched Giving' scheme matches money raised by employees for charity, with amounts of up to £500 per team per period and £200 for individuals. Tes offers work placements for secondary school students. The Group is also supporting the Campaign for Female Education (Camfed). Following a staff vote we chose Camfed as our global charity partner and support a number of other local education related charities across the world.

Environmental measures

The Group is fully committed to reducing its carbon emissions and play its part in the fight to combat climate change and is registered for ESOS ("Energy Saving Opportunities Scheme"). The 'Switch Off' initiative encourages employees at Tes to shut down their computers and switch off their monitors on a daily basis. The Group has an automatic 'Lights Off' function across all Tes floors at Red Lion Square inclusive of an intelligent lighting system for its meeting rooms. The Group has installed spectrally selective window film across specific glass areas of high solar gain, so as to effectively reduce energy consumption. The Group recycles waste paper and cardboard on a weekly basis and has recycling bins on each floor for plastic bottles and aluminium cans. The Groups occupied area has an automatic out of hours shut-off for both air conditioning and heating, so as to reduce energy consumption. 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.

Principal risks and uncertainties

The principal risks and uncertainties, including financial risks, facing the business are set out in the Strategic Report.

Research and development

In the period ended 31 August 2019, the Group spent £4.7m on research and development, of this £3.9m was development spend which has been capitalised as part of the software and software development additions in the period (see note 9).

Future developments

At the date of the approval of the financial statements, Brexit is not expected to have any direct effect on the Company. The Directors actively review the wider effects of Brexit on the environment in which the Company operates, at Group level.

The Group has been actively monitoring the developments in respect of COVID-19. With schools currently closed in the UK and across many countries that the Group operates in, we have taken steps to protect the business from the impact of lost revenue that potentially arises. Whilst we have seen a reduction in transactional advertising and Supply revenue consistent with the reduced curriculum provision, our subscription renewals continue to perform well and activity levels in the Train and Empower areas have been high as schools adapt to new working practices. To date, we have undertaken a number of steps including, but not limited to, the furloughing of UK employees, voluntary salary reductions for higher earners, a reduction in discretionary expenditure and the reprioritisation and phasing of certain capital expenditure programmes. In addition, we have drawn the full RCF available to us to ensure that maximum liquidity is available at all times. To date, our cash collection has remained consistent with previous periods. There remains fundamental uncertainty around the period for which schools will be closed and we have highlighted the potential impact that this may have in our going concern statement.

Directors' and Officers' indemnity

The Group maintains qualifying third party liability insurance for its Directors and Officers and had this in place throughout the period and up to the date of signing the financial statements.

Tes Topco Limited

Directors' report (continued)

Going concern

The directors confirm that having reviewed the Group's cash requirements for the next 12 months from the date of signing the financial statements, they have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as and when they fall due for the foreseeable future. In assessing this they have considered the purchase of the group by Providence Equity Partner L.L.C. ("Providence") as disclosed in note 27. The directors have considered their current cash flow projections, financing costs of the term loan and availability of the revolving credit facility. Having due regard to these factors the directors have adopted the going concern basis in preparing these financial statements.

The uncertainty as to the future impact on the Group of COVID-19 has been considered as part of the Group's adoption of the going concern basis. The most significant impact for the Group arises on the closure of schools and the potential impact that this has on school and teacher behaviour. As we approach the end of the current school year, this impact can be quantified with a high degree of certainty. However, there remains uncertainty with regard to the likely closure and opening of schools from September 2020.

Since school closures in March 2020, we have seen a significant reduction in the certain Group revenue lines, most notably in transactional advertising and the provision of Supply teachers where we anticipate a combined revenue reduction of approximately £8m in the period March to August 2020. In contrast to these revenue areas, our experience has been encouraging with subscription renewal levels remaining materially in line with our expectations.

In the near-term downside scenario that the Board has considered, we have assumed that UK schools remain closed until the start of the 2021 academic year (September 2020). This would likely reduce our net revenue for the full year by up to £10m, including the £8m mentioned above. Our mitigation strategies have included the furloughing of certain employees, voluntary salary reduction and discretionary expenditure avoidance. Under this scenario, the Group has very significant headroom against the May 2020 and August 2020 covenant tests both in terms of EBITDA and available cash resources.

In assessing the scenario for the 2021 financial year, we have assumed that school buying behaviour is not adversely impacted by any potential further school closures from September 2020. Applying prudent assumptions for subscription renewals results in the Group remaining comfortably within its covenant limits for each of the quarterly tests dates throughout the 2021 financial year both from an EBITDA and cash perspective with headroom in the region of £8-10m and £45-55m respectively. This headroom is based on no specific cost mitigation exercises and an assumption of ongoing investment in the business. Discretionary cost management and broader cost reduction initiatives are available to the Group in the event that we experience a material reduction in revenue.

In our downside modelling, we would need to see a further decline in the level of transactional advertising and Supply revenue and a material reduction in our current subscription renewal before the Group reaches a point where it may breach its existing financial covenants, unless an agreement to waive those is reached with lenders. Given potential mitigations that would be available to the Group, we do not believe at this stage that this is a scenario that will materialise. However it is unclear how long schools will remain closed, and how severe the potential financial impact will be, and this indicates the existence of a material uncertainty, which may cast doubt about the Group's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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 period and they will therefore continue to serve as auditors for the Company.

Tes Topco Limited

Directors' report (continued)

Events after the reporting period

On 3 December 2019, Tes Global Limited acquired 54.3% of the share capital of Edval Education Pty Limited (trading as Edval) and 100% of the issued share capital of Neomatrix Limited, for a total consideration of \$16.9m (AUD).

On 3 December 2019, Tes Global Limited acquired 100% of the issued share capital of Tutor In Limited (trading as TwoSigmás) for a consideration of £1.7m.

The impact of COVID-19 on the Group is provided as part of the going concern assessment and detailed in Note 29.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act.

Tes Topco Limited

Directors' report (continued)

Directors' confirmations

In the case of each Director in office at the date of the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the board on 15 June 2020 and signed on its behalf.



Mr P Simpson
Director

Tes Topco Limited

Independent auditors' report to the members of TES Topco Limited

Report on the audit of the financial statements

Opinion

In our opinion, TES Topco Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 August 2019 and of the group's loss and the group's cash flows for the period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and consolidated financial statements (the "Annual Report"), which comprise: the consolidated and company balance sheet as at 31 August 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the group and company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.2 to the financial statements concerning the group's and company's ability to continue as a going concern. In the event of a prolonged downside scenario where a further significant business disruption is caused due to the COVID-19 pandemic there is a risk that this could lead to a further decline in the revenues. Whilst management expects to apply various mitigation measures with such a scenario, there is a risk that the group and company may breach their financial covenants within the going concern period, and cannot reach an agreement with lenders to waive the covenants. These conditions, along with the other matters explained in note 1.2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The group financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Tes Topco Limited

Independent auditors' report to the members of TES Topco Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 August 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Tes Topco Limited

Independent auditors' report to the members of TES Topco Limited (continued)


Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
15 June 2020

Tes Topco Limited

Consolidated income statement

For the period ended 31 August 2019

	Note	2019 £'000
Revenue		82,929
Agency related cost of sales		(24,570)
Net revenue	3	58,359
Cost of sales	3	(4,977)
Gross profit		53,382
Other income	3	872
Administrative expenses		(54,047)
Impairment of intangible assets	2	(23,975)
Operating loss	2	(23,768)
Finance income	5	22
Finance costs	5	(15,342)
Loss before income tax		(39,088)
Income tax credit	6	2,557
Loss for the period		(36,531)
Loss attributable to:		
- The owners of TES Topco Limited		(37,737)
- Non-controlling interest (note 28)		206
		(36,531)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement.

The loss for the parent Company for the period was £7,905k.

The notes on pages 26 to 69 are an integral part of these consolidated financial statements.

Net revenue represents Supply revenue presented net of agency related cost of sales and all other Group revenues.

Tes Topco Limited

Consolidated statement of comprehensive income

For the period ended 31 August 2019

	Note	2019 £'000
Loss for the period		(36,531)
Transactions with owners recorded directly in equity		
Contributions and distributions to owners		
Share based payments	15	290
Transactions with owners recorded directly in equity		290
Total other comprehensive income		290
Total comprehensive expense for the period		(36,241)
Total comprehensive expense attributable to:		
- The owners of TES Topco Limited		(36,447)
- Non-controlling interest		206
		(36,241)

The notes on pages 26 to 69 are an integral part of these consolidated financial statements.

Tes Topco Limited

Registered number 11727093

Consolidated balance sheet

As at 31 August 2019

		2019
	Note	£'000
Assets		
Non-current assets		
Property, plant and equipment	7	5,078
Right of use asset	8	8,258
Intangible assets	9	330,676
		344,012
Current assets		
Trade and other receivables	11	13,581
Cash and cash equivalents	12	12,042
		25,623
Total assets		369,635
Equity and liabilities		
Equity attributable to owners of the parent		
Share capital	14	100
Share premium	14	900
Accumulated losses		(36,447)
Non-controlling interest	28	454
Total deficit		(34,993)

Tes Topco Limited

Registered number 11727093

Consolidated balance sheet (continued)**As at 31 August 2019**

		2019
	Note	£'000
Liabilities		
Non-current liabilities		
Borrowings	17	318,343
Lease liabilities	18	7,279
Deferred income tax liabilities	13	33,470
		359,092
Current liabilities		
Borrowings	17	5,000
Trade and other payables	16	30,795
Lease liabilities	18	1,834
Financial liabilities at fair value through profit and loss	26	7,907
		45,536
Total liabilities		404,628
Total equity and liabilities		369,635

The notes on pages 26 to 69 are an integral part of these consolidated financial statements.

The financial statements on 26 to 69 were authorised for issue by the board of directors on 15 June 2020 and were signed on its behalf by:



Mr P Simpson
Director

Tes Topco Limited

Consolidated statement of changes in equity for the period ended 31 August 2019

	Share capital	Share premium	Accumulated losses	Non- controlling interest	Total deficit
	£'000	£'000	£'000	£'000	£'000
Issue of share capital	100	-	-	-	100
Issue of share premium	-	900	-	-	900
Non-controlling interest on consolidation	-	-	-	248	248
(Loss)/profit for the period	-	-	(36,737)	206	(36,531)
Share based payments (note 15)	-	-	290	-	290
Total comprehensive (expense)/income for the period	-	-	(36,447)	206	(36,241)
Balance at 31 August 2019	100	900	(36,881)	454	(35,427)
Balance at 13 December 2018	-	-	-	-	-

The notes on pages 26 to 69 are an integral part of these consolidated financial statements.

Tes Topco Limited

Registered number 11727093

Company balance sheet

As at 31 August 2019

	Note	2019 £'000
Assets		
Non-current assets		
Investments	10	130,390
		130,390
Current assets		
Trade and other receivables	11	8
		8
Total assets		130,398
Equity and liabilities		
Equity attributable to owners of the parent		
Share capital	14	100
Share premium	14	900
Accumulated losses		(7,615)
Total deficit		(6,615)
Liabilities		
Non- current liabilities		
Preference share capital	14	129,100
		129,100
Current liabilities		
Trade and other payables	16	7,913
		7,913
Total liabilities		137,013
Total equity and liabilities		130,398

The notes on pages 26 to 69 are an integral part of these consolidated financial statements.

The loss for the parent Company for the period was £7,905k.

The financial statements on pages 26 to 69 were authorised for issue by the board of directors on 15 June 2020 and were signed on its behalf by:



Mr P Simpson
Director

Tes Topco Limited

Company statement of changes in equity for the period ended 31 August 2019

	Share capital	Share premium	Accumulated losses	Total deficit
	£'000	£'000	£'000	£'000
Issue of share capital	100	-	-	100
Issue of share premium	-	900	-	900
Loss for the period	-	-	(7,905)	(7,905)
Share based payments (note 15)	-	-	290	290
Total comprehensive expense for the period	-	-	(7,615)	(7,615)
Balance at 31 August 2019	100	900	(7,615)	(6,615)
Balance at 13 December 2018	-	-	-	-

The notes on pages 26 to 69 are an integral part of these consolidated financial statements.

Tes Topco Limited

Consolidated statement of cash flows

For the period ended 31 August 2019

Group	Note	2019 £'000
Cash flows from operating activities		
Cash generated from operations	23	20,543
Income tax paid		(511)
Net cash generated from operating activities		20,032
Cash flows used in investing activities		
Purchase of property, plant and equipment	7	(2,373)
Intangible asset additions	9	(3,886)
Interest receivable	5	22
Cash paid for acquisitions net of cash acquired	27	(180)
Net cash used in investing activities		(6,417)
Cash flows used in financing activities		
RCF drawn down	17	5,000
Interest paid		(6,042)
Payment of lease liabilities		(531)
Net cash used in financing activities		(1,573)
Net increase in cash and cash equivalents		12,042
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents at end of period	12	12,042

The Company had no cash movements in the period and held no cash balances at the period end.

The cash consideration for the acquisition of the Group of £10.0m was settled directly by the ultimate parent company Providence. As part of the acquisition transaction, a bank loan of £195.0m and preference shares of £129.1m were raised in order to settle the indebtedness of Tes Global Group Limited and its subsidiaries.

Tes Topco Limited

Consolidated statement of cash flows

For the period ended 31 August 2019

Change in liabilities arising from financing activities

	At 13 December 2018	Cash flow	Non-cash flow	At 31 August 2019
	£'000	£'000	£'000	£'000
Bank loans ⁽¹⁾	-	5,000	195,000	200,000
Borrowing costs ⁽²⁾	-	-	(5,757)	(5,757)
Interest accruals ⁽³⁾	-	(6,042)	14,832	8,790
Preference shares ⁽¹⁾	-	-	129,100	129,100
Lease liabilities ⁽⁴⁾	-	(531)	9,644	9,113
	-	(1,573)	342,819	341,246

Non-cash items include:

⁽¹⁾ New bank loans and preference shares where cash was paid directly to settle old indebtedness.

⁽²⁾ Loan issue costs paid by the parent company offset by amortisation of these costs

⁽³⁾ Movement in accrued interest on bank and preference shares

⁽⁴⁾ Lease liabilities taken on as part of the acquisition

The notes on pages 26 to 69 are an integral part of these consolidated financial statements.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019

1 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented, unless otherwise stated.

1.1 Basis of preparation

The consolidated and single entity financial statements of Tes Topco Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS IC Interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. Tes Topco Limited is a private limited company incorporated in the United Kingdom and domiciled in England. The consolidated financial statements have been prepared under the historical cost convention as modified by financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.29. Amounts are rounded to the nearest thousands and are suffixed with a "k", "m" or "millions" in certain disclosure paragraphs, unless otherwise stated.

The Company has not generated any cash movements, nor does it carry any cash or cash equivalents at the period end. Therefore, a cash flow statement for the Company has not been provided.

1.2 Going concern

The directors confirm that having reviewed the Group's cash requirements for the next 12 months from the date of signing the financial statements, they have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as and when they fall due for the foreseeable future. In assessing this they have considered the purchase of the group by Providence Equity Partner L.L.C. ("Providence") as disclosed in note 27. The directors have considered their current cash flow projections, financing costs of the term loan and availability of the revolving credit facility. Having due regard to these factors the directors have adopted the going concern basis in preparing these financial statements.

The uncertainty as to the future impact on the Group of COVID-19 has been considered as part of the Group's adoption of the going concern basis. The most significant impact for the Group arises on the closure of schools and the potential impact that this has on school and teacher behaviour. As we approach the end of the current school year, this impact can be quantified with a high degree of certainty. However, there remains uncertainty with regard to the likely closure and opening of schools from September 2020.

Since school closures in March 2020, we have seen a significant reduction in the certain Group revenue lines, most notably in transactional advertising and the provision of Supply teachers where we anticipate a combined revenue reduction of approximately £8m in the period March to August 2020. In contrast to these revenue areas, our experience has been encouraging with subscription renewal levels remaining materially in line with our expectations.

In the near-term downside scenario that the Board has considered, we have assumed that UK schools remain closed until the start of the 2021 academic year (September 2020). This would likely reduce our net revenue for the full year by up to £10m, including the £8m mentioned above. Our mitigation strategies have included the furloughing of certain employees, voluntary salary reduction and discretionary expenditure avoidance. Under this scenario, the Group has very significant headroom against the May 2020 and August 2020 covenant tests both in terms of EBITDA and available cash resources.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.2 Going concern (continued)

In assessing the scenario for the 2021 financial year, we have assumed that school buying behaviour is not adversely impacted by any potential further school closures from September 2020. Applying prudent assumptions for subscription renewals results in the Group remaining comfortably within its covenant limits for each of the quarterly tests dates throughout the 2021 financial year both from an EBITDA and cash perspective with headroom in the region of £8-10m and £45-55m respectively. This headroom is based on no specific cost mitigation exercises and an assumption of ongoing investment in the business. Discretionary cost management and broader cost reduction initiatives are available to the Group in the event that we experience a material reduction in revenue.

In our downside modelling, we would need to see a further decline in the level of transactional advertising and Supply revenue and a material reduction in our current subscription renewal before the Group reaches a point where it may breach its existing financial covenants, unless an agreement to waive those is reached with lenders. Given potential mitigations that would be available to the Group, we do not believe at this stage that this is a scenario that will materialise. However it is unclear how long schools will remain closed, and how severe the potential financial impact will be, and this indicates the existence of a material uncertainty, which may cast doubt about the Group's ability to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

1.3 New accounting standards adopted by the Group

On the basis that IFRS 15 Revenue from contracts with customers is applicable to the Group, the Group has chosen to early adopt IFRS 16 Leases (effective date for periods starting 1 January 2019). The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. See note 8.

1.4 New accounting standards not yet adopted

Certain new accounting standard and interpretations have been published that are not mandatory for reporting periods ending 31 August 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1.5 Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the sum of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in an acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Where control changes any excess in fair value over consideration may result in recognition of a gain on previously held equity interest. Changes in the non-controlling interest, which do not result in a change in control, are accounted for as equity transactions.

Inter-company transactions and balances between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated 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.

Assets are depreciated over their expected useful lives less estimated residual value, based on original cost, rather than acquired fair values. The principal rates, using the straight-line basis, are as follows:

Category	Rates of Depreciation
Computer equipment	25% per annum
Furniture and office equipment	20% to 25% per annum

Assets in the course of construction are transferred into an asset category at the point of completion of construction. As assets are transferred upon completion there is no depreciation charged against this category of asset.

1.7 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating units.

Customer relationships

Customer relationships acquired as part of a business combination are shown at fair value at the date of acquisition and subsequently less accumulated amortisation. Identifiable intangible assets are those which can be sold separately or which arise from legal rights. Amortisation is charged to the income statement for the financial period using the straight-line method over their estimated useful lives.

Trade names

Trade names acquired as part of a business combination are shown at fair value at the date of acquisition and subsequently less accumulated amortisation. Identifiable intangible assets are those which can be sold separately or which arise from legal rights. Amortisation is charged to the income statement for the financial period using the straight-line method over their estimated useful lives.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.7 Intangible assets

Internally developed software cost

The Group capitalises expenditure that is directly attributable to the development of the intangible asset which is amortised on a straight-line basis over 2 to 5 periods from the point the asset is available for use. The assets are valued at cost less accumulated amortisation, except those identifiable intangible assets acquired as part of a business combination which are shown at fair value at the date of acquisition, and subsequently less accumulated amortisation.

Category	Estimated Useful Lives
Customer relationships	Straight line over 13 years
Software and software development	2 to 5 years
Trade name	Straight line over 25 years

Where no intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Development expenditure is capitalised only when the Group can demonstrated the following:

- Technical feasibility of completing the asset so that it will be available for use or resale;
- Intention to complete and ability to use or sell the asset;
- How the asset will generate future economic benefit;
- Availability of resource to complete the asset;
- Ability to reliably measure the expenditure during development; and
- Ability to use the asset generated.

When the Directors are satisfied the technical, commercial and financial viability of individual projects are met, identifiable expenditure is capitalised and amortised over the useful life of the asset.

The development cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

Assets in the course of construction are transferred into an asset category at the point of completion of construction. As assets are transferred upon completion there is no depreciation charged against this category of asset.

1.8 Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and is recognised immediately as an expense. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The Group tests annually whether goodwill has suffered any impairment. Any impairment is recognised immediately as an expense and is not subsequently reversed. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, except where fair value less cost to sell is more representative of the maturities and growth stages of the business.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.9 Financial assets

1.9.1 Classification

The Group has one classification of financial assets; loans and receivables. Management determines the classification of its financial assets at initial recognition.

1.9.1 Classification (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

1.9.2 Recognition and measurement

Loans and receivables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method less provision for impairment.

1.10 Financial liabilities

1.10.1 Classification

Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss for the financial period.

1.10.2 Recognition and measurement

The Group's financial liabilities at fair value through profit or loss comprise 'put/call options on non-controlling interest'. All other financial liabilities are recognised at fair value, net of transaction costs incurred, and subsequently carried at amortised cost using the effective interest method.

1.10.3 Term loan

The term loan was recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of any transaction costs incurred. Borrowings are classified as current liabilities to the extent that amounts fall due within 12 months of the balance sheet date, otherwise amounts are held as non-current liabilities.

Interest is recognised in the consolidated income statement over the period of the borrowing.

1.11 Put/call options

The call options give the Group a contractual right to purchase the equity instruments owned by non-controlling interests which gives rise to a financial liability for the present value of the redemption amount. The financial liability is recognised initially at the present value of the redemption amount with the corresponding debit recognised directly in equity. Subsequent fair value re-measurements of the liability at future balance sheet dates have been taken to the income statement.

1.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, current balances and other short-term highly liquid investments with banks and similar institutions.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.13 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one period or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate provisions for impairment are recognised as per note 1.14. When a trade receivable is uncollectable, it is written off. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

1.14 Impairment of trade receivables

The Group fully provides for any amounts of loan principal and charged income that is estimated to be irrecoverable from customers. This provision is calculated based on the type of debt, its age and the period in which the original debt was initiated and by comparison with the past performance of similar historical loans.

1.15 Share capital

Ordinary shares, A ordinary, B ordinary and C ordinary shares are classified as equity and carry the same voting and dividend rights.

Preference share are classified as debt and give rise to dividends payable of 10.5%.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one period or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.17 Non-recurring and separately reported items

Items which are material either because of their size or their nature, and which are non-recurring, are presented within their relevant income statement category, but disclosed separately in note 2 to the financial statements. The separate reporting of non-recurring items helps to provide a better understanding of the Group's financial statements

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.19 IFRS 15 Revenue from contracts with customers

In recognising revenue under IFRS 15, the Group have followed the five step model and considered identification of the contract with a customer, identification of performance obligation of each contract, transaction price, allocation of transaction price to performance obligation and recognition of revenue at the point the performance obligation has been satisfied.

1.20 Revenue recognition

Revenue comprises the fair value of the consideration receivable by the Group for the sale of goods and services in the ordinary course of its business. Revenue is shown net of value added tax, returns and trade discounts. Revenue is recognised depending on the nature of the good or service supplied, as follows:

- Transactional advertising revenue is recognised when the advert is made live;
- Advertising and data revenue raised under a subscription contract is recognised on a straight line basis over the period that the subscription runs;
- Revenue from circulation is recognised in the week in which the magazine is published. Refunds from circulation returns are debited to revenue;
- Revenue from the supply business represents invoiced sale of services, excluding value added tax, and is recognised when the service to the customer has been completed;
- Premium resources revenue is recognised depending on the service provided. One off sales are recognised immediately, while subscription revenue is recognised on a straight line basis over the period that the subscription runs;
- Events and summit income are recognised on a straight line basis over the period when the event or summit occurs. Amounts received in advance of an event or summit are deferred until the period when the event or summit occurs; and
- Other recruitment revenues are recognised in line with the performance of the service related to each element of the package.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.20 Revenue recognition (continued)

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Net revenue is presented in addition to gross revenue on the face of the Consolidated Income Statement to reflect the revenue generated from the Supply businesses, net of associated costs paid directly to the Supply teachers.

1.21 Cost of sales

Cost of sales includes print and paper costs, distribution costs, premium resources author royalties, supply teacher agency costs and any other costs associated directly with the revenue generating activities of the Group.

1.22 Finance costs

Finance costs are accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

1.23 Investments in subsidiary undertakings

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment. Cost is defined as the fair value of the consideration transferred, excluding acquisition related costs.

1.24 Segmental analysis

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Directors has been identified as the chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments.

1.25 Functional currency

The functional currency is pounds sterling and the financial statements are presented in pounds sterling, which the directors consider is the appropriate presentational currency of the Group.

Transactions in currencies other than the functional currency of the Group are recorded at the rates of exchange prevailing on the dates of the transactions.

At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Gains or losses arising on retranslation of monetary items are included in net profit or loss for the period.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

The Group's results, financial position and cash flows are translated into the presentational currency as follows:

- equity items other than net profit at the rate of transaction;
- assets and liabilities at the closing rate;
- income, expenses and cash flows at the average exchange rate; and
- resulting exchange differences are included in equity.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.27 Group as lessee

The Group assess whether a contract contains a lease at inception of a contract. For all lease agreements with a contractual length exceeding 12 months, a right of use asset is recognised and a corresponding lease liability. The Group recognises lease payments as an operating expense on a straight line basis over the lease term.

The right of use asset is recognised as a non-current asset (note 8), with the lease liability presented separately as liability. The liability is recognised as current to the extent of payments due within 12 month of the balance sheet date, anything due thereafter is recognised as a non-current liability (note 18).

The lease liability is initially measured at the present value of the lease payments, discounted at a rate implicit in the lease, where this cannot be readily determined, the incremental borrowing rate is applied.

Lease payments comprise:

- fixed lease payments, less lease incentives; and
- onerous lease provision releases.

The lease liability is subsequently measured by increasing the carrying value to reflect interest on the lease liability and reducing carrying value in line with lease payments made. Interest is charged using the effective interest method.

The Group re-measures the lease liability and a corresponding adjustment to the right of use asset, when a change in lease term arises, as such the lease liability is re-measured by discounting the revised lease payments at a revised discounting rate. No such adjustments were made during the period ended 31 August 2019.

The Group re-measures the lease liability and a corresponding adjustment to the right of use asset, when a change in lease term arises, as such the lease liability is re-measured by discounting the revised lease payments at a revised discounting rate. No such adjustments were made during the period ended 31 August 2019.

The right of use asset comprises the initial measurement of the corresponding lease liability made at or before the commencement date, plus any directly attributable costs. The assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right of use assets are depreciated over the shorter of the period of the lease term and the useful life of the asset. Depreciation is charged at commencement of the lease.

Right of use assets are subject to impairment reviews in line with the Group's impairment policy (see 1.8).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components and instead account for any lease and associated non-lease components as a single arrangement, the Group has not applied this practical expedient.

1.28 IFRS 9 Expected credit loss

The Group has applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. The current and forward looking information on macroeconomic factors affecting the ability of customers to settle the receivables are also considered. The Group have assessed that no material adjustment to provisions is required to reflect the lifetime expected loss.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.29 Critical accounting estimates and judgements

The preparation of the Group's consolidated financial statements in accordance with IFRS requires decisions and estimates for some items, which might have an effect on their recognition and measurement in the balance sheet and income statement. The actual amounts realised may differ from these estimates.

Impairment of goodwill and intangible assets

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. The Group tests annually whether goodwill and intangible assets have suffered any impairment, in accordance with the Group's accounting policy. In determining the recoverable amount of all CGUs it is necessary to make a series of assumptions to estimate the present value of future cash flows. In each case, these key assumptions have been made by management reflecting past experience and future expectations.

Determining whether intangible assets are impaired requires an estimation of the value-in-use of the cash-generating units to which these assets have been allocated. The value-in-use calculation requires estimation of future cash flows expected to arise for the cash-generating unit, the selection of suitable discount rates and the estimation of long-term growth rates. As determining such assumptions is inherently uncertain and subject to future factors, there is the potential these may differ in subsequent periods and therefore materially change the conclusions reached. In light of this, consideration is made each year as to whether sensitivity disclosures are required for reasonably possible changes to assumptions.

The main assumptions within forecast operating cash flow include the achievement of future sales, the cost incurred, removing non-cash flow items and the levels of ongoing capital expenditure required to support forecast production.

Capitalisation of development costs

Development costs are capitalised, in accordance with the Group's accounting policy. Determining the amounts to be capitalised requires management to make a judgement based on assumptions and estimates regarding the expected future cash generation of new developments and the expected period of benefits.

Depreciation and amortisation

Property, plant and equipment and intangible assets are stated at cost, net of depreciation or amortisation 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 assets are reviewed for impairment in any period whereby events or changes in circumstances indicate the carrying value may not be recoverable.

Assets are depreciated over their expected useful lives or anticipated length of use by the Group in order to write off their cost less estimated residual value.

Put/call on non-controlling interest

The Group has estimated the value of future purchase consideration payable to vendors based on Management's estimate of the future performance indicators of the relevant entity. These are assessed at least on an annual basis and any adjustments to fair value are reflected in the Consolidated Income Statement.

Acquisition accounting

Accounting for acquisitions requires a fair value exercise to be undertaken in order to assess the assets and liabilities acquired, including any separately identifiable intangible assets. The process of determining fair values may require estimates to be made that are subjective in nature. The Group employed the advice of an impartial third party advisor in determining the fair values of the Group at acquisition.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

1 Significant accounting policies (continued)

1.29 Critical accounting estimates and judgements (continued)

Share-based payments

The Group has estimated the fair value of the shares issued to management based on the Monte Carlo model. The inputs into the valuation model are subjective in nature. These are subject to an annual assessment of fair value with adjustments to fair value recognised in the income statement.

1.30 Pensions

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

1.31 Share based payments

At acquisition of the Tes Group on 31 January 2019, senior management were given the opportunity to acquire shares in the Group. These shares cannot be traded and must be sold back to the Group when employment ceases. The shares are redeemable only upon sale of the Group.

The fair value of the shares is measured at the issue date and spread as a cost over the expected period before the sale of the Group.

Tes Topco Limited

Notes to the financial statements for the period 31 August 2019 (continued)

2 Operating loss

Group	2019 £'000
Depreciation and amortisation	
Depreciation of property, plant and equipment (note 7)	807
Depreciation on right of use assets (note 8)	671
Amortisation of intangible assets (note 9)	10,576
	12,054
Impairment	
Impairment of intangible assets (note 9)	23,975
	23,975
Separately reported costs	
M&A and disposal costs	4,131
Non-recurring restructuring costs	574
Management incentive plan (note 15)	290
Revaluation of put/call option	3,155
	8,150

Impairment of intangible assets

Goodwill and intangibles acquired following acquisition of Tes Global Group Limited and its subsidiaries ("Tes") on 31 January 2019 was allocated on the basis of the Group's identifiable CGU's (note 9). Management reviewed the carrying values of intangibles held by each CGU at the period end and identified that the carrying value of assets relating to Tes Supply Limited and its subsidiaries (Tes Bidco Limited, ABC Teachers Limited, Smart Education Limited and Vision for Education Limited) was in excess of its realisable value. As such, the assets were impaired down to their recoverable values, giving rise to an impairment charge of £24m.

Separately reported costs

Non-recurring restructuring costs incurred in the period comprise £565k of business restructuring costs, relating to the transition of central business services from London, to Sheffield. In addition, £7k of losses were incurred on the disposal of fixed assets.

The management share based scheme was reviewed in order to assess its fair value at the period end, this resulted in a cost of £290k (note 15).

The fair value of the option to acquire the final 25% shareholding in Edukey Education Limited was assessed by management and revalued, reflecting the improving performance of the business, to £7,907k resulting in a cost in the period of £3,155k (note 26). This option is exercisable in July 2020.

M&A and disposal costs

The Group incurred mergers and acquisitions related costs in the period of £4,131k. These costs comprise third party advisory fees incurred in respect of completed, potential and aborted acquisitions and disposals in the period.

Tes Topco Limited

Notes to the financial statements for the period 31 August 2019 (continued)

3 Segmental analysis

The Group has fully adopted the provisions as set out under IFRS 8.

Tes is a global digital education technology business, providing a range of services to schools and teachers through a number of different market facing brands. The different types of revenue generated are detailed below and comprise: Attract (advertising solutions), Train (the provision of accredited training and development), Empower (software solution for schools, resources for teachers) and Supply (provision of supply teaching resources).

The chief operating decision maker has been identified as the Board of Directors, which makes the strategic decisions. The Group's reported segments are based on the internal reporting structure and financial information provided to the Board. The Board reviews the performance of the Group by the reported segments.

The Board does not review the assets and liabilities of the Group on a segmented basis and has therefore chosen to adopt the amendments to IFRS 8 which permit not segmenting the assets and liabilities of the Group. Other information provided to the Board is measured in a manner consistent with that in the financial statements. Accounting policies are consistent across the reportable segments.

Group segmental analysis:

	7 mths
	2019
Group	£'000
Attract	36,034
Train	6,643
Empower	6,476
Supply	9,206
Net revenue	58,359
Other income	872
Total net revenue	59,231
Gross revenue	82,929
Costs	
Cost of sales	4,977
Staff costs	18,505
Other costs	10,707
Total costs	34,189
Total management adjusted EBITDA	25,042

Net revenue and management adjusted EBITDA are the key segmental performance measures used by the Group in assessing performance. The reconciliation of non-GAAP management adjusted EBITDA to IFRS statutory loss for the period is shown on page 4. Supply net revenue is presented net of the associated cost of supply teachers.

Other income is income from a Transitional Services Agreement with THE, this agreement commenced at the point the business was carved out of the Group on 15 December 2018 and expires on 14 December 2019.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

3 Segmental analysis (continued)

Net revenue is reconciled to gross revenue as follows:

	7 mths 2019 £'000
Group	
Attract	36,034
Train	6,643
Empower	6,476
Supply	33,776
Gross revenue	82,929
Supply agency related cost of sales	(24,570)
Total net revenue	58,359

4 Revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over a specified contract length and at a point in time, across the reporting segments:

	Total revenue £'000	Over specified contract £'000	At a point in time £'000
Period ended 31 August 2019	£'000	£'000	£'000
Attract	36,034	22,781	13,253
Train	6,643	6,643	-
Empower	6,476	2,902	3,574
Supply	9,206	-	9,206
Net revenue	58,359	32,326	26,033

The Group does not adjust contracted consideration at inception of a contract, where the period between transferring goods or services and payment by customers, is expected less than one year.

The Group has subsidiaries domiciled in England, Wales (United Kingdom), Europe, Australia and the United States (Rest of the World). Group revenue generated by customer location is as follows:

	2019 £'000
United Kingdom	51,053
Europe	1,575
Rest of the world	5,731
Net revenue	58,359

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

4 Revenue from contracts with customers (continued)

The Group has recognised the following contract liabilities related to customers with contracts:

Period ended 31 August 2019	Book value liability £'000	Fair value adjustment on acquisition of Tes Global £'000	Fair value adjustment on acquisition of Educare £'000	Release of fair value adjustment £'000	Fair value 31 August 2019 £'000
Attract	6,005	(8,607)	-	3,753	1,151
Train	2,605	(219)	(2,087)	95	394
Empower	3,259	(2,659)	-	1,159	1,759
Supply	29	-	-	-	29
Contract liability	11,897	(11,485)	(2,087)	5,007	3,333

The release of the fair value adjustment of £5,007k has been adjusted to arrive at management adjusted EBITDA, as this is a consolidation adjustment which is not included in the trading of the underlying entities. Without making this adjustment revenues would not be comparable.

5 Finance income and costs

Group	2019 £'000
Finance costs:	
Term loan	6,835
Amortisation of loan issue costs	293
Lease interest (note 8)	214
RCF non-utilisation fees	127
Preference share dividends (note 14)	7,873
Finance costs	15,342
Finance income:	
Interest income on cash at bank	(22)
Finance income	(22)
Net finance costs	15,320

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

6 Income tax credit

	2019
Group	£'000
Current tax:	
Current tax on profits for the period	2,230
Total current tax	2,230
Deferred income tax (note 13):	
Origination and reversal of temporary differences	(4,787)
Total deferred income tax	(4,787)
Income tax credit	(2,557)

Factors affecting current tax charge for the period

The main rate of UK corporation tax was 20% from 1 April 2016 and fell to 19% with effect from 1 April 2017. The main rate of UK corporation tax was 19% throughout the period ending 31 August 2019.

The tax charge in the income statement is higher than the standard rate of corporation tax in the UK of 19%. A reconciliation of the tax charge for the period to the loss for the period multiplied by the applicable UK tax rate is shown below:

	2019
	£'000
Loss before income tax	(39,088)
Tax calculated at the standard rate of corporation tax in the UK of 19%	(7,427)
Tax effects of:	
Permanent differences arising in respect of fixed assets	1,396
Expenses not deductible for tax purposes	2,976
Unrecognised losses	22
Impact of corporation tax rate change	563
Differences in overseas tax rates	(87)
Total income tax expense	(2,557)

Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realised or the liability is settled and which have been enacted or substantively enacted by the balance sheet date. Finance No.2 Bill 2015 became substantively enacted in October 2015, reducing the main rate of corporation tax from 20% to 19% from 1 April 2017, and Finance Bill 2016 became substantively enacted in September 2016 further reducing the rate to 17% from 1 April 2020.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

7 Property, plant and equipment

Group	Computer equipment £'000	Furniture and office equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 13 December 2018	-	-	-	-
Additions on acquisition	856	2,182	425	3,463
Acquired on acquisition of Educare	-	41	-	41
Additions	152	543	1,686	2,381
Transfers in	-	75	-	75
Transfers out	-	-	(75)	(75)
At 31 August 2019	1,008	2,841	2,036	5,885
Depreciation				
At 13 December 2018	-	-	-	-
Depreciation charge	(433)	(374)	-	(807)
At 31 August 2019	(433)	(374)	-	(807)
Net book value				
At 31 August 2019	575	2,467	2,036	5,078
At 13 December 2018	-	-	-	-

Depreciation expense of £0.8m has been charged to administrative expenses in the consolidated income statement.

Assets under construction of £2.0m as at 31 August 2019, relate to ongoing works at Red Lion Square (London office), which were incomplete and such, not yet being depreciated.

Company

The Company had no property, plant and equipment during the period under review.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

8 Right of use assets

Amounts recognised in the balance sheet

This note provides information for leases where the Group is a lessee:

Group	Property leases £'000	Total £'000
Cost		
At 13 December 2018	-	-
Additions on acquisition	8,929	8,929
	8,929	8,929
Accumulated depreciation		
At 13 December 2018	-	-
Depreciation charge	(671)	(671)
At 31 August 2019	(671)	(671)
Net book value		
At 31 August 2019	8,258	8,258
At 13 December 2018	-	-

IFRS 16 *Leases* was adopted from incorporation of the Group. Right of use assets relate to property leases held by the Group. The interest charge on the lease liabilities of £0.2m has been included in finance costs (note 5) and the depreciation charge of £0.7m in the period is included within administrative expenses (note 2).

Amounts recognised in the income statement

Group	2019 £'000
Depreciation charge	671
Interest expense (note 5)	214
	885

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

9 Intangible assets

Group	Goodwill £'000	Software and software development £'000	Trade name £'000	Customer relationships £'000	Assets under construction £'000	Total £'000
Cost						
At 13 December 2018	-	-	-	-	-	-
Additions on acquisition	118,609	13,064	154,058	66,123	341	352,195
On acquisition of Educare	9,146	-	-	-	-	9,146
Additions	-	2,509	-	-	1,377	3,886
Transfers in	-	1,600	-	-	-	1,600
Transfers out	-	-	-	-	(1,600)	(1,600)
At 31 August 2019	127,755	17,173	154,058	66,123	118	365,227
Amortisation						
Charge for the period	-	(4,019)	(3,369)	(3,188)	-	(10,576)
Impairment	(7,349)	-	(12,526)	(4,100)	-	(23,975)
At 31 August 2019	(7,349)	(4,019)	(15,895)	(7,288)	-	(34,551)
Net book value						
At 31 August 2019	120,406	13,154	138,163	58,835	118	330,676

Assets under construction of £0.1m as at 31 August 2019, relate to ongoing software development projects, which are not yet being amortised.

An impairment review was undertaken by the Directors at the period end and the carrying value of Tes Supply Limited and its subsidiaries was deemed to be in excess of its recoverable value, giving rise to an impairment of £24m of the sub-Group's recoverable value of the allocated intangible assets.

The Directors do not consider a further impairment to intangibles assets as a result of the impact of COVID-19.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

9 Intangible assets (continued)

Management perform an annual impairment review for any intangible asset which is considered to have an indefinite life. This review compares the carrying amount of goodwill, intangible assets and other directly attributable assets and liabilities in the cash generating unit ('CGU') with their recoverable amounts. The recoverable amount of TES Global group has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-period period, using a pre-tax discount factor in the range of 10% to 14% and terminal growth increase of 2.2%.

The carrying value of goodwill by relevant CGU is shown below:

Cash Generating Unit	Goodwill £'000
Tes Global Limited	85,394
Hibernia College UK Limited	10,697
Tes Supply Ltd and subsidiaries	8,220
Edukey Education Limited	4,699
Smart Teachers Australia Pty Limited	2,250
Educare Learning Limited	9,146
At 31 August 2019	120,406

Sensitivity analysis

The value-in-use calculations, post impairment of the Tes Supply sub-group, indicates significant headroom and low sensitivity to changes in the assumptions. If the cash generated had been less than 73% of the pre-tax cash flow projections, the Group would have recognised a further impairment of goodwill.

The Directors do not expect that the impact of COVID-19 to give rise to a further impairment of intangible assets.

Company

The Company had no intangible assets during the period under review.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

10 Investments

Company	Investments in subsidiaries £'000	Total £'000
Cost		
At 13 December 2018	-	-
Additions	130,390	130,390
At 31 August 2019	130,390	130,390
Net book value		
At 31 August 2019	130,390	130,390
At 13 December 2018	-	-

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid, less any impairment.

In the Company, investments represent investment in Tes Midco Limited of £130.1m and management incentives in the Group of £0.3m. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

10 Investments (continued)

At 31 August 2019 the Company held the equity of the following subsidiary undertakings:

Subsidiaries

Name of undertaking and country of incorporation	Nature of business	Description of shares and proportion of nominal value of that class held
Tes Midco Limited (UK) *	Holding company	Ordinary shares of £0.10 each (100% held)
Tes Global Finance Limited (UK)	Holding company	Ordinary shares of £0.10 each (100% held)
Tes Acquisition Limited (UK)	Holding company	Ordinary shares of £0.10 each (100% held)
Tes Finance Limited (UK)	Holding company	Ordinary shares of £1 each (100% held)
TSL Education SPV 2 Limited (UK)	Holding company	Ordinary shares of £1 each (100% held)
Tes Global Limited (UK)	Advertising services	Ordinary shares of £1 each (100% held)
The Times Educational Supplement Limited (UK)	Dormant	Ordinary shares of £1 each (100% held)
The Times Higher Education Supplement Limited (UK)	Dormant	Ordinary shares of £1 each (100% held)
Educational Exhibitions Limited (UK)	Dormant	Ordinary shares of £1 each (100% held)
TSL Education Limited (UK)	Dormant	Ordinary shares of £1 each (100% held)
Tes Supply Limited (UK)	Holding company	Ordinary shares of £1 each (100% held)
Tes Bidco Limited (UK)	Holding company	Ordinary shares of £0.01 and £1.40 each (100% held)
Vision for Education Limited (UK)	Supply teachers	Ordinary shares of £1 each (100% held)
Englishteaching.co.uk Limited (UK)	Dormant	Ordinary shares of £1 each (100% held)

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

10 Investments (continued)

Name of undertaking and country of incorporation	Nature of business	Description of shares and proportion of nominal value of that class held
Electronic Blackboard Limited (UK)	Dormant	Ordinary shares of £1 each (100% held)
Tes Education Resources Limited (UK)	Information provider	Ordinary shares of £1 each (100% held)
TSL Education US Holdings Limited (UK)	Holding company	Ordinary shares of £1 each (100% held)
TSL Education US, Inc (USA)	Holding company	Common stock of US \$0.01 each (100% held)
Tangient, LLC (USA)	Software company	Membership capital (100% held)
Tes Aus Global Pty Limited (AUS)	Information provider	Ordinary shares of Aus \$1 each (100% held)
Hibernia College UK Limited (UK)	Training provider	Ordinary shares of £1 each (100% held)
Tes India Private Limited (IND) (in liquidation)	Information provider	Equity shares of Rs 10/- each (100% held)
ABC Teachers Limited (UK)	Supply teachers	Ordinary shares of £1 each (100% held)
Smart Education Limited (UK)	Supply teachers	Ordinary shares of £0.01 each (100% held)
Smart Teachers Limited (UK)	Dormant	Membership capital (100% held)
Smart Education (Australia) Pty Limited (AUS)	Recruitment agency	Ordinary shares of Aus \$1 each (100% held)
Edukey Education Limited (UK)	Software company	Ordinary shares of £1 each (75% held)
Educare Learning Limited (UK)	Software company	Ordinary shares of £1 each (100% held)
Tes Global Services Limited (UK)	Administrative services	Ordinary shares of £1 each (100% held)
Motivation Management Limited (UK)	Dormant	Ordinary shares of £1 each (100% held)
Tes Global Group Limited	Holding company	Ordinary shares of £1 each (100% held)

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

10 Investments (continued)

Name of undertaking and country of incorporation	Nature of business	Description of shares and proportion of nominal value of that class held
Tes Global Holdings Limited (UK)	Holding company	Ordinary shares of £1 each (100% held)
Tes Global Hong Kong Limited (HK)	Information provider	Ordinary shares of HK \$1 each (100% held)

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent Company do not differ from the proportion of shares held.

* denotes subsidiaries held directly by the Company.

All companies have a registered office of 26 Red Lion Square, London, WC1R 4HQ with the exception of the following:

Company	Registered office
TSL Education US, Inc (USA)	National Registered Agents Inc, 160 Greentree Drive, Suite 101, Dover, Delaware 19904, USA
Tangient, LLC (USA)	National Registered Agents Inc, 818 West Seventh Street, Suite 930, Los Angeles, CA90017, USA
TES Aus Global Pty Limited (AUS)	250 Bay Street, Brighton, Vic, 3186, Australia
Smart Education (Australia) Pty Limited (AUS)	Level 18, 530 Collins Street, Melbourne VIC 300, Business - Level 3, 127 Creek Street, Brisbane, Australia
Tes Global Hong Kong Limited (HK)	18/F Edinburgh Tower, The Landmark, 15 Queens Road, Central, Hong Kong

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

11 Trade and other receivables

	Group 2019	Company 2019
	£'000	£'000
Trade receivables	10,307	-
Less: provision for impairment	(225)	-
Trade receivables - net	10,082	-
Prepayments	2,787	-
Other receivables	712	8
Total trade and other receivables	13,581	8

The fair values of trade and other receivables is equivalent to the carrying amounts.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Group 2019	Company 2019
	£'000	£'000
UK pounds	13,031	8
US dollars	36	-
Australian dollars	514	-
	13,581	8

Movements on the Group's provision for impairment of trade receivables are as follows:

	Group 2019	Company 2019
	£'000	£'000
At start of period	-	-
Arising on acquisition	208	-
Provision for receivables impairment	17	-
Receivables written off during the period as uncollectable	-	-
At end of period	225	-

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

11 Trade and other receivables (continued)

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated income statement. Amounts charged to the allowance account are generally written off where there is no expectation of recovery of additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The ageing analysis of these trade receivables is as follows:

	2019
	£'000
Not due	6,950
Up to 3 months past due	2,457
More than 3 months past due	675
	10,082

In determining the recoverability of a trade receivable, the Group considers the ageing of each receivable and any change in circumstances of the individual customer. The Directors believe that there is no further provision required in excess of the allowance for doubtful debts.

The creation and release of a provision for impaired receivables have been included in administrative expenses in the income statement. Amounts are written off when there is no expectation of recovering cash.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which use a lifetime loss allowance for all trade receivables and contract assets. The expected loss rates are based on the payment profiles of sales and the historical credit losses experienced. The current and forward looking information on macroeconomic factors affecting the ability of customers to settle the receivables are also considered. The Group have assessed that there is no material adjustment to provisions required, to reflect the lifetime expected loss.

The maximum exposure to credit risk at the end of the period is the fair value of trade and other receivables. The Directors estimate that the carrying value of receivables is an approximation of their fair value.

12 Cash and cash equivalents

	2019
Group	£'000
Cash at bank and on hand	12,042
Cash and cash equivalents	12,042

Company

The Company had no cash and cash equivalents during the period under review.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

13 Deferred income tax liabilities

	2019
Group	£'000
Deferred tax (assets) / liabilities	
Deferred tax asset to be recovered after more than 12 months	(838)
Deferred tax asset to be recovered within 12 months	(638)
Deferred tax liability to reverse after more than 12 months	34,946
Deferred tax liability	33,470

The gross movement on the deferred income tax account is as follows:

	2019
Group	£'000
At 13 December 2018	-
Deferred tax arising on consolidation	37,896
Deferred tax an acquisition of Educare Learning Limited	361
Income statement credit (note 6)	(4,787)
At 31 August 2019	33,470

Group	Decelerated capital allowances £'000	Other temporary differences £'000	Contract liabilities £'000	Intangible assets £'000	Total £'000
At 13 December 2018	-	-	-	-	-
Arising on consolidation	(917)	(570)	1,952	37,431	37,896
Deferred tax an acquisition of Educare Learning	5	-	356	-	361
Income statement credit	37	(32)	(851)	(3,941)	(4,787)
At 31 August 2019	(875)	(602)	1,457	33,490	33,470

Deferred tax assets have been recognised only to the extent that the directors consider it probable that future taxable profit will be available against which the assets can be utilised.

Deferred tax has not been recognised on tax losses in Tes Aus Global Pty Ltd as at 31 August 2019, totalling £1,442k.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realised or the liability is settled and which have been enacted or substantively enacted by the balance sheet date.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

13 Deferred income tax liabilities (continued)

The reduction in the rate of UK corporation tax to 17% was substantively enacted as part of the Finance Bill 2017 (on 6 September 2017) to take effect from 1 April 2020. It was announced in the Budget on 11 March 2020 that there would now be an increase in the UK corporation tax rate to 19% from 1 April 2020 but this has not yet been substantially enacted. Deferred taxes at the balance sheet date have been measured at 17% being the enacted tax rate at the date of these accounts.

The Company has no unrecognised deferred tax assets or liabilities.

14 Share capital and premium

31 August 2019
Allotted, issued and fully paid

Group and Company	No of shares	Share capital £
A ordinary shares of 10p each	743,532	74,353
B ordinary shares of 10p each	6,468	647
C ordinary shares of 10p each	250,000	25,000
10.5% cumulative preference shares of £1 each	129,100,000	129,100,000
	130,100,000	129,200,000

Group and Company	No of shares	Share capital £	Share premium £	Total £
At 31 August 2019	1,000,000	100,000	900,000	1,000,000

All ordinary shares rank pari passu in respect of voting rights, dividends and other distributions.

Preference shares are classified as debt instruments and accumulate interest at a rate of 10.5% per annum on a cumulative basis. The preference shares are allotted.

A dividend of £7,873,000 was charged to the income statement in the period to finance costs.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

15 Share based payments

On 31 January 2019, Group allotted 250,000 and issued to management 192,500 C shares for £0.3m. A further 2,500 were issued on 24 April 2019 for £34,750. These shares can be sold only upon cessation of employment, at cost, or on sale of the business. These shares fall under the definition of share based payments and are reported under IFRS 2.

The fair value of the shares have been calculated using the Monte Carlo model. The inputs to the model and fair value charge are:

Share price on issue	£13.90
Price paid	£1.00
Dividend yield	0%
Forecast maturity	2024
Volatility	32.3%
Fair value of shares	2,515,500
Granted in the period	195,000
Forfeited	(16,250)
Outstanding 31 August 2019	178,750

The total share based payment cost charged to the income statement was £290,000.

16 Trade and other payables

Current

	Group 2019 £'000	Company 2019 £'000
Trade payables	712	-
Social security and other taxes	3,370	-
Other liabilities	1,953	-
Contract liabilities – deferred revenue	3,333	-
Corporation tax liability	1,687	-
Accrued expenses	19,740	7,873
Intercompany loans (note 22)	-	40
Total current trade and other payables	30,795	7,913

The fair value of trade and other payables is equivalent to the carrying amounts.

Amounts owed to Group undertakings are unsecured, repayable on demand and bear interest at a rate of 8% per annum.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

17 Borrowings

Group	2019 £'000
Non-current	
Term Loan	195,000
Preference shares	129,100
Capitalised issue costs	(5,757)
	318,343
Current	
Revolving Facility	5,000
	5,000
	323,343

Term Loan

A term loan of £195m was provided on 31 January 2019 with a termination date of 31 January 2026. Interest accrues at a rate of 5% plus LIBOR and is payable on a semi-annual basis.

Revolving facility

On 31 January 2019, the Company, together with other members of the Group, entered into the Revolving Facilities Agreement, which provides for £25m of committed financing, all of which can be drawn by way of loans, ancillary facilities or letters of credit. On 19 August 2019, £5m of this facility was drawn down and remained outstanding as at 31 August 2019. The £5m drawn is due for repayment in November 2019.

Capitalised issue costs

Costs incurred in issuing the term loan totalled £6.1m. The costs are capitalised and allocated to the income statement over the terms of the related debt facility. At period end, borrowings are stated net of unamortised issue costs of £5.8m.

The exposure of the Group's borrowings to interest payments is as follows:

	2019 £'000
6 months or less	13,115
6-12 months	13,115
1-5 years	97,086
Total	123,316

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

17 Borrowings (continued)

The fair value of the borrowings is equivalent to the carrying amounts.

	Carrying value	Fair value
	2019	2019
Group	£'000	£'000
Term Loan	195,000	195,000
Amortised loan issue fees	(5,757)	(5,757)
Preference shares	129,100	129,100
Revolving facility	5,000	5,000
Total	323,343	323,343

The Group and Company have access to a revolving credit facility of £25m. During the period ended 31 August 2019 the maximum balance outstanding on this facility was £5m.

18 Lease liabilities

	2019
Group	£'000
Non-current	
Lease liabilities	7,279
	7,279
Current	
Lease liabilities	1,834
	1,834
Total lease liabilities	9,113

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

18 Lease liabilities (continued)

	2019 £'000
Due within 1 year	1,834
Due between 1 – 5 years	5,780
Due after 5 years	1,499
	9,113

The Group has applied the principles of IFRS 16 Leases from incorporation. As a result on acquisition of the Tes Global Group on 31 January 2019, the Group acquired right of use assets of £8.9m and a corresponding lease liability of £9.6m. The lease liability is unwound in line with contractual rental payments, with an imputed interest rate of 3.5%.

19 Pension

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 period ended 31 August 2019 amounted to £0.8m. Of this amount, £nil was accrued at 31 August 2019.

20 Auditors' remuneration

During the period the Group obtained the following services from the Company's auditors:

Group	2019 £'000
Fees payable to the Company's auditors for the audit of all Group companies	437
Fees payable to the Company's auditors for other services:	
- Non-audit related assurance services	269
	706

Of the audit fees payable to the Company's auditors, £99k was for the audit of the Company's subsidiaries.

£200k of the audit fees this year related to the audit of one off items such as acquisition accounting.

Included within non-audit fees are £260k of fees related to transaction related services, all of which have been treated as non-recurring costs.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

21 Employee benefit expense

	2019
Group	£'000
Wages and salaries (net of £2.0m capitalised)	16,071
Social security costs	1,597
Other pension costs (note 19)	837
	18,505

The average monthly number of employees, including directors, during the period was as follows:

Group	2019 No.
Editorial	52
Sales and marketing	268
Technology	91
Operations	104
Administration	98
	613

The Company had no employees for the period ended 31 August 2019.

Directors' remuneration	2019
Group	£'000
Aggregate emoluments (excluding pension contributions)	452
Company contributions to defined contribution schemes	-
	452

Directors are considered the only key management individuals and therefore no separate disclosure of key management remuneration is required.

The above disclosure relates to the emoluments of R Grimshaw, P Simpson and D Leigh, who are remunerated by the Company. The emoluments of the other Directors were paid by Providence Equity LLP, a related party of the Company. As their services to the Company are of a negligible value their emoluments are deemed to be wholly attributable to their services to Providence Equity LLP. Therefore, no amounts have been recharged to the Company.

Highest paid director:	2019
	£'000
Total emoluments	236

No shares were received or receivable by the highest paid director in respect of qualifying services under a long-term incentive scheme.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

22 Related party disclosures

Group

The ultimate parent undertaking of the Group is Tes Holdings S.à.r.l., a company registered in Luxembourg. The Directors consider that the ultimate controlling party of the Group is Providence Equity Partners LLC, headquartered in the US, on behalf of the funds under its management.

Loans from group undertakings

Company	2019
	£'000
At 13 December 2018	-
Salary recharges from Tes Global Limited	(40)
At 31 August 2019 (note 13)	(40)

Amounts owed from group undertakings are unsecured, repayable on demand and bear interest at a rate of 8% per annum.

23 Cash generated from operations

Group	2019
	£'000
Loss before income tax	(39,088)
Adjustments for:	
Depreciation on plant, property and equipment (note 7)	807
Depreciation on right of use assets (note 8)	671
Amortisation charges (note 9)	10,576
Impairment of goodwill and intangibles (note 8)	23,975
Share based payments (note 15)	290
Finance income (note 5)	(22)
Finance costs (note 5)	15,342
Changes in working capital:	
Decrease in trade and other receivables	9,657
Decrease in trade and other payables	(1,665)
Cash generated from operations	20,543

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

23 Cash generated from operations (continued)

	2019
Company	£'000
Loss before income tax	(7,913)
Adjustments for:	
Finance costs – net	7,873
Changes in working capital:	
Trade and other payables	40
Cash generated from operations	-

24 Commitments

Group

There are no financial commitments which have not been provided for.

Company

At 31 August 2019, the Company had £nil financial commitments under non-cancellable operating leases.

25 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market risk

Foreign exchange risk

The Group advances intercompany loans to its operating entities denominated in Sterling. While there is no material effect on Group level, currency fluctuations might result in significant adjustments at individual statutory account level.

Exchange differences arising on the retranslation of foreign currency borrowings during the current period are recognised in other comprehensive income.

Both foreign operations and foreign intercompany loans to date are immaterial and no further market risk sensitivity analysis was performed.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

25 Financial risk management (continued)

Market risk

Interest rate risk

The Group manages its interest rate risk by regularly reviewing its existing position, refinancing or alternative financing to ensure the Group seeks to borrow at competitive rates. The Group also calculates the impact on loss in the statement of comprehensive income of a defined interest rate shift.

The Group's interest rate risk arises from the Term Loan and any utilisations of the revolving credit facility, which both attract interest at a rate of 5% plus LIBOR. As a condition of the Term Loan, the Company is required to maintain a hedge against the interest charged on the loan at all times.

Changes in interest rates affect the finance income or expense of variable interest financial instruments, financial instruments with fixed interest rates have no impact for financial instruments carried at amortised cost. The Group's main exposure to interest rate risk arises from senior secured floating rate notes.

The Group does not consider the interest rate risk for cash and cash equivalents, trade and other receivables, trade and other payables and deferred consideration material as these are considered current and present fair value and initial recognition and subsequent amortised costs and not susceptible to further rate changes.

Other market risks

Changes in the fair values of financial liabilities at fair value through profit or loss are estimated by discounting the future cash flows to net present values using rates prevailing at the period end.

The Group does not consider the other market risks material, except for the impact on the put/call options from controlling interest in EduKey.

Market risk sensitivity analysis

The following analysis is intended to illustrate the sensitivity of the Group's financial instruments at period end to changes in interest rates. The Group is using a sensitivity analysis technique that measures the estimated impact on the consolidated loss for the financial period of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening in estimates for each class of financial instruments with all other variables remaining constant.

The sensitivity analysis excludes the impact of market risks on corporate tax payable. This analysis is for illustrative purposes only, as in practice interest and foreign exchange rates rarely change in isolation.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

25 Financial risk management (continued)

The sensitivity analysis is based on all losses for the financial period sensitivities also impact equity.

	Other market risk		Interest rate	
	Reflected in loss		Reflected in loss	
	Favourable changes £'000	Unfavourable changes £'000	Favourable changes £'000	Unfavourable changes £'000
Term loan	-	-	1,950	(1,950)
Put/call options	791	(791)	-	-
At 31 August 2019	791	(791)	1,950	(1,950)

Management assessed their market risks exposure as limited with no material effect during the period ended 31 August 2019.

Credit risk

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a high credit-rating are accepted. The Group's main banking facilities are provided by Barclays bank, which has a long term credit rating of A2 from Moody's. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and clients. Refer to trade and other receivables for further detail on credit risk analysis.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the Group finance. Group finance invests surplus cash in interest bearing current financial statements, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the reporting date, the Group held cash and cash equivalents of £12.0m that are expected to readily generate cash inflows for managing liquidity risk.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

25 Financial risk management (continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months £'000	Between 6 months and 1 period £'000	Between 1 and 5 periods £'000	Over 5 periods £'000
At 31 August 2019				
Trade and other payables excluding non-financial liabilities	30,868	-	-	-
Borrowings	5,000	-	324,100	-
Put/call option	-	7,907	-	-
	35,868	7,907	324,100	-

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors its financial indebtedness on the basis of its net debt to management adjusted EBITDA ratio. This ratio is calculated as net debt divided by management adjusted EBITDA for the last twelve months ("LTM"). Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statements of financial position) with financial institutes, excluding preference shares, less cash and cash equivalents. Management adjusted EBITDA is calculated as profit or loss for the period before tax on ordinary activities, net interest payable and receivable, amortisation, depreciation, non-recurring costs, non-recurring contingent consideration, parent company costs and share of operating profit/(loss) in joint ventures and associates.

The gearing ratios at 31 August 2019 were as follows:

	2019 £'000
Term loan	195,000
Revolving credit facility drawn	5,000
Total borrowings	200,000
Less cash and cash equivalents	(12,042)
Net debt	187,958
Management adjusted LTM EBITDA	41,237
Management adjusted EBITDA ratio	4.6

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

26 Financial liabilities at fair value through the profit and loss

	2019 £'000
Liabilities as per consolidated balance sheet:	
<i>Financial liabilities at fair value through the income statement</i>	
Put/call option	
- EduKey Education Limited	7,907
	7,907
Less non-current portion	
Put/call option	
- EduKey Education Limited	-
Current portion	7,907

Put/call option

As at 31 August 2019, the Group owned 75% of the issued share capital of Edukey Education Limited. Management of Edukey have a put option to sell their remaining controlling interest to the Group. The Group has a purchased call option that accompanies the put option, on similar terms. This option is exercisable in July 2020.

Since the date of acquisition, the option to acquire the remaining 25% shareholding was revalued at the period end to £7.9m with the £3.2m increase, being charged to the Consolidated Income Statement.

The Group's financial liabilities carried at fair value are classified within Level 3 of the fair value hierarchy (fair value is based on appropriate valuation techniques using non-market observable inputs). There were no transfers between levels during the period. The Group's finance department includes a team that performs the valuations of contingent consideration and put/call options required for financial reporting purposes, including level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the CFO and the valuation team in line with the Group's quarterly reporting dates and with the AC on an annual basis.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

27 Business Combinations

Tes Global Group Limited

On 31 January 2019 the group purchased 100% of the ordinary share capital of TES Global Group Limited for consideration, net of cash acquired, of £318.0m. As a result of this the results of TES Global Group Limited and its subsidiaries are now consolidated in the group results.

The amounts recognised in respect of the identifiable assets and liabilities acquired are as set out in the table below:

	Book value	Revaluation	Fair value on acquisition
	£'000	£'000	£'000
Assets			
Intangible assets (note 9)	13,405	220,181	233,586
Property, plant and equipment (note 7)	3,463	-	3,463
Right of use assets (note 8)	8,929	-	8,929
Financial assets	24,688	-	24,688
Cash	8,597	-	8,597
	59,082	220,181	279,263
Liabilities			
Trade creditors and accruals	(25,182)	-	(25,182)
Contract liabilities – deferred revenue (note 4)	(12,236)	11,485	(751)
VAT	(3,556)	-	(3,556)
Deferred tax (note 13)	1,488	(39,383)	(37,896)
Put call option	(4,752)	-	(4,752)
Lease liabilities	(9,644)	-	(9,644)
Borrowings	(305,844)	-	(305,844)
Non-controlling interest (note 28)	(248)	-	(248)
	(359,973)	(27,898)	(387,871)
Total identifiable net assets at fair value, net of cash acquired	(300,892)	192,283	(108,609)
Goodwill			118,609
Purchase consideration			10,000

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

27 Business Combinations (continued)

Tes Global Group Limited

Satisfied by:

Purchase price	318,400
Cash acquired	7,512
Settlement of financial indebtedness	(316,590)
Working capital adjustment	<u>678</u>
Total consideration paid by parent undertaking	<u>10,000</u>

The goodwill resulting from the acquisition reflects the acquired work force and other goodwill arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

Intangible assets and goodwill on acquisition were independently valued by Duff and Phelps with reference to consideration paid, net assets acquired and subsequent to significant review and discussion with management.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

27 Business Combinations (continued)

Educare Learning Limited

On 23 August 2019 the group purchased 100% of the ordinary share capital of Educare Learning Limited for consideration of £12.1m. As a result of this Educare Learning Limited ("Educare") is now consolidated in the group results.

The provisional amounts recognised in respect of the identifiable assets and liabilities acquired are as set out in the table below:

	Book value	Revaluation	Fair value on acquisition
	£'000	£'000	£'000
Assets			
Property, plant and equipment (note 7)	41	-	41
Financial assets	791	-	791
Cash	3,359		3,359
	4,191	-	4,191
Liabilities			
Trade creditors and accruals	(640)	-	(640)
Contract liabilities – deferred revenue (note 4)	(2,287)	2,087	(200)
Deferred tax (note 13)	(5)	(356)	(361)
	(2,932)	1,731	(1,201)
Total identifiable net assets at fair value, net of cash acquired	1,259	1,731	2,990
Goodwill			9,146
Purchase consideration			12,136
Satisfied by:			
Cash			12,136
Total consideration			12,136

Based on management's provisional fair value exercise, the goodwill, the goodwill resulting from the acquisition reflects the acquired work force as well as expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

Educare contributed £80,000 of revenue and £9,000 of management adjusted EBITDA to the Group in the 8 days of trading, post-acquisition.

For the 11 month period of accounts ended 31 August 2019, total revenues for Educare were £3.0m and management adjusted EBITDA of £0.5m.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

28 Non-controlling interest

Non-controlling interests represent the share of net assets of Edukey Education Limited, of which 25% is held outside the Group. The movement in the period comprises the profit attributable to the entity:

	2019
Group	£'000
At 13 December 2018	-
Non-controlling interest arising on acquisition	248
Non-controlling interest's share of the profit for the period	206
At 31 August 2019	454

29 Events after the reporting period

On 3 December 2019, Tes Global Limited acquired 54.3% of the share capital of Edval Education Pty Limited and 100% of the issue share capital of Neomatrix Limited, for a total consideration of \$16.9m (AUD).

On 3 December 2019, Tes Global Limited acquired 100% of the issued share capital of Tutor In Limited for a consideration of £1.7m.

In March 2020, the Group had drawn its full £25m revolving credit facility in order to further strengthen the capital structure. The revolving credit facility is due for repayment by June 2020, but can be extended as required.

The outbreak of the coronavirus COVID-19 is having a direct impact on the customer and supply chain. Whilst we have seen a reduction in transactional advertising and Supply revenue consistent with the reduced curriculum provision, our subscription renewals continue to perform well and activity levels in the Train and Empower areas have been high as schools adapt to new working practices. Considering that the spread of the virus accelerated during the first quarter of 2020, this event was classified as a non-adjusting event for accounting purposes. Given the uncertainties on the scope and length as well as the ongoing developments, the Group cannot give any accurate or reliable estimation on potential quantitative impacts currently. This may result in an overall a challenged and volatile market environment. The assessment on the ability of the group to operate as going concern is disclosed under Note 1.

After the reporting date on 31 August 2019, there were no other events of special significance which may have a material effect on the financial position and performance of the Group.

30 Subsidiary companies audit exemptions

The Group has provided Educare Learning Limited with a parental guarantee in accordance with section 479C of the Companies Act. As such, advantage has been taken by the audit exemption available for Educare Learning Limited, conferred by section 479A of the Companies Act, relating to the audit of individual financial statements.

The directors acknowledge their responsibilities for:

- Ensuring the Company keeps adequate accounting records which comply with section 386 of the Companies Act 2006; and
- Preparing financial statements which give a true and fair view of the state of the affairs of the Company at 31 August 2019 and of its profit or loss for the year then ended in accordance with the requirements of section 394 of the Companies Act 2006, and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements so far as applicable to the Company.

Tes Topco Limited

Notes to the financial statements for the period ended 31 August 2019 (continued)

31 Ultimate Parent Company and Ultimate Controlling Party

The directors consider that the ultimate controlling party of the Company is Providence Equity Partners LLC, headquartered in the US, on behalf of the funds under its management. The immediate parent undertaking is TES Holdings S.a.r.L, a company registered in Luxembourg.

The smallest and largest consolidated financial statements produced for the Group are for TES Topco Limited, which are these financial statements.