Learning Technologies Group plc

ANNUAL REPORT 2017

For the year ended 31 December 2017

ltg learning technologies group

Leading the learning revolution at work

Our aim is to be the global leader in technology-driven workplace learning – a high-growth, fragmented market.

To achieve this, we will continue our strong organic growth and augment it with further acquisitions.

What we do

Learning Technologies Group plc (LTG) is a disruptor in the high-growth e-learning market.

We provide leading, end-to-end workplace digital learning solutions.

We also create, implement and maintain integrated e-learning strategies for our global clients.

As we enter the digital age, corporate and public sector clients demand data-driven solutions from providers with scale and experience of complex projects on tight timelines. We believe LTG is the only player to provide such a broad range of capabilities.

A significant proportion of our business is focused on attractive, regulated sectors such as financial services, defence and pharmaceuticals.

We have a track record of expanding our capabilities through targeted investment in research and development and strategic acquisitions.

Listed on AIM, LTG is headquartered in London with offices in Europe, the United States, Asia-Pacific and Latin America.

ltg learning technologies group

Content & Services

LEO: A learning technologies firm focused on working with international organisations to help them transform their approach to learning.

Eukleia: A Governance, Risk and Compliance (GRC) training consultancy, specialising in the financial services sector.

PRELOADED: A BAFTA award-winning applied games studio, designing games to use the power of gaming to engage, educate and communicate in the areas of learning, health, engagement and training.

Platforms

NetDimensions: A global provider of on-premise and SaaS-based learning, knowledge and performance management solutions with a particular focus on highly regulated industries.

gomo learning: A SaaS-based authoring tool that offers clients a flexible and cost-effective solution for creating, hosting, updating and tracking their own multi-device learning content.

Rustici Software: An expert in e-learning standards, providing the technology that drives and connects learning software.

Watershed: LTG owns a 27% equity stake in Watershed, a developer of the next generation learning analytics platform, creating and utilising 'big data' to develop pioneering learning content and systems.

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CHAIRMAN'S STATEMENT

Learning Technologies Group plc ("LTG"), a market-leader in the fast-growing workplace e-learning market, has made excellent progress during 2017. The Group offers end-to-end learning solutions ranging from strategic consultancy, through a range of content and platform solutions, to analytical insights that enable corporate and government clients to meet their performance objectives.

In addition to the acquisition in March 2017 and strong subsequent performance of NetDimensions Holdings Limited ('NetDimensions'), LTG's other businesses delivered robust results with strong organic revenue growth and improved adjusted EBIT margins.

As a result, revenues increased by 84% to £52.1 million (2016: £28.3 million), adjusted EBIT by 102% to £14.0 million (2016: £7.0 million) and adjusted diluted EPS by 74% to 2.064 pence (2016: 1.184 pence). Adjusted EBIT margins have improved from 24.6% in 2016 to 27.0% in 2017 and we expect sustainable adjusted EBIT margins in the mid-to-high twenties in future periods. Statutory profit before tax for the year was £0.7 million compared with a loss before tax of £1.2 million for 2016, after accounting for acquisition-related deferred consideration as deemed remuneration.

The acquisition of NetDimensions, successful development of new learning technology solutions, and expansion into new geographical markets has seen the Group increase its recurring revenues from software licences and support contracts to 39% (2016: 27%). Recurring revenues relate to contracts that are ordinarily renewed on a regular basis (e.g. annual or multi-year software licences and support contracts). Over the same period revenues generated outside of the UK have risen from 36% in 2016 to 46% in 2017.

Market opportunity

In an increasingly fast-moving global service-based economy, organisations are becoming more aware of the significant impact that incremental improvements in staff performance can have on their businesses, particularly in efficiency, customer service and profitability.

The global corporate training market is estimated to be worth $200-$300 billion and includes many product and service offerings, ranging from traditional formats such as classroom training through various types of learning content and delivery platforms. LTG is focused on the digital learning segment of this market, which is estimated to be worth $90-$110 billion in 2017 and growing at not less than 10% per annum. Organisations are now looking to more precisely measure which learning interventions are most effective, using adaptive models which draw data from multiple sources to establish returns on e-learning investment, by identifying and increasing the opportunities and 'touchpoints' at which they can understand, intervene and improve the performance of their employees and other stakeholders in their 'extended enterprises', such as suppliers, partners and customers. Learners are also becoming more demanding in requiring immediate support contextualised to their precise requirements at any time, in any location and on any device.

The e-learning industry is highly fragmented, comprising a multitude of small operators with each offering a limited range of services. There are few providers that are able to offer clients truly comprehensive services, which meet their evolving requirements for data-driven solutions, and have the scale and in-depth experience to service large corporations and government organisations. We believe LTG is the only player to provide such a broad service offering.

The market opportunity for LTG is to build the leading end-to-end workplace digital learning solutions provider, which partners its global clients through the creation, implementation and maintenance of their integrated e-learning strategies.

Strategic progress

On 20 March 2017, LTG declared its all-cash offer for NetDimensions, the integrated enterprise learning management software platform provider, unconditional in all respects. NetDimensions is a leading global enterprise solutions provider, headquartered in Hong Kong, with operations in the US, Europe and APAC. The business is a strategic fit with LTG and is complementary to its other companies, which allows LTG to offer a full suite of services to its customers. The company has approximately 70% recurring revenues through its SaaS and on-premise licence solutions, reseller programs and support services, and has a particular focus on highly regulated industries where compliance and operational requirements are especially complex.

At the time of the offer, LTG set out an ambitious integration plan to realise substantial synergies and improve working practices to increase efficiencies, and the Board is pleased to report that the integration of NetDimensions into the Group was successfully completed on time, on budget and realised synergies ahead of expectations.

When LTG came to AIM in November 2013, the Board set the ambitious target of achieving run-rate revenues of £50 million and EBITDA margins of 20% by the end of 2018. I am delighted that the Board was able to announce that it had achieved these objectives more than one year ahead of plan. In October the Board announced LTG's new strategic objectives: to double run-rate revenues to £100 million and for run-rate adjusted EBIT to exceed £25 million by the end of 2020. The Board will seek to meet these objectives through a combination of strong organic growth as well as strategic acquisitions that complement the current business. It is the intention of the Board to finance any acquisitions and research and development through the use of internally generated operating cash flows and prudent debt financing, and to minimise dilution for shareholders, notwithstanding that the Company may use its equity to accelerate growth ahead of these 2020 goals.

People

The Group has enjoyed another transformational year with the Group delivering strong organic revenue growth and improved margins, whilst at the same time delivering great customer service and truly leading the learning revolution in the workplace. This could not have been achieved without the skill, passion and dedication of all our staff across the globe. On behalf of the Board, I would like to thank them for their efforts during the year.

Dividend and Annual General Meeting

In light of the results for 2017 and to demonstrate our confidence in the prospects for the Group in 2018, the Board is recommending an increased final dividend of 0.21 pence per share (2016: 0.14 pence per share), giving a total dividend for the year of 0.30 pence per share (2016: 0.21 pence per share), representing a 42.9% annual increase. This final dividend is subject to shareholder approval at the forthcoming Annual General Meeting to be held on 24 May 2018.

If approved, the final dividend will be paid on 6 July 2018 to all shareholders on the register at 8 June 2018.

Current trading and outlook

The Group has enjoyed a strong start to 2018 and is trading ahead of management's expectations. We expect the current financial year to benefit from our record order book, increased sales resulting from our compelling blended learning capability and continuing strong margins. LTG has substantially diversified its geographical reach and recurring revenue base in the past year and has developed a broad client portfolio, across both corporate and government sectors. Management is also actively pursuing acquisition opportunities in line with its strategic objectives.

The Board is therefore confident in the Group's prospects and expects to report enhanced progress during 2018.

Andrew Brode
Chairman
16 March 2018

CASE STUDIES - CONTENT & SERVICES

Anglo American

Cutting-edge Learning & Development

The challenge:

Health and safety is critically important in the mining industry, where lives are literally on the line. LEO's consultative approach saw Anglo American choose a strategically-designed blended learning solution comprising several learning formats. This included a broadcast-length interactive drama video, which probed safety issues, while increasing empathy. The goal was to help achieve an ambitious target of 'zero harm' among 87,000 staff worldwide.

The solution:

- Flew a small crew from the UK to South Africa to film at a real working mine – something almost unheard of in Learning & Development.
- Portrayed, through video, the fictional story of an investigation into a mine fatality, which followed the site manager's moving journey of reflection.

The result:

- Explored all of the influencing factors that contributed to on-site incidents and has become a core element of Anglo American's incident investigation training programme.
- Has now also become a key part of Anglo American's leadership programme looking at the role of leaders in helping to create a safety culture.
- Video has been shared with both the South Africa Chamber of Mines and the International Council of Mining & Minerals, receiving very positive feedback from members.

A leading investment bank

Guiding global teams through regulatory upheaval

The challenge:

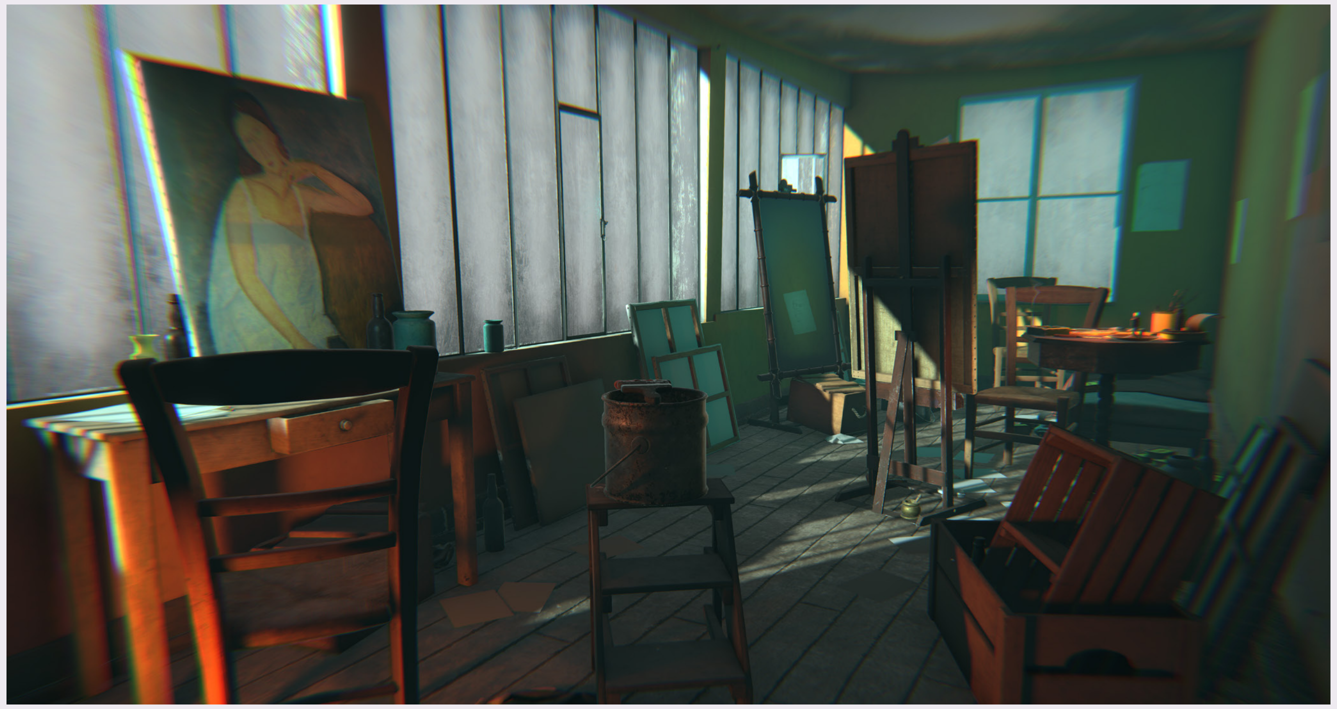
The organisation needed to bring over 100,000 employees in 70 countries up to speed with MiFID II (Markets in Financial Instruments Directive), a major new set of legislation for EU financial markets. Their entire global workforce needed to be trained to a strict deadline ahead of the regulation coming into force.

The solution:

- Eukleia's effective strategy and innovative in-house technology delivered to challenging timelines, without compromising quality.
- Eukleia's learning consultants designed a bespoke 'stranded' course, targeting content to each business area.
- Content was successfully translated into seven languages.
- The client has commissioned a variety of new courses with Eukleia for 2018.

Tate

A meticulous VR reimagining of Amedeo Modigliani's last Parisian studio

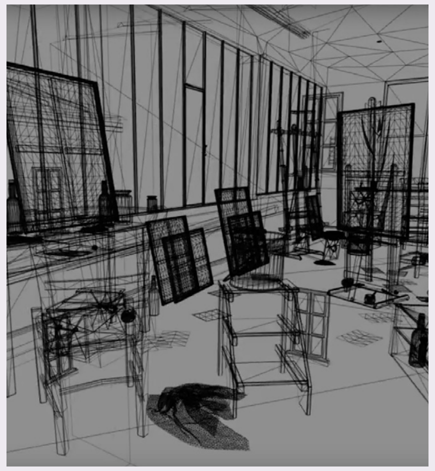


The challenge:

To create a museum first by integrating an HTC VIVE VR experience into the Modigliani exhibition at Tate Modern. This allows audiences to learn more about the artist by digitally recreating the room where he lived and worked in the final months of his life.

The solution:

- Modigliani's studio was reimagined in VR to provide a unique insight into where he painted his final works, including his final self portrait.
- 60+ objects and artworks were authentically recreated using extensive art historical research, and the art itself for reference.
- The project launched in November 2017 to acclaim from visitors and press, all pointing to an enhanced feeling of empathy and an appropriate use of technology.



"A stunning virtual reality recreation of Modigliani's last studio" - The Times

CASE STUDIES - PLATFORMS

Rentokil Initial

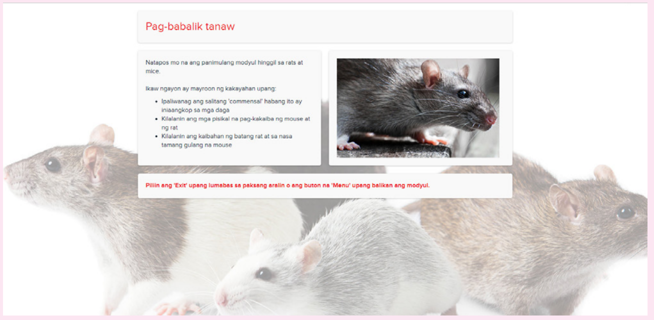
Engaging digital training for 30,000 employees worldwide

The challenge:

- Rentokil needed to create engaging digital training content for 30,000 employees worldwide, with different language requirements.
- Rentokil needed an authoring tool powerful enough to help them train over 1,800 local service teams in 70 countries.
- Content needed to be mobile-friendly for a workforce that's always on the go.

The solution:

- Created over 55 hours of online training courses globally using gomo.
- Trained customers, added value to contracts and upskilled staff in 22 languages through gomo's translation capabilities, including non-Roman languages and languages which are not written from left-to-right.
- Transformed courses, including compliance and product knowledge, into fully responsive learning available on multiple device types (desktop, laptop, tablet or smartphone).



The result:

- Reached more learners quickly – global induction course taken by almost 12,000 colleagues in two months.

Moody's Analytics

Supporting business expansion through a modern learning management system

The challenge:

NetDimensions has been supplying course management, hosting and distribution solutions to Moody's Analytics since 2016. The company implemented NetDimensions Talent Suite to meet its strategic goals of growth into new markets (supported by NetDimensions' multi-language capabilities). In 2018, Moody's Analytics sought to further expand their use of the e-learning platform in order to meet growth targets.

The solution:

- Following successful implementation in EMEA, Moody's Analytics extended its partnership with NetDimensions for an additional 36 months to support business expansion globally.
- Consolidated three legacy platforms into a new, unified NetDimensions instance with modern interface.
- Achieved the migration in excellent time with positive feedback.

GamEffective

One platform for all training needs

The challenge:

- GamEffective, a gamified microlearning platform and Gartner Cool Vendor in Human Capital Management, wanted to expand their market by supporting a wider variety of content types.

The solution:

- After integrating Rustici's SCORM Engine, GamEffective was able to save on high development costs and add e-learning standards support in just three weeks.

The result:

- Clients can now use just one platform for all of their training needs, whether proprietary GamEffective content or e-learning standards-based courses (including SCORM, xAPI and AICC).
- By saving time and resources, GamEffective's developers were able to get to market faster and focus development efforts on their core product and growth.

A global wholesale distributor

Making learning a measurable business metric through advanced analytics and data mapping

The challenge:

After investing in new ERP technology, the company had a wealth of data on their specific business challenges. They tasked their Learning & Development team with mapping learning competencies against critical business KPIs. Watershed, of which LTG owns a 27% equity stake, was chosen to provide a solution that would meet the company's ambitious learning measurement goals.

The solution:

- Watershed worked collaboratively with the client to define data collection strategies and metrics to track.
- Successfully delivered a dashboard with innovative features and functionality that provided graphical representations of data.
- Key learning competencies, such as financial acumen and inventory, are now linked to specific KPIs and are visible via a single dashboard.

The result:

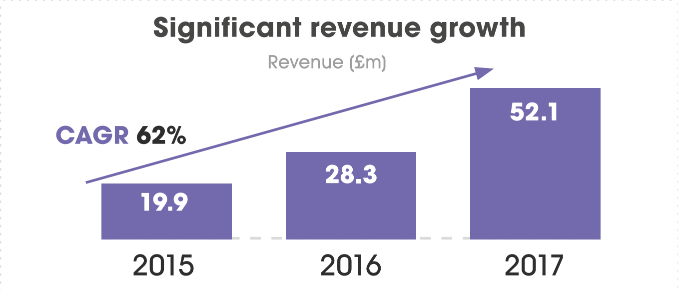
- Insights derived from Watershed dashboards helped managers increase financial acumen scores by nearly 13%.
- Better cost control and asset management contributed to a decade-high operating margin of 6.7%.

STRATEGIC REPORT

For the year ended 31 December 2017

Financial results

In the year ended 31 December 2017, the Group generated revenue of £52.1 million (2016: £28.3 million), delivering an 84% year-on-year increase. Excluding the acquisition of NetDimensions and adjusting revenues as if all businesses that were part of the Group in 2016 reported on a full year basis, organic revenue growth in 2017 was 36%. On a constant currency basis, organic revenue growth was 35% and after excluding the impact of the Civil Service Learning ('CSL') project organic revenue growth was 20%.



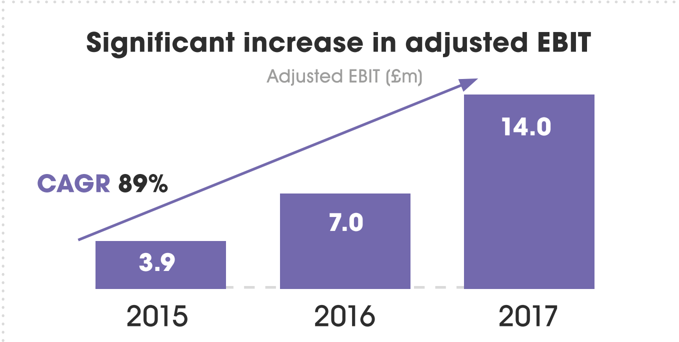
Adjusted EBIT increased by 102% to £14.0 million (2016: £7.0 million). The Group measures adjusted EBIT to provide a better understanding of the underlying operating business performance. Adjusted EBIT is defined as the Group profit or loss before tax, excluding share-based payment charges, acquisition-related deferred consideration and earn-outs, finance expenses, the Group's share of profits or losses in associates and joint ventures and other specific items. Integration, amortisation of acquired intangibles, acquisition-related deferred consideration and earn-outs are primarily driven by acquisition activity rather than by the underlying performance of the business – therefore they are excluded from adjusted EBIT to provide a more accurate reflection of the business performance. The share-based payment charge is calculated based on a set of circumstances that existed at the point of issue of the share option. The expense is therefore not seen as a reliable indicator of the underlying performance of the business and is excluded from adjusted EBIT. On a constant currency basis there would only have been a trivial impact on adjusted EBIT in 2017.

The implementation of operational best practice across the Group, increased economies of scale and a change in the revenue mix of the Group towards higher margin recurring licence sales, contributed towards a significant improvement in adjusted EBIT margins in the year to 27.0% (2016: 24.6%). These improved margins were achieved despite the post-acquisition loss incurred by NetDimensions in the second quarter, prior to the benefits of the integration programme being realised during the second half of the year.

On a like-for-like basis, as if the businesses that LTG owned at the end of 2017 had been owned at the end of 2016, the order book is substantially ahead of the prior year, bolstered by the increased proportion of multi-year licence sales and strong sales performance in Q4 2017. The order book is defined as the value of contracts won but not yet delivered.

The amortisation charge for acquisition-related intangible assets was £7.8 million (2016: £3.2 million) and is discussed further in Note 12. The amortisation charge for internally generated development costs was £0.6 million (2016: £0.4 million) and relates to the development of the NetDimensions Talent Platform; 'gomo', the Group's award-winning multi-device authoring tool; various software tools used within the Eukleia business, including an internally generated library of governance, risk and compliance ('GRC') materials used to service clients; and internally developed software in Rustici including SCORM and xAPI tools. The share-based payment charge increased marginally from £0.6 million in 2016 to £0.7 million in 2017. Further details are provided in Note 24.

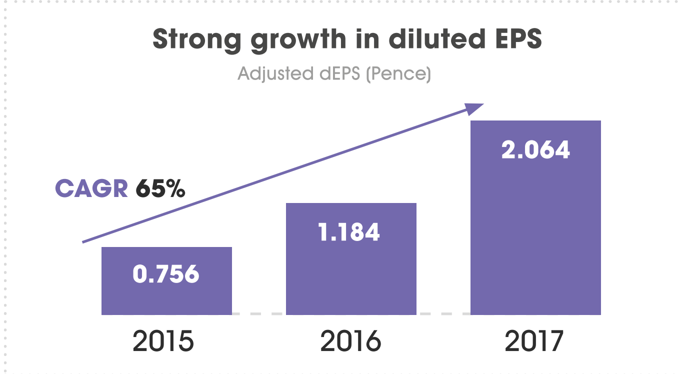
Integration costs of £1.2 million (2016: £0.1 million) relate to various restructuring charges, including redundancy costs, an onerous lease charge and senior management travel during the integration of NetDimensions. The Group successfully completed this ambitious programme between April and July, as a result of which annualised cost synergies of more than £5.7 million have been realised.



Statutory profit before tax was £0.7 million, compared with a loss before tax of £1.2 million, and unadjusted operating profit was £2.6 million, compared to an unadjusted operating loss of £0.1 million in 2016. These are stated after acquisition-related deferred consideration and earn-out charges of £1.9 million (2016: £3.2 million) relating to the acquisition of Rustici and reflect the strong incremental revenue growth of the business post-acquisition. Costs of acquisitions in 2017 were £0.9 million (2016: £0.1 million) and a net credit related to contingent consideration on the acquisition of Preloaded, was £11,000 (2016: charge of £57,000). Interest charges on the debt facility were £0.6 million (2016: £0.4 million) and net foreign exchange losses were £0.2 million (2016: £0.3 million). Adjusted profit before tax (see Note 9) increased by 109% to £13.4 million in 2017 (2016: £6.4 million).

The income tax credit of £1.2 million in 2017 (2016: charge of £133,000) is stated after adjusting for the effect of the release of deferred tax on the amortisation of acquired intangibles and a deferred tax asset related to the anticipated vesting of share options. Further details are provided in Note 8.

Based on the average number of shares in issue, weighted average number of shares outstanding and adjusted operating profit during the year, adjusted diluted EPS increased by 74.3% to 2.064 pence (2016: 1.184 pence). On a statutory basis, basic earnings per share ('EPS') increased from a loss of 0.317 pence in 2016 to a profit of 0.379 pence in 2017. Further details are provided in Note 9.



The Group has a strong balance sheet, with shareholders' equity at 31 December 2017 of £76.8 million, equivalent to 13.4 pence per share (2016: shareholders' equity of £30.7 million, equivalent to 7.3 pence per share).

At the time of the acquisition of NetDimensions, LTG entered into a new debt facility with Silicon Valley Bank ('SVB') for £30 million. The facility comprises a £10.0 million term loan repayable in quarterly instalments of £0.5 million, a £10.0 million revolving credit facility, and a £10.0 million accordion facility all available for five years. The new SVB debt facility replaced LTG's previous $20 million debt facility with Barclays Bank PLC. The term loan and majority of the revolving credit facility were drawn down in USD. The facility is subject to various financial covenants and interest is charged at between 160 and 210 basis points above LIBOR, based on the covenant results. See Note 21 for further details.

Net USD cash receipts to the business have operated as a partial internal hedge against movements in the exchange rates between Sterling and the USD. Management regularly review the foreign exchange exposure of the Group. Further details are provided in Note 29.

The gross cash position at 31 December 2017 was £15.7 million (2016: £5.3 million). The Group's net cash at 31 December 2017 was £1.0 million (2016: net debt of £8.5 million). Net cash is defined by gross cash less borrowings.

Net cash generated from operating activities was £10.8 million (2016: £2.0 million), equivalent to an adjusted operating cash flow conversion rate of 95% (2016: 100%). Adjusted operating cash flow conversion is defined by net operating cashflows after adjusting for acquisition-related deferred consideration and earn-out payments, transaction costs, interest and tax paid and the movement of deferred upfront investment outflows relating to the CSL project as a proportion of adjusted EBIT. Operating cash flows in 2017 include receipts from the CSL project whereas the upfront investment outflows were paid in 2016. Debtor days were 57 days (2016: 54 days), and combined debtor and WIP days were 22 days (2016: 29 days), reflecting the Group's implementation of accelerated invoicing and effective credit control.

Corporation tax payments were £0.7 million (2016: £0.6 million). Cash outflows from investing activities were £47.5 million (2016: £15.7 million) and comprised the acquisition of NetDimensions for £53.6 million (£45.7 million net of cash acquired) and investment in internally generated IP and property, plant and equipment. Cash inflows from financing activities were £47.6 million (2016: £11.6 million) and include net proceeds from a share placing (£45.4 million) and net debt finance raised of £1.8 million pertaining to the NetDimensions acquisition, proceeds from the exercise of employee share options (£1.7 million) and dividend payments which increased to £1.3 million from £0.7 million in 2016.

Acquisition of NetDimensions

On 20 March 2017, LTG declared its all-cash offer for NetDimensions, the integrated enterprise learning management software platform provider, unconditional in all respects. Of the total consideration of £53.6 million for NetDimensions, as at 31 December 2017, £53.5 million had been paid to shareholders in NetDimensions who had accepted the offer, with the balance held in trust by NetDimensions Holdings Limited. With effect from July 2017, the non-controlling shareholders' interests in NetDimensions have been acquired by LTG. There are no deferred consideration obligations.

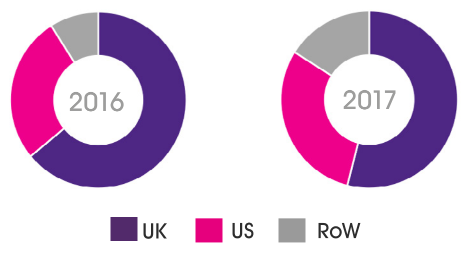
The offer was financed by way of a placing of 124 million LTG shares issued at 37.5 pence per share and a new debt finance facility, details of which are set out in Note 21. Transaction costs charged to the income statement totalled £0.9 million. Goodwill on acquisition has been calculated at £21.9 million with acquisition-related intangibles of £34.3 million represented mainly by customer relationships and the acquired IP. NetDimensions delivered revenue of £12.9 million and £3.5 million profit before tax to the Group for the following nine months. Further details are provided in Note 11.

STRATEGIC REPORT (CONTINUED)

For the year ended 31 December 2017

LTG undertook an ambitious integration programme during the second quarter of the year, resulting in substantial and sustainable cost savings. Amongst the measures taken, NetDimensions Interactive, the company's US-based e-learning content operation, was merged with LEO Learning Inc., NetDimensions' customer support teams have been relocated to the geographical territories that they serve, hosting services have been migrated to a more flexible environment managed out of our Nashville office, and we are investing in our core technology team to continue to be at the forefront of innovation in the learning technology sector. We appointed a new Global Head of Sales in April who has been instrumental in achieving retention rates of almost 100% since acquisition, as well as an impressive new contract win rate. LTG is also investing in the development of the NetDimensions' reseller network, as well as leveraging Group central services such as marketing, HR and IT support.

Increasing international footprint:
revenue split by geography



Our strategy

LTG's aim is to create a group of market-leading businesses providing complementary services in the fast-growing learning technologies sector to form an international business of a size and scale that is able to meet the demanding expectations of corporate and government customers. This strategy is being delivered through a mixture of 'best in class' acquisitions that will help us create a comprehensive e-learning solution for our customers, strategic partnerships to deliver 'blended' learning solutions combining digital and more traditional forms of learning, as well as through targeted investment in internally generated intellectual property and the extension of best working practices to deliver strong organic growth.

We continue to pursue our strategy of helping organisations adopt learning at a strategic level. 'Moving learning to the heart of business strategy' is achieved through our end-to-end service offering, which enables us to partner with global clients throughout the creation, implementation and maintenance of their learning strategies. We deliver transformational results through learning innovation and the effective use of learning.

Each of our Group businesses brings a range of capabilities or sector specialisms that allow us to build on this strategic vision. The Group's offering comprises two principal divisions: Content & Services and Platforms.

Content & Services

The Content & Services division comprises strategic consulting, content creation, and platform development services. In 2017 it accounted for £30.5 million, or 59% of Group revenues (2016: £19.4 million / 69%).

LEO Learning ('LEO') is the Group's strategic consultancy that works with clients to understand their requirements, build strategic roadmaps and then help them implement the delivery. Born out of the merger of Epic and LINE Communications in 2014, LEO now has offices in London, Brighton and Sheffield in the UK, New York and Bloomington, Indiana, in the US, and through its Brazilian joint venture, in Rio de Janeiro and São Paulo.

Over the years LEO has developed sector expertise, particularly in areas such as automotive, retail and luxury brands. Through its Eukleia business LTG has also acquired a specialist expertise in governance, risk and compliance services, particularly in the financial services sector, which are delivered from its offices in London and New York.

Our expert learning practitioners work with clients to realise their strategic objectives, generate unique and compelling content, develop and support tailored delivery platforms and implement analytic tools that enable clients to quantify the impact of learning on their businesses and further refine and develop their strategic plans.

Learning content can take a number of forms, such as face-to-face training and traditional mediums, but is increasingly delivered through mediums such as PCs, tablets and mobile phones. Content is becoming more interactive and can include videos and animation, branching scenarios, games, and virtual and augmented reality as part of the 'blended offering'.

Preloaded, the Group's BAFTA award-winning agency, is at the forefront of the 'gamification' of learning content, or more particularly, 'play with purpose'. In 2017 the company received accolades for its virtual reality learning experiences at the Science Museum and the Modigliani exhibition currently running at Tate Modern. In early 2018 it partnered with the BBC and Google to produce the 'BBC Earth: Life in VR' experience to coincide with the launch of Google's DayDream View headset.

OUR STRATEGIC AMBITION: LEADING THE LEARNING REVOLUTION AT WORK

Our strategy is to provide a market-leading, seamless digital learning solution to meet the demanding expectations of large corporate and government customers.

Our aim is to build LTG as an international leader in e-learning solutions. We intend to expand our offering organically, through strategic partnerships and via acquisitions.

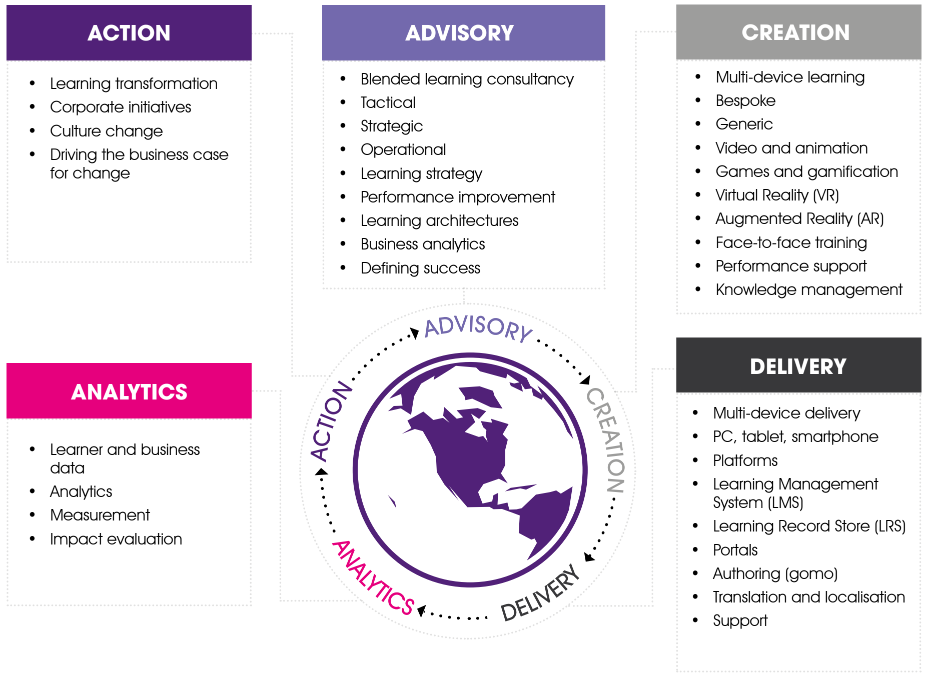
A focus on research and development will enable innovation through creative design and the latest technologies, as LTG continues to place digital at the heart of comprehensive blended learning.

A strong partner network enables the business to deliver expertise beyond internal capability, placing the customer at the forefront of every solution.

LTG's acquisition strategy places emphasis on broadening geographical reach (particularly in the United States), with a particular focus on developing presence in highly regulated sectors (e.g. pharmaceutical, energy and aviation).

We continue to develop, evolve and innovate our portfolio of brands in a highly fragmented, fast-growing e-learning sector to ensure that LTG remains differentiated from its competitors.

LTG's comprehensive service offering



LTG's global network

UK
London
Brighton
Sheffield

USA
Atlanta, GA
Bloomington, IN
Nashville, TN
New York, NY

Brazil
Rio de Janeiro
São Paulo

Germany
Frankfurt

Hong Kong
Wan Chai

STRATEGIC REPORT (CONTINUED)

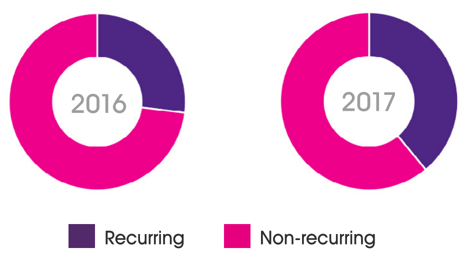
For the year ended 31 December 2017

During 2016 LEO, in partnership with KPMG LLP, completed the roll-out of a new core-curriculum to the entire UK Civil Service ('CSL'). This involved the development of 15 core-curriculum areas, ranging from leadership and management to EU practices, and including 'blended' course design encompassing face-to-face training and e-learning content. The content was designed, built and launched in less than a year as part of a three-year contract to deliver learning to over 400,000 civil servants. LTG benefited from substantial revenues in 2017, as the courses were launched and adopted faster than management's expectations. As a result of the revenue sharing structure of the partnership, and the accelerated revenue generation during the year, the Board anticipates that revenues will continue for the first half of 2018 and then drop significantly in the second half of 2018 and 2019, the last year of the current contract.

As part of the Group's services offering LEO is one of the world's leading Moodle platform developers. Moodle is an open-source Learning Management System ('LMS') platform used by organisations throughout the world and LEO helps clients build new Moodle systems and provides ongoing support and service desk assistance to clients around the world, with particular success in the US.

The majority of Content & Services projects are delivered on a non-recurring, fixed-price basis. Through its well-tried systems and processes LTG constantly monitors the delivery of projects to ensure that they are delivered on time, to budget, and that they meet or exceed clients' expectations. As a result, the Group achieves consistent gross margins and sees a high level of repeat business.

Increasing recurring revenues



Platforms

The Platforms division comprises on-premise and SaaS licences, as well as hosting, support and maintenance services for those software licences. In 2017 it accounted for £21.6 million or 41% of Group revenues, up from £8.9 million (31%) in 2016 aided by strong organic growth and the acquisition of NetDimensions. The Platforms division contributes a substantial portion of the Group's recurring revenues.

Compelling e-learning content needs a platform through which it can be delivered to learners and LTG is building a comprehensive range of delivery solutions. Learning and talent management platforms can perform a variety of functions that enable companies and governments to direct or empower learners to understand their learning requirements, tailored to the employees and their employers' requirements, and then manage them along their 'learning journey', from recruitment and onboarding through continuous performance improvement during their career. Learners can record their learning history through a Learning Record Store ('LRS').

The acquisition of NetDimensions in March 2017 brought to the Group a leading global proprietary Learning Management System ('LMS') to complement LEO's Moodle service offering, enabling LTG to offer clients a full suite of delivery options. The NetDimensions platform allows clients to deliver learning to their own employees and extended enterprise, and is particularly suitable to high-consequence industries, such as the pharmaceutical and automotive industries.

Post-acquisition, NetDimensions showed considerable success in renewing contracts, and the Board were particularly pleased with the level of conquest sales. The Group is intent on investing in the platform and has set out a comprehensive development roadmap. Key successes in 2017 were the integration of the gomo and Watershed applications into the NetDimensions system offering.

LTG has developed its own cloud-based multi-device authoring tool, gomo, which enables clients to create their own e-learning content and to collaborate and publish rich and compelling learning content to a variety of platforms (including PCs, tablets and smartphones) in real-time. Gomo has won a series of significant contracts during 2017 and, through its SaaS-based annual licences is achieving retention rates in excess of 90%, and grew sales by 67% during the year.

In order for LMSs to communicate with a multitude of content from various service providers, the e-learning industry uses an interoperability standard. This global standard is referred to as SCORM, and this protocol has underpinned the delivery of digital learning content for nearly two decades. Rustici, the acknowledged global leader in SCORM-related solutions, has developed a series of software products that allow LMS providers to manage SCORM effectively. Rustici has consistently exceeded expectations since acquisition.

We believe that the next major disruption in the learning profession will be the ability to measure and analyse the effectiveness of learning interventions. By enabling management to understand quantitatively and objectively whether a particular learning intervention has had an impact on performance, businesses and governments will be able to target resources effectively.

LTG owns a 27.3% stake in Watershed, a start-up SaaS business that focuses on developing learning analytics that provide actionable insights to customers who want to adapt their learning strategy, creating more effective learning experiences and ultimately generating verifiable business results. Watershed has made good progress during 2017 in developing its suite of analytical tools and working alongside blue-chip clients, delivering compelling insights for a number of customers. We are encouraged that, although at an early stage, revenues are growing strongly, with an increasing retention rate.

Group Services

The Board believes that, by building a comprehensive offering of scale, and with a worldwide footprint, it can better deliver the services and solutions that companies and governments demand and require. LTG has the scale to deliver large complex projects across numerous geographies, to thousands of learners in a myriad of languages and through many delivery platforms.

Although at an early stage, the Group is beginning to see clients adopt an increasing range of the services and solutions that LTG offers, and, through its account management approach, LTG consultants are deepening and broadening their support of clients from HR and product support departments through compliance and C-Suite initiatives to drive performance improvement in the workplace.

The Content & Services and Platforms divisions of the Group are supported by 'LTG Central Services', which comprises HR, IT, Finance, Legal, Facilities, Bid, Marketing and Hosting services. Each department has a centre of excellence, supported by additional regional resources where appropriate. The provision of LTG Central Services liberates the MDs of the Group's businesses to pursue their sales and delivery strategies without needing to manage the support functions of their operations, and the economies of scale and expertise in the centralised functions ensures the consistent application of best practice, and helps delivers cost efficiencies.

Adoption of IFRS 15

A new accounting standard, IFRS 15, will be adopted by LTG with effect from 1 January 2018. Next year the Group will therefore report its 2018 results under the new accounting standard. After a detailed review of the Group's contracts, management is proposing to make a limited number of adjustments, as detailed in Note 2. The net effect of these adjustments is expected to reduce reported revenue and EBIT in 2017 by £0.7 million to £51.4 million and £13.4 million, respectively, as revenues that were previously recognised at the commencement of licence periods are now recognised over the licence term of typically one to three years. The underlying performance of the business, including project delivery and cash generation, is unaffected by these accounting adjustments.

Key Performance Indicators

The Key Performance Indicators ('KPIs') are sales, profit and cash flow. The sales of the business are tracked through the Order Book (unworked contracted sales). Profitability of the business, with its relatively low fixed-cost base, is managed primarily via the review of revenue, with secondary measures of consultant utilisation and monthly project margin reviews. Working capital is reviewed by measures of debtor days and combined debtor and WIP days.

PRINCIPAL RISKS AND UNCERTAINTIES

In addition to the financial risks discussed in Note 29, the Directors consider that the principal risks and uncertainties facing the Group, and a summary of the key measures taken to mitigate those risks, are as follows:

1: Potential downturn in the market for outsourced e-learning services ►

2: Foreign currency risk ▲

3: Compliance with debt finance facility covenants ►

4: Attracting and retaining talented staff ►

5: Project overruns ►

6: Reputational risk ►

7: Integrating acquisitions ►

8: Impact of the General Data Protection Regulation ▲

Trend: ▲, ▼, or ►

1: Potential downturn in the market for outsourced e-learning services

LTG is dependent on the market for outsourced e-learning services. An economic downturn or instability may cause customers to delay or cancel e-learning development projects and/or related services, or to use internal resources to achieve their business goals.

The Group seeks to mitigate this risk by diversifying exposure across geographical markets, increasing the number of market sectors in which the Group operates, diversifying the type of customers with whom the Group operates, increasing the range of service offerings that the Group provides and marketing activities to inform current and prospective customers about the benefits of outsourced e-learning services and LTG's proven ability to fulfil those objectives.

2: Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Pounds Sterling. The currencies giving rise to this risk are primarily the United States Dollar and Euro.

Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. The Group maintains a natural hedge whenever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital and operational expenditure in the respective currencies. The Group is a net generator of USD and has partly offset this exposure by drawing down the majority of its debt finance facility in USD. The Group does not currently use any foreign currency derivative hedge products.

3: Compliance with debt finance facility covenants

The Group has entered into a debt financing facility. This facility is subject to certain financial covenants, which, if breached, would allow the banks to take action against the Group, and may ultimately result in the bank using the security it has over the assets of the Group to repay the outstanding debt, which would adversely impact shareholders.

The Group undertakes regular forecasts to monitor ongoing compliance with financial covenants, reports to the bank on a monthly basis, and actively manages operational cash flows. The Board has also agreed a self-imposed limit that net debt should not exceed 2x LTM EBITDA.

4: Attracting and retaining talented staff

As a people business we recognise that the future success of our business is dependent on attracting, developing, motivating, improving and retaining talent. LTG is a market leader and we will always strive to ensure that all our operating companies are regarded as excellent employers within the e-learning industry. We benchmark ourselves against our peers regularly and are satisfied that we offer competitive salaries and outstanding personal development opportunities that are further enhanced by LTG's ambitious growth plans. We have been successful in recruiting and retaining high calibre staff. However, we recognise that we must continue our focus as competition for talented people intensifies within the learning technologies sector.

5: Project overruns

Projects may overrun and/or may fail to meet specified milestones. The majority of LTG's service-based projects are contracted on a fixed-price basis. Project overruns can lead to loss of margin on projects and overall profitability for the Group.

The Group seeks to mitigate this risk by operating a formal bid review process, incorporating appropriate risk premiums into agreements if appropriate, conducting regular project reviews to assess whether the revenue recognised on work-in-progress is a fair representation of actual costs incurred and estimated costs to completion, and conducting management meetings with clients to review progress on projects.

6: Reputational risk

Failings in service provision are almost certainly going to be caused by human error. LTG has refined its ISO 9001 management processes over the last two decades and constantly reviews and updates them based on 'lessons learned'. Furthermore, all projects are reviewed regularly for performance against customer expectations, delivery milestones and forecast margins. Extensive work is undertaken in reviewing customer feedback, and any complaints are reported to the Board.

7: Integrating acquisitions

LTG aims to grow its businesses organically but also consolidate the sector through selective acquisitions of high-quality companies. The challenge is to integrate them into the Group, which may require merging them with existing operations, without losing key staff or customers. LTG seeks to structure purchase terms to incentivise and retain key staff and ensure that customers receive the 'first-class customer experience' that is already a fundamental aspect of LTG's success.

8: Impact of the General Data Protection Regulation

The General Data Protection Regulation (GDPR) is the most significant revision of data privacy legislation seen in Europe, introducing fines of up to €20 million or 5% of revenue (whichever is the greater), and is being introduced with effect from May 2018.

LTG's GDPR Officer is running a GDPR compliance programme to ensure that all businesses are prepared, and LTG companies are liaising with their clients to ensure that they are compliant.

In addition to the principal risks and uncertainties above, the Group faces other risks that include, but are not limited to:

- Increased competition
- Failure to retain customer contracts
- Customer concentration
- Technology leadership
- Counterparty risk

STRATEGIC REPORT (CONTINUED)

For the year ended 31 December 2017

Corporate responsibility

LTG takes its responsibilities as a corporate citizen seriously. The Board's primary goal is to create shareholder value, but in a responsible way which serves all stakeholders. Furthermore, LTG seeks to continually enhance and extend its contribution to society through the work the Group undertakes with its clients and in areas where the Group decides to invest and explore directly.

Governance

The Board considers sound governance as a critical component of LTG's success and the highest priority. LTG has an effective and engaged Board, with a strong non-executive presence from diverse backgrounds, and well-functioning governance committees. Through the Group's compensation policies and variable components of employee remuneration, the Remuneration Committee of the Board seeks to ensure that the company's values are reinforced in employee behaviour and that effective risk management is promoted.

More information on our corporate governance can be found on page 20.

Employees and their development

LTG is dependent upon the qualities and skills of its employees, and the commitment of its people plays a major role in the Group's business success. The Group invests in training and developing its staff through internally arranged knowledge sharing events, external courses, and an internal staff portal. The Group also undertakes regular staff surveys and feeds back the findings and actions to staff.

Employees' performance is aligned to the Group's goals through an annual performance review process and via LTG's incentive programmes. LTG provides employees with information about its activities through regular briefings and other media. LTG operates a number of bonus and sales commission schemes, share option schemes and a Sharesave scheme operated at the discretion of the Remuneration Committee.

Diversity and inclusion

LTG's employment policies are non-discriminatory on the grounds of age, gender, nationality, ethnic or racial origin, sexual orientation or marital status. LTG gives due consideration to all applications and provides training and the opportunity for career development wherever possible. The Board does not support discrimination of any form, positive or negative, and all appointments are based solely on merit.

Health and Safety

LTG endeavours to ensure that the working environment is safe and conducive to healthy, safe and content employees who are able to balance work and family commitments. The Group has a Health and Safety at Work policy which is reviewed regularly by the Board. The Board Executive Director responsible for health and safety is the COO. The Group is committed to the health and safety of its employees, clients, sub-contractors and others who may be affected by the Group's work activities. The Group evaluates the risks to health and safety in the business and manages this through a Health and Safety Management System. The Group provides the necessary information, instruction, training and supervision to ensure that employees are able to discharge their duties effectively. The Health and Safety Management System used by the Group ensures compliance with all applicable legal and regulatory requirements and internal standards, and seeks continuous improvement to develop health and safety performance.

Community activities

LTG operates a Corporate Social Responsibility agenda that encourages employees to be involved in their local communities. In 2017 the Group supported charitable activities by staff which raised a total of £4,000 (2016: £4,000) and made charitable contributions totalling £24,000 during the year (2016: £35,000).

The Group has, with other leading companies in the industry, set up an industry-wide charity foundation, Learn Appeal (www.learnappeal.com), and is an active contributor to its activities. Learn Appeal has developed the 'Learn Appeal Capsule', a standalone unit that includes a Raspberry Pi 2 computer and SD card. With a content library, LMS and Wi-Fi with up to 1km range, the device can be used in remote areas without Internet connectivity to allow up to 250 users to simultaneously access learning materials.

Environment

LTG's policy with regard to the environment is to ensure that we understand, and effectively manage, the actual and potential environmental impact of our activities. The Group's operations are conducted in such a way that compliance is maintained with legal requirements relating to the environment in areas where the Group conducts its business. During the period covered by this report LTG has not incurred any fines or penalties, and has not been investigated for any breach of environmental regulations.

Jonathan Satchell
Chief Executive
16 March 2018

DIRECTORS' REPORT

For the year ended 31 December 2017

The Directors present their report on the Group, together with the audited Consolidated Financial Statements for the year ended 31 December 2017.

Principal activities

The principal activity of the Group is the provision of e-learning services, content and delivery platforms. The principal activity of the Company is that of a parent holding company which manages the Group's strategic direction and underlying subsidiaries.

Cautionary statement

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies, and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward-looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of the reports, and should be treated with caution due to the inherent uncertainties associated with such statements.

Results and dividends

The results of the Group are set out in detail on page 29.

At the time of LTG's admission to AIM in November 2013, the Board stated that they would pursue a progressive dividend policy. On 27 October 2017, the Company paid an interim dividend of 0.09 pence per share (2016: 0.07 pence per share). The Directors propose to pay a final dividend of 0.21 pence per share for the year ended 31 December 2017, equating to a total payout in respect of the year of 0.30 pence per share (2016: 0.21 pence per share).

Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 6 July 2018 to all shareholders on the register at 8 June 2018.

Business review and future developments

Details of the business activities and acquisitions made during the year can be found in the Strategic Report on pages 7 to 15 and in Note 11 to the Consolidated Financial Statements, respectively.

Political donations

The Group made no political donations during the year (2016: nil).

Financial instruments and risk management

Disclosures regarding financial instruments are provided within the Strategic Report and Note 29 to the Financial Statements.

Capital structure

Details of the Company's share capital, together with details of the movements therein, are set out in Note 23 to the Financial Statements. The Company has one class of ordinary share, which carries no right to fixed income.

Research and development

The main area of research and development for the Group has been the continuing development of NetDimensions' and gomo's platforms, Rustici's interoperability software and xAPI-enabled analytical software tools, as well as various virtual reality applications, as covered in the Strategic Report on pages 7 to 15.

Post-balance sheet events

Details of post-balance sheet events can be found in Note 31 to the Consolidated Financial Statements.

Hiring, continuing employment and training, career development and promotion of disabled persons

Information on this is included within the Strategic Report on pages 7 to 15. The employment policies are non-discriminatory and are disclosed in the Strategic Report.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2017

Directors

The Directors of the Company who served during the year were:

Director	Role at 31 December 2017	Date of (re-) appointment	Retired	Board Committee	
Andrew Brode	Non-executive Chairman	19/05/2016		A	R
Harry Hill	Non-executive Deputy Chairman	19/05/2016			R
Leslie-Ann Reed†	Non-executive Director	21/05/2015		A	
Peter Gordon	Non-executive Director	19/05/2016	04/04/2017		
Jonathan Satchell†	Chief Executive	21/05/2015			
Neil Elton†	Group Finance Director	21/05/2015			
Piers Lea	Chief Strategy Officer	18/05/2017			
Dale Solomon	Chief Operating Officer	18/05/2017			

Board Committee abbreviations are as follows:
A = Audit Committee; R = Remuneration Committee
† Retires by rotation and will offer themselves for re-election at next AGM

Board of Directors

Jonathan Satchell
Chief Executive

Jonathan Satchell has worked in the training industry since 1992. In 1997 he acquired EBC, which he transformed from a training video provider to a bespoke e-learning company. The company was sold to Futuremedia in 2006. He became interim MD of Epic Group Limited ('Epic') in 2007 and the following year he acquired the Company with Andrew Brode. He oversaw the transformation of Epic from a custom content e-learning company to a global, fast growing, full service digital learning company.

Neil Elton
Group Finance Director

Neil Elton is a Chartered Accountant and was appointed as Group Finance Director of LTG in November 2014. An experienced Finance Director, he has helped successfully build a number of fast-growing listed companies. He joined from Science Group plc, a Cambridge-based technology research and development company, where he was FD from 2010 to 2014. Before that he was FD at Concateno plc, the European leader in drugs-of-abuse testing (2007-2010) and Mecom Group plc, the European media group (2005-2007).

Piers Lea
Chief Strategy Officer

Piers Lea founded LINE Communications Holdings Limited in 1989, which was acquired by LTG in April 2014. He has over 30 years' experience in distance learning and communications and is widely considered a thought leader in the field of e-learning. He sits on the advisory boards of ELIG ('European Learning Industry Group), and the LPI ('Learning and Performance Institute').

Dale Solomon
Chief Operating Officer

Dale Solomon was appointed Commercial Director of Epic in 2010. Prior to this, he spent 12 years as a learning consultant for global organisations. He was appointed to the Board of LTG in 2014, and as COO oversees a number of the Group's central service departments, as well as being responsible for many aspects of the Group's post-acquisition integrations and change programmes.
In addition to his COO role, he has acted as MD of LEO from 2015 to 2017, and at NetDimensions from 2018.

Andrew Brode
Independent Non-executive Chairman / Remuneration Committee Chair / Audit Committee

Andrew Brode is a Chartered Accountant and a former Chief Executive of Wolters Kluwer (UK) plc. In 1990, he led the management buy-out of the Eclipse Group, which was sold to Reed Elsevier in 2000. In 1995, he led the management buy-in, and is Executive Chairman of RWS Group plc, Europe's largest technical translations group, listed in the Top 10 of AIM companies. He is also Non-executive Director of AIM-quoted GRC International Group. He acquired Epic together with Jonathan Satchell in 2008.

Harry Hill
Independent Non-executive Deputy Chairman / Remuneration Committee

Harry Hill qualified as a Chartered Surveyor and spent his Executive life in various public and private property businesses, including Countrywide plc, where he was CEO for 21 years, and Rightmove plc, which he helped create, and of which he was the first Chairman. He now holds a small portfolio of Non-executive directorships in various public and private companies across a variety of industries.

Leslie-Ann Reed
Independent Non-executive Director / Audit Committee Chair

Leslie-Ann Reed is a Chartered Accountant and was formerly CFO of the online auctioneer Go Industry plc from 2010 to 2012. Prior to this she served as CFO of the B2B media group Metal Bulletin plc, and as an adviser to Marwyn Investment Management. After a career at Arthur Andersen, she held senior finance roles at Universal Pictures, Polygram Music, Warner Communications Inc. and EMI Music. Her current directorships include ZEAL Network SE and Quarto Group Inc.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2017

Directors' interests in shares and contracts

Directors' interests in the shares of LTG at 31 December 2017 and 31 December 2016 are disclosed in Note 7. Directors' interests in contracts of significance to which LTG was a party during the financial year are disclosed in Note 27.

Substantial interests

As at the date of this report, LTG has been advised of the following significant interests (greater than 3%) in its ordinary share capital:

Shareholder	Ordinary shares held	% held
Andrew Brode	115,881,671	20.17
Jonathan Satchell	100,139,995	17.43
Hargreave Hale Investment Managers	30,959,256	5.39
Liontrust Asset Management	27,802,300	4.84
River and Mercantile Asset Management	20,551,611	3.58
BlackRock	19,645,313	3.42

Except as referred to above, the Directors are not aware of any person who held an interest of 3% or more of the issued share capital of the company or could directly or indirectly, jointly or severally, exercise control.

Annual General Meeting

The Annual General Meeting ('AGM') will be held at 1pm on 24 May 2018 at DWF LLP, 20 Fenchurch Street, London, EC3M 4AD. The notice of the AGM contains the full text of the resolutions to be proposed.

Independent auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Crowe Clark Whitehill LLP be re-appointed will be proposed at the Annual General Meeting.

Provision of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- So far as that Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- That Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Signed by order of the Board

Neil Elton
Group Finance Director
16 March 2018

CORPORATE GOVERNANCE REPORT

The Company is registered in England and Wales and listed on the Alternative Investment Market of the London Stock Exchange ('AIM').

Statement about applying the principle of the QCA Guidelines

The Board recognises the value of good governance and has developed corporate governance practices which are suitable for the size and nature of the company by reference to the best practice outlined in the QCA guidelines.

The Company has adopted a share dealing code for the Board and employees of the Company, which is in conformity with the requirements of Rule 21 of the AIM Rules for Companies. The Company takes steps to ensure compliance by the Board and applicable employees with the terms of such code.

Board of Directors

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Board holds Board meetings at least ten times a year and at other times as and when required.

Biographical details of the Directors are included on page 18.

At 31 December 2017, the Board comprised a Non-executive Chairman, Chief Executive, Group Finance Director, Chief Strategy Officer, Chief Operating Officer and two independent Non-executive Directors. All Directors bring a wide range of skills and international experience to the Board. The Non-executive Directors hold meetings without the executive Directors present. The Chairman is primarily responsible for the working of the Board of LTG. The Chief Executive is primarily responsible for the running of the business and implementation of the Board strategy and policy. The Chief Executive is assisted in the managing of the business on a day-to-day basis by the Managing Directors of the operating businesses, the Group Finance Director and the Executive team of LTG.

High-level strategic decisions are discussed and taken by the full Board. Investment decisions (above a *de minimis* level) are taken by the full Board. Operational decisions are taken by the Managing Directors within the framework approved in the annual financial plan, and within a framework of Board-approved authorisation levels.

The Board met 12 times during 2017 (2016: 12). The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically meets ten times a year to consider a formal schedule of matters, including the operating performance of the business, and to review LTG's financial plan and business model. Non-executive Directors are appointed for a three-year term after which their appointment may be extended by mutual agreement after due consideration by the Board.

In accordance with the Company's Articles of Association, the longest-serving Director must retire at each Annual General Meeting and each Director must retire in any three-year period, so that over a three-year period all Directors will have retired from the Board and been subject to shareholder re-election. All Directors have access to the advice and services of the Company Secretary and other independent professional advisers as required. Non-executive Directors have access to key members of staff and are entitled to attend management meetings in order to familiarise themselves with all aspects of LTG.

It is the responsibility of the Chairman and the Company Secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

Relations with shareholders

The Directors seek to build on a mutual understanding of objectives between LTG and its major shareholders by meeting to discuss long-term issues and to receive feedback, communicating regularly throughout the year and issuing trading updates as appropriate. The Board also seeks to use the Annual General Meeting to communicate with its shareholders.

Balanced and understandable assessment of position and prospects

The Board has shown its commitment to presenting balanced and understandable assessments of LTG's position and prospects by providing comprehensive disclosures within the Financial Report in relation to its activities. The Board has applied the principles of good governance relating to Directors' remuneration, as described below. The Board has determined that there are no specific issues which need to be brought to the attention of shareholders.

Remuneration strategy

LTG operates in a competitive market. If LTG is to compete successfully, it is essential that it attracts, develops and retains high-quality staff. Remuneration policy has an important part to play in achieving this objective. LTG aims to offer its staff a remuneration package which is both competitive in the relevant employment market, and which reflects individual

CORPORATE GOVERNANCE REPORT (CONTINUED)

performance and contribution. For 2017 the remuneration package comprised salary, pension contributions, bonus or sales commission schemes, a Sharesave scheme and, where appropriate, share options.

Board Committees

The Board maintains two standing committees, being the Audit and Remuneration Committees.

The minutes of all sub-committees are circulated for review and consideration by all relevant Directors, supplemented by oral reports from the Committee Chairmen at Board meetings.

Audit Committee

The Audit Committee is chaired by Leslie-Ann Reed, and currently comprises Leslie-Ann Reed and Andrew Brode. The Audit Committee met three times during 2017 (2016: three). Further details on the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee

The Remuneration Committee is chaired by Andrew Brode, and also comprises Harry Hill. The Remuneration Committee met once during 2017 (2016: once). Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee.

Meetings of the Board and sub-committees during 2017 were as follows:

	Board meeting	Audit committee	Remuneration committee
Number of meetings held in 2017	12	3	1
Andrew Brode	11/12	3/3	1/1
Harry Hill	10/12	-	1/1
Jonathan Satchell	12/12	-	1/1*
Neil Elton	11/12	3/3*	-
Piers Lea	11/12	-	-
Dale Solomon	11/12	-	-
Leslie-Ann Reed	11/12	3/3	-
Peter Gordon	3/3	-	-

*Attendance by invitation

REPORT OF THE AUDIT COMMITTEE

Audit Committee

The Audit Committee is chaired by Leslie-Ann Reed, and currently comprises Leslie-Ann Reed and Andrew Brode. The Audit Committee has written terms of reference, and provides a mechanism through which the Board can maintain the integrity of the Financial Statements of LTG and any formal announcements relating to LTG's financial performance; to review LTG's internal financial controls and LTG's internal control and risk management systems; and to make recommendations to the Board in relation to the appointment of the external auditor, their remuneration both for audit and non-audit work, the nature, scope and results of the audit and the cost effectiveness and the independence and objectivity of the auditors. A recommendation regarding the auditors is put to shareholders for their approval in General Meetings.

Provision is made by the Audit Committee to meet the auditors at least twice a year.

Internal controls

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investment and LTG's assets, the Directors recognise that they have overall responsibility for ensuring that LTG maintains systems to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations and for reviewing the effectiveness of that system. However, there are inherent limitations in any system of control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material mis-statement or loss, and that the system is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

LTG has established procedures for the running of the Audit Committee. This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its Executives and senior managers. The key features of the internal control system are described below:

Control environment – LTG is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. There are also policies in place for the reporting and resolution of suspected fraudulent activities. LTG has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

Risk identification – management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources, including infringement of IP, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements.

Information systems – Group businesses participate in periodic operational/strategic reviews and annual plans. The Board actively monitors performance against plans. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks are identified in a timely manner, their financial implications assessed, control procedures are re-evaluated and corrective actions are agreed and implemented.

Main control procedures – LTG has implemented control procedures designed to ensure complete and accurate accounting for financial transactions, and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

Monitoring and corrective action – there are clear and consistent procedures in place for monitoring the system of internal financial controls.

This process, which operates in accordance with the FRC guidance, was maintained throughout the financial year, and has remained in place up to the date of the approval of these Financial Statements. The Board, via the Audit Committee, has reviewed the systems and processes in place in meetings with the Finance Director and LTG's auditors during 2017. No internal audit function is operated outside of the systems and processes in place, as the Board considers that LTG is too small for a separate function. The Board considers the internal control system to be adequate for LTG. The auditors have provided services in relation to the annual audit of the Group, advice and compliance work in relation to taxation, transaction services and other advisory work during the year. The Audit Committee reviews the scope and scale of the non-audit services undertaken by the auditors in order to ensure that their independence and objectivity is safeguarded.

REPORT OF THE REMUNERATION COMMITTEE

Remuneration Committee

The Committee, which is chaired by Andrew Brode, also comprises Harry Hill.

The Remuneration Committee monitors the remuneration policies of LTG to ensure that they are consistent with LTG's business objectives. Its terms of reference include the recommendation and execution of policy on Director and Executive management remuneration and for reporting decisions made to the Board. The Committee determines the individual remuneration package of the executive management of the Board. In accordance with 'best practice', this responsibility includes pension rights and any other compensation payments.

The Remuneration Committee recognises that incentivisation of staff is a key issue for LTG, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to LTG results. During the year the Remuneration Committee approved grants of share options and confirmed a number of KPI-related bonus schemes for the Group for 2017.

The aim of the Board and the Remuneration Committee is to maintain a policy that:

- Establishes a remuneration structure that will attract, retain and motivate Executives, senior managers and other staff of appropriate calibre;
- Rewards Executives and senior managers according to both individual and Group performance;
- Establishes an appropriate balance between fixed and variable elements of total remuneration, with the performance-related element forming a potentially significant proportion of the total remuneration package;
- Aligns the interests of Executives and senior managers with those of shareholders through the use of performance-related rewards and share options in LTG.

From time to time, the Committee may obtain market data and information as appropriate when making its comparisons and decisions, and is sensitive to the wider perspective, including pay and employment conditions elsewhere in LTG, especially when undertaking salary/remuneration reviews.

The remuneration package comprises the following elements:

- Basic salary – normally reviewed annually and set to reflect market conditions, personal performance and benchmarks in comparable companies. The Chairman does not receive a basic salary;
- Annual performance-related bonus – Executives, managers and employees receive annual bonuses related to specific KPIs or overall Group performance. The Non-executive Directors do not participate in the performance-related bonus scheme;
- Benefits – benefits include life assurance and pension contributions. The Non-executive Directors do not receive these benefits;
- Share options – share option grants are reviewed regularly.

Full details of each Director's remuneration package and their interests in shares and share options, can be found in Note 7 to the Financial Statements. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

Service contracts

The Executive Directors have employment contracts that contain notice periods of six months. Non-executive Directors' service contracts may be terminated on three months' notice. There are no additional financial provisions for termination.

Share option plans

The Company operates three long-term equity incentive plans:

- EMI share option plan
- Unapproved share option plan
- Sharesave Scheme

Further details are provided in Note 24.

The market price of the shares at 31 December 2017 was 68.0 pence (31 December 2016: 35.5 pence). The highest and lowest price during the year was 68.0 pence and 34.5 pence, respectively.

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' Report, Annual Report and the Group and parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have elected to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law, and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102. 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 for that period. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Strategic Report and the Directors' Report and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the Learning Technologies Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in Annual Reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEARNING TECHNOLOGIES GROUP PLC

Opinion

We have audited the financial statements of Learning Technologies Group plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017, which comprise:

- the Group income statement and statement of comprehensive income for the year ended 31 December 2017;
- the Group and parent company statements of financial position as at 31 December 2017;
- the Group statement of cash flows for the year then ended;
- the Group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £380,000, based on approximately 0.75% of Group revenue.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and Directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £10,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The significant components of the UK operations are accounted for from one central operating location in Brighton, our audit was conducted from this main operating location, and all the Group companies accounted for from this location were within the scope of our audit testing.

The Group also has significant components accounted for out of Hong Kong, being the NetDimensions group. A member firm of the Crowe Horwath International network undertook the audit work in Hong Kong under our direction. Audit instructions were issued to the component auditors, the instructions detailed the significant risks to be addressed through the audit procedures and indicated the information we required to be reported back to the Group audit team. As part of our audit we visited Hong Kong to meet with local management and review component auditor working papers.

The Group also has components based in the United States, a member firm of the Crowe Horwath International network was engaged to perform certain agreed upon procedures in line with our assessment of the significant audit risks and to report the results through to us.

100% of the Group's revenue was within scope of audit testing.

Key Audit Matters

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

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition	
The Group enters into a range of client contract types. The revenue recognition policy varies depending on the underlying contract and could result in revenue being recognised at a point in time, over time or as a percentage complete. The Group's revenue recognition policy is described in Note 2 (n).	We designed procedures to test each different revenue stream and to consider whether the revenue recognition policy applied to the revenue stream was appropriate. Our testing in this area included examining contract terms, obtaining evidence of delivery of software licence keys, recalculating deferred revenue and obtaining evidence to support the percentage complete and the budgeted margin.
Acquisition of NetDimensions	
During the year the Group acquired NetDimensions (Holdings) Limited for total consideration of £53.6m. Accounting for business combinations is complex and requires the recognition of both consideration paid and acquired assets and liabilities at the acquisition date at fair values, which can involve significant judgement and estimates. Further details are disclosed in Note 11 of the financial statements.	We reviewed the share purchase agreement to understand the terms of the transaction and we validated the consideration paid. We reviewed the calculation of the fair value of the intangible assets identified and assessed the valuation assumptions for reasonableness. This included performing sensitivity analysis on key inputs and benchmarking the valuation against external sources of evidence. We audited the acquisition balance sheet to ensure that assets and liabilities were appropriately recognised at fair value.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEARNING TECHNOLOGIES GROUP PLC (CONTINUED)

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Misstatements can arise from fraud or error and are considered material if, individually or in 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Matthew Stallabrass

Senior Statutory Auditor
for and on behalf of
Crowe Clark Whitehill LLP

Statutory Auditor
St Bride's House
10 Salisbury Square
London
EC4Y 8EH
16 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	Year ended 31 Dec 2017	Year ended 31 Dec 2016
		£'000	£'000
Revenue	4	52,056	28,263
Operating expenses (excluding acquisition-related deferred consideration and earn-outs)		(47,605)	(25,194)
Operating profit (before acquisition-related deferred consideration and earn-outs)		4,451	3,069
Acquisition-related deferred consideration and earn-outs		(1,853)	(3,211)
Operating profit/(loss)		2,598	(142)
Adjusted EBIT		14,047	6,952
Amortisation of acquired intangibles	12	(7,756)	(3,205)
Share-based payment costs	24	(675)	(605)
Integration costs		(1,165)	(73)
Acquisition-related deferred consideration and earn-outs	5	(1,853)	(3,211)
Operating profit/(loss)		2,598	(142)
Fair value movement on contingent consideration	5	52	-
Costs of acquisition	11	(920)	(99)
Share of losses on associates/joint ventures	13	(201)	(205)
Profit/(loss) on disposal of fixed assets		(36)	-
Finance expense:			
Charge on contingent consideration	5	(41)	(57)
Unwinding onerous lease	5	(11)	-
Interest on borrowings	5	(605)	(358)
Net foreign exchange difference on borrowings		(151)	(333)
Interest receivable	5	7	1
Profit/(loss) before taxation	5	692	(1,193)
Income tax credit/(expense)	8	1,171	(133)
Profit/(loss) for the year		1,863	(1,326)
Profit/(loss) attributable to owners of the Parent		2,013	(1,326)
Profit/(loss) for the year attributable to non-controlling interests		(150)	-
		1,863	**(1,326)**
Earnings per share attributable to owners of the parent:			
Basic (pence)	9	0.379	(0.317)
Diluted (pence)	9	0.363	(0.317)
Adjusted earnings per share:			
Basic (pence)	9	2.156	1.286
Diluted (pence)	9	2.064	1.184
Profit/(loss) for the year		**1,863**	**(1,326)**
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations		(3,564)	1,183
Total comprehensive (loss)/income for the year attributable to owners of the parent Company		**(1,701)**	**(143)**
Attributable to:			
The owners of the parent		(1,510)	(143)
Non-controlling interest		(191)	-
		(1,701)	**(143)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	31 Dec 2017	31 Dec 2016
		£'000	£'000
Non-current assets			
Property, plant and equipment	10	842	708
Intangible assets	12	83,409	39,950
Deferred tax assets	18	1,933	1,717
Investments accounted for under the equity method	13	1,689	1,890
Other receivables, deposits and prepayments	15	-	1,293
		87,873	**45,558**
Current assets			
Trade receivables	14	12,067	4,229
Other receivables, deposits and prepayments	15	2,363	1,995
Amounts recoverable on contracts	16	4,242	2,642
Cash and bank balances	17	15,662	5,348
		34,334	**14,214**
Total assets		122,207	59,772
Current liabilities			
Trade and other payables	19	23,756	9,215
Borrowings	21	1,849	3,252
Corporation tax		50	546
Amount owing to related parties	27	20	45
		25,675	**13,058**
Non-current liabilities			
Deferred tax liabilities	18	6,477	3,897
Other long-term liabilities	20	192	1,426
Borrowings	21	12,765	10,582
Provisions	22	257	99
		19,691	**16,004**
Total liabilities		45,366	29,062
Net assets		76,841	30,710
Shareholders' equity			
Share capital	23	2,145	1,580
Share premium account	26	64,208	17,044
Merger reserve	26	31,983	31,983
Reverse acquisition reserve	26	(22,933)	(22,933)
Share-based payment reserve	26	1,092	3,245
Foreign exchange translation reserve	26	(2,290)	1,233
Accumulated profits/(losses)		2,636	(1,442)
Total equity attributable to the owners of the parent		76,841	30,710

The Notes on pages 33 to 68 form an integral part of these Consolidated Financial Statements.

The Financial Statements on pages 29 to 68 were approved and authorised for issue by the Board of Directors on 16 March 2018 and signed on its behalf by

Neil Elton
Group Finance Director
16 March 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Share capital	Share premium	Merger reserve	Reverse acquisition reserve	Share-based payments reserve	Translation reserve	Retained earnings	Non-controlling interest	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016		**1,506**	**15,988**	**28,120**	**(22,933)**	**2,273**	**50**	**140**	**-**	**25,144**
Loss for the period		-	-	-	-	-	-	(1,326)	-	(1,326)
Exchange differences on translating foreign operations		-	-	-	-	-	1,183	-	-	1,183
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**1,183**	**(1,326)**	**-**	**(143)**
Issue of shares		74	1,056	3,863	-	-	-	-	-	4,993
Share-based payment charge credited to equity		-	-	-	-	605	-	-	-	605
Deferred tax credit on share options		-	-	-	-	648	-	-	-	648
Transfer on exercise and lapse of options		-	-	-	-	(281)	-	281	-	-
Tax deduction on exercise of share options recognised directly in equity		-	-	-	-	-	-	175	-	175
Dividend paid		-	-	-	-	-	-	(712)	-	(712)
Transactions with owners		**74**	**1,056**	**3,863**	**-**	**972**	**-**	**(256)**	**-**	**5,709**
Balance at 31 December 2016		**1,580**	**17,044**	**31,983**	**(22,933)**	**3,245**	**1,233**	**(1,442)**	**-**	**30,710**
Profit for the period		-	-	-	-	-	-	2,013	(150)	1,863
Exchange differences on translating foreign operations		-	-	-	-	-	(3,523)	-	(41)	(3,564)
Total comprehensive loss for the period		**-**	**-**	**-**	**-**	**-**	**(3,523)**	**2,013**	**(191)**	**(1,701)**
Issue of shares		565	48,286	-	-	-	-	-	-	48,851
Costs of issuing shares		-	(1,122)	-	-	-	-	-	-	(1,122)
Share-based payment charge credited to equity		-	-	-	-	675	-	-	-	675
Tax credit on share options		-	-	-	-	-	-	1,331	-	1,331
Transfer on exercise and lapse of options		-	-	-	-	(1,462)	-	1,462	-	-
Presentational adjustment regarding deferred tax on share options		-	-	-	-	(1,366)	-	1,366	-	-
Acquisition of subsidiary	11	-	-	-	-	-	-	-	859	859
Acquisition of non-controlling interest								(815)	(668)	(1,483)
Dividends paid		-	-	-	-	-	-	(1,279)	-	(1,279)
Transactions with owners		**565**	**47,164**	**-**	**-**	**(2,153)**	**-**	**2,065**	**191**	**47,832**
Balance at 31 December 2017		**2,145**	**64,208**	**31,983**	**(22,933)**	**1,092**	**(2,290)**	**2,636**	**-**	**76,841**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	Year ended 31 Dec 2017	Year ended 31 Dec 2016
		£'000	£'000
Cash flows from operating activities			
Profit/(loss) before taxation		692	(1,193)
Adjustments for:			
Share-based payment charge		675	605
Amortisation of intangible assets		8,404	3,605
Depreciation of plant and equipment		422	320
Share of loss of joint venture/investment		201	205
Finance expense		52	57
Interest on borrowings		605	358
Net foreign exchange difference on borrowings		151	333
Fair value movement on contingent consideration		(52)	-
Acquisition-related deferred consideration and earn-outs		1,853	3,211
Payment of acquisition-related deferred consideration and earn-outs		(2,211)	-
Interest income		(7)	(1)
Operating cash flows before working capital changes		**10,785**	**7,500**
(Increase)/decrease in trade and other receivables		2,189	(2,030)
(Increase) in amount recoverable on contracts		(1,391)	(788)
Increase/(decrease) in payables		421	(1,760)
		12,004	**2,922**
Interest paid		(474)	(275)
Interest received		7	1
Income tax paid		(743)	(645)
Net cash flows from operating activities		**10,794**	**2,003**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(449)	(422)
Sales proceeds from disposal of property, plant and equipment		16	-
Development of intangible assets		(1,384)	(796)
Acquisition of subsidiaries, net of cash acquired		(45,704)	(12,389)
Investment in associates/joint ventures		-	(2,095)
Net cash flows in investing activities		**(47,521)**	**(15,702)**
Cash flows from financing activities			
Dividends paid		(1,279)	(712)
Proceeds from borrowings		18,000	13,909
Issue of ordinary share capital net of share issue costs		47,101	647
Repayment of bank loans		(16,193)	(2,278)
Contingent consideration payments in the period		(59)	-
Net cash flows from/(used) in financing activities		**47,570**	**11,566**
Net increase/(decrease) in cash and cash equivalents		10,843	(2,133)
Cash and cash equivalents at beginning of the year		5,348	7,305
Exchange (losses)/gains on cash		(529)	176
Cash and cash equivalents at end of the year	**17**	**15,662**	**5,348**

Significant non-cash transactions

During the year, the Group issued 150,588,525 ordinary shares in the Company. 124,000,000 Placing Shares were admitted to trading on AIM on 20 March 2017 to fund the acquisition of NetDimensions (Holdings) Limited. 1,931,911 shares were also issued in payment of the deferred contingent consideration to the vendors of Rustici Software LLC and 24,656,614 in settlement of the exercise of employee share options. Further details are provided in Note 24.

The notes on pages 33 to 68 form an integral part of these Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. General information

Learning Technologies Group plc ('the Company') and its subsidiaries (together, 'the Group') provide a range of e-learning services and technologies to corporate and government clients. The principal activity of the Company is that of a holding company for the Group, as well as performing all administrative, corporate finance, strategic and governance functions of the Group.

The Company is a public limited company, which is listed on the AIM Market of the London Stock Exchange and domiciled in England and incorporated and registered in England and Wales. The address of its registered office is Sherborne House, 5th Floor, 119-121 Cannon Street, London, EC4N 5AT. The registered number of the Company is 07176993.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied unless otherwise stated.

a) Basis of preparation

The Consolidated Financial Statements of Learning Technologies Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), issued by the International Accounting Standards Board (IASB), including interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for any financial assets which are stated at fair value through profit or loss. The Consolidated Financial Statements are presented in pounds sterling, the functional currency of Learning Technologies Group plc, and figures have been rounded to the nearest thousand.

Going concern

At 31 December 2017 the Group had £15.7 million of cash and good cash conversion. Having undertaken a detailed budgeting exercise, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and therefore continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

Adoption of new and revised International Financial Reporting Standards

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective, and, in some cases, have not yet been adopted by the EU.

IFRS 15, Revenue from Contracts with Customers, will be adopted from 1 January 2018. Management has gone through a process of reviewing contracts within each revenue stream, having regard to the requirements of IFRS 15. If IFRS 15 had been applied to the 2017 results, the Directors estimate that revenue and adjusted EBIT would have been £0.7 million lower. This is as a result of the new standard's application guidance on contracts with multiple components. Under IFRS 15, the Group's initial licence fees do not meet the definition of a distinct performance obligation. Therefore, they will be combined with the term licence fee and amortised over the full licence contract. It has also been assessed that the support and maintenance aspect of on-premise licence contracts constitutes a separate performance obligation which should be recognised over time. This will create a change for the licence revenue which is recognised on delivery of the software licence to the customer under IAS 18.

IFRS 16 is mandatory from 1 January 2019, with earlier application permitted if IFRS 15 has also been applied. The Directors have assessed the recognition of operating leases within the Group, and estimate that if IFRS 16 had been applied to the 2017 results, the Group's property, plant and equipment would be £3 million higher.

Other than IFRS 15 and IFRS 16 detailed above, the Directors do not expect that the adoption of these new standards will have a material impact on the financial statements of the company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments.

(b) Basis of consolidation

A subsidiary is defined as an entity 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 share for share acquisition of Epic Performance Improvement Limited and its subsidiary companies by Epic Group Limited on 10 May 1996 was that of a re-organisation of entities which were under common control. As such, that combination also falls outside the scope of IFRS 3 'Business Combinations' (Revised 2008). The Directors have therefore decided that it is appropriate to reflect the combination using the merger basis of accounting, in order to give a true and fair view. No fair value adjustments were made as a result of that combination.

The basis of consolidation of the acquisition of Epic Group Limited by the Company in November 2013 is described below:

The substance of the share for share acquisition of Epic Group Limited and its subsidiary companies by In-Deed Online plc on 8 November 2013 was outside the scope of IFRS 3 'Business Combinations' (Revised 2008) on the basis that the Directors made a judgement that, prior to the transaction, In-Deed Online plc was not a business under IFRS 3 Appendix A. The Directors have therefore decided that it is appropriate to reflect the combination using the merger basis of accounting in order to give a true and fair view. No fair value adjustments were made as a result of that combination.

Business combinations other than noted above are accounted for under the acquisition method, and merger relief has been taken on recognising the shares issued on acquisition, where applicable.

Under the acquisition method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Consolidated Financial Statements. The cost of acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Any excess of the purchase consideration of the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. Goodwill, if any, is not amortised but reviewed for impairment at least annually. If the consideration is less than the fair value of assets and liabilities acquired, the difference is recognised directly in the statement of comprehensive income. Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the Financial Statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(c) Joint arrangements and associates

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. They are, along with the Group's associates, accounted for using the equity method.

Interests in joint ventures and associates are recognised at cost less the Group's share of the post-acquisition profits or losses and any impairments, where appropriate. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures and associates, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of joint ventures and associates.

(d) Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill

Goodwill represents the amount by which the fair value of the cost of a business combination exceeds the fair value of the net assets acquired. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognised immediately in the income statement. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Acquisition-related intangible assets

Net assets acquired as part of a business combination includes an assessment of the fair value of separately identifiable acquisition-related intangible assets, in addition to other assets, liabilities and contingent liabilities purchased. These are amortised on a straight-line basis over their useful lives, which are individually assessed.

Branding	2-5 years
Customer contracts and relationships	2-5 years

Research and development expenditure

Research expenditure is recognised as an expense when it is incurred.

Development expenditure is recognised as an expense, except that costs incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised only if it meets the criteria for capitalisation under IAS 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense is not recognised as an asset in subsequent periods.

Capitalised development expenditure is amortised on a straight-line method over a period of between three and five years when the products or services are ready for sale or use. In the event that it is no longer probable that the expected future economic benefits will be recovered, the development expenditure is written down to its recoverable amount.

(e) Functional and foreign currencies

(i) Functional and presentation currency

The individual Financial Statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

The Consolidated Financial Statements are presented in Pounds Sterling, which is the Group's presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

(iii) Foreign operations

Assets and liabilities of foreign operations are translated to Pounds Sterling at the rates of exchange ruling at the end of the reporting period. Revenues and expenses of foreign operations are translated at the average rate of exchange. All exchange differences arising from translation are taken directly to other comprehensive income and accumulated in equity under the foreign exchange translation reserve. On the disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is reclassified from equity to profit or loss.

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations, and translated at the closing rate at the end of the reporting period. Exchange differences are recognised in other comprehensive income.

(f) Financial instruments

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

(i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

Management determines the classification of its financial assets at initial recognition.

- Loans and receivables financial assets

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The Group's loans and receivables financial assets comprise 'trade and other receivables', and cash and cash equivalents included in the Consolidated Statement of Financial Position.

ii) Financial liabilities

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognised initially at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method, other than those categorised as fair value through profit or loss.

Fair value through the profit or loss category comprises financial liabilities that are either held for trading, or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

(iii) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds. Dividends on ordinary shares are recognised when paid.

Financial instruments are offset when the Group has a legally enforceable right to offset, and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are included in the asset's carrying amount only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. The principal annual rates used for this purpose are:

Computer equipment	33.33%
Furniture and fittings	20%
Office equipment	20%
Leasehold improvements	Over the remaining life of the lease

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

(h) Long-term contracts

Contract work in progress is stated at costs incurred, less those amounts transferred to profit or loss, after deducting foreseeable losses and payments on account not matched with revenue.

Amounts recoverable on contracts are included in current assets and represent revenue recognised in excess of payments on account.

(i) Impairment

(i) Impairment of financial assets

All financial assets (other than those categorised at fair value through profit or loss), are assessed at the end of each reporting period as to whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset.

An impairment loss in respect of loans and receivables financial assets is recognised in profit or loss, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

In a subsequent period, if the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Impairment of non-financial assets

The carrying values of intangible assets are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is recognised in profit or loss immediately.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss, and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(j) Income taxes

Income tax for each reporting period comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted, at the end of the reporting period.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the Group's interest in the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Employee benefits

(i) Short-term benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate.

(m) Provisions, contingent liabilities

Provisions for property lease dilapidations are recognised when the Group has a present or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each financial reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

A contingent liability is not recognised, but is disclosed in the Notes to the Financial Statements when there is a possible obligation which arises from past events whose outcome is uncertain or when it is not probable that there will be an outflow of economic resources. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(n) Revenue and other income

Group revenue represents the fair value of the consideration received or receivable for the rendering of services and sale of software licencing, net of value added tax and other similar sales based taxes, rebates and discounts after eliminating intercompany sales.

Revenue from services includes the content, consulting, platform development and other revenue streams (see Note 4). Revenue from services is recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case contract revenue is only recognised to the extent of contract costs incurred that are recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss. The stage of completion is determined based on the proportion of contract costs incurred compared to total estimated contract costs.

Business development costs incurred as part of our bid or tender process are expensed as incurred. Only if and when a project is won and contracted are project costs accounted for within long-term contracts through Cost of Sale. There are no costs incurred during the period between the contract being awarded and service delivery commencing.

Revenue from subscriptions, such as licences, hosting and support and maintenance, is amortised over the contractual period of the licence where there are continuing obligations to the customer. Perpetual licences and on-premise software licences where all material obligations of the Group to the customer have been met on the delivery of the licence are recognised in full when the software has been delivered to the customer.

Interest income is recognised as other income on an accruals basis based on the effective yield on the investment.

(o) Operating segments

The Group operates as one reportable segment, that of the production of interactive multimedia programmes. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(p) Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 24 to the Consolidated Financial Statements.

(q) Leases

The Group leases certain property under operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

There were no material leases classified as finance leases.

3. Summary of critical accounting estimates and judgements

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the accounting policies which are detailed above. These judgements are continually evaluated by the Directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

The Group recognises revenue from service contracts with customers.

Revenue is recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case contract revenue is only recognised to the extent of contract costs incurred that are considered to be recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss.

The stage of completion is determined based on the proportion of contract costs incurred compared to total estimated contract costs. The outcome of a development project can be determined with reasonable certainty when a project budget is agreed which sets out milestones and costs for all project deliverables. Staff and contractors record their actual time spent on each project which is regularly reviewed against budget.

In making its estimate, management considered the detailed criteria for the recognition of revenue set out in IAS 18 'Revenue'. The Directors are satisfied that the significant risks and rewards are transferred and that the recognition of revenue over the duration of a contract is appropriate.

In December 2015, the Group announced a deal to provide services to Civil Service Learning ('CSL') alongside KPMG UK LLP. Revenue is recognised by the consortium as attendees take

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

the developed courses. This revenue is then shared, after third party costs, based on an agreed profit share ratio between KPMG UK LLP and the Group. Management considers the services provided with KPMG to be, in substance, a collaborative arrangement. The Group recognises their agreed share of revenue when the revenue has been earned by the consortium. The consortium has a reliable forecast of the expected revenues, based on prudent assumptions which is used to calculate the forecast margin on the contract. The Group recognises costs in the Income Statement based on this forecast margin.

Amounts recoverable on contracts

In making its estimation as to the amounts recoverable on contracts, management considers estimates of anticipated revenues and costs from each contract and monitors the need for any provisions for losses arising from adjustments to underlying assumptions if this indicates it is appropriate. The amount of profit or loss recognised on a contract has a direct impact on the Group's results and carrying value of amounts recoverable on contracts. The Directors are satisfied that their judgement is based on a reasonable assessment of the future prospects for each contract.

During the year to 31 December 2017 management reviewed the contracts in place and did not note any contracts where there was specific increased estimation uncertainty. Management have reviewed contracts that were ongoing at the prior year end and there were no significant adjustments to the budgeted margin.

Valuation of intangible assets

The determination of the fair value of assets and liabilities including goodwill arising on the acquisition of businesses, the acquisition of industry-specific knowledge, software technology, branding and customer relationships, whether arising from separate purchases or from the acquisition as part of business combinations, and development expenditure which is expected to generate future economic benefits, are based, to a considerable extent, on management's estimations.

The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

During the year to 31 December 2017, the Group acquired NetDimensions (Holdings) Limited, see Note 11. On acquisition the Group recognised intangible assets of £34,312,000, the most significant of which related to the customer relationships. Management used a model that present valued the expected cashflows arising from the customer relationships over a 5-year period. The significant assumptions used in this model were as follows:

Discount rate – 10%

Margin – 60%

Customer retention factors ranging from 10% to 90% based on the strength of the relationship and whether the revenue stream is recurring

If the discount rate was adjusted by one percentage point, then the impact on the value of the asset would be plus or minus £0.77 million. If the margin was adjusted by five percentage points then the impact on the value of the asset would be plus or minus £2.5 million. If the customer retention factors were adjusted by five percentage, points then the impact on the value of the asset would be plus or minus £2.0 million.

Impairment reviews

IFRS requires management to undertake an annual test for impairment of indefinite lived assets (goodwill) and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Goodwill impairment testing is an area involving management estimates, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets, using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters, including management's expectations of:

- Growth in adjusted EBIT;
- Long-term growth rates; and
- The selection of discount rates to reflect the risks involved.

The adjusted EBIT is calculated on the same basis as the adjusted EBIT within the Statement of Comprehensive Income. The Group prepares and approves a detailed annual budget, three-year strategic plan and five-year management plan for its operations, which are used in the value in use calculations.

See Note 12 for details of how these estimates and judgements have been applied.

4. Segment analysis

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (which takes the form of the Board of Directors of the Company) as defined in IFRS 8, in order to allocate resources to the segment and to assess its performance.

The Directors of the Company consider the principal activity of the Group to be the production of interactive multimedia programmes, and to constitute one reportable segment, that of the production of interactive multimedia programmes. A majority of sales were generated by the operations in the United Kingdom in the two years ended 31 December 2016 and 2017.

All other segments primarily comprise income and expenses relating to the Group's administrative functions. Interest income and interest expense are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Accordingly, this information is not separately reported to the Board of Directors.

Geographical information

All revenues of the Group are derived from its principal activity, the production of interactive multimedia programmes. The Group's revenue from external customers and non-current assets by geographical location are detailed below.

	UK	Mainland Europe	United States	Canada	Asia Pacific	Rest of the world	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 Dec 2017							
Revenue	27,998	4,926	15,757	1,367	1,600	408	52,056
Non-current assets	33,155	2	34,527	-	20,189	-	87,873
31 Dec 2016							
Revenue	18,205	1,368	7,736	613	253	88	28,263
Non-current assets	22,644	-	22,914	-	-	-	45,558

Revenue by nature

The Group's revenue by nature is analysed as follows:

	Platforms			Content & Services				Total
	On-premise Software Licences	Hosting and SaaS Licences	Support and Mainte-nance	Content	Consulting	Platform development	Other	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 Dec 2017								
e-Learning recurring	9,460	10,173	441	-	-	-	-	20,074
e-Learning non-recurring	1,006	8	510	23,403	1,362	3,703	924	30,916
Non-e-Learning	-	-	-	-	-	-	1,066	1,066
	10,466	**10,181**	**951**	**23,403**	**1,362**	**3,703**	**1,990**	**52,056**
31 Dec 2016								
e-Learning recurring	3,529	3,790	-	-	-	-	-	7,319
e-Learning non-recurring	949	8	574	14,118	853	1,419	1,147	19,068
Non-e-Learning	-	-	-	-	-	-	1,876	1,876
	4,478	**3,798**	**574**	**14,118**	**853**	**1,419**	**3,023**	**28,263**

Information about major customers

In the year ended 31 December 2017, one customer accounted for 13.3 per cent of reported revenues. For the year ended 31 December 2016, no customer accounted for more than 10 per cent of reported revenues.

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For the year ended 31 December 2017

5. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

	Note	31 Dec 2017	31 Dec 2016
		£'000	£'000
Costs of acquisition		920	99
Integration costs		1,165	73
Amortisation of acquired intangible assets	12	7,756	3,200
Amortisation of software development costs	12	648	405
Fees repayable to the company's auditor and its associates for the audit of the Group's annual accounts		113	55
Other fees payable to auditors:			
- Corporate finance services		67	4
- Taxation		27	24
Depreciation	10	422	320
Directors' fees	7	825	734
Directors' pension contributions	7	20	16
Staff costs (including Directors):			
- Salaries, allowances and bonuses	6	21,409	13,569
- Social security costs	6	1,820	1,292
- Defined contribution pension plan costs	6	486	311
Rental of offices		1,277	805
Research and development		-	-
Finance charges on contingent consideration		41	57
Finance charges on unwinding provision		11	-
Finance charges on borrowings		605	358
Fair value movement on contingent consideration		(52)	-
Acquisition-related deferred consideration and earn-outs		1,853	3,211
Interest income		(7)	(1)

6. Staff costs

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
The average monthly number of employees was:	No.	No.
Production	328	230
Administration	77	46
Management	6	7
	411	283
Aggregate remuneration (including Directors):	£'000	£'000
Wages and salaries (including bonuses)	21,409	13,569
Social security costs	1,820	1,292
Share-based payments	675	605
Pension costs	486	311
	24,390	15,777

7. Directors' remuneration, interests and transactions

The Directors of the Company are considered to be the Key Management personnel of the Group.

Directors' emoluments and benefits include:

Year ended 31 December 2017	Salary or fees	Bonuses	Pension contribution	Gain on exercise of share options	Total
	£'000	£'000	£'000	£'000	£'000
Andrew Brode	-	-	-	-	-
Harry Hill	40	-	-	-	40
Jonathan Satchell	240	132	7	-	379
Neil Elton	170	93	5	-	268
Piers Lea	167	93	5	-	265
Dale Solomon	170	93	3	7,153	7,419
Leslie-Ann Reed	30	-	-	-	30
Peter Gordon	8	-	-	-	8
	825	411	20	7,153	8,409

Year ended 31 December 2016	Salary or fees	Bonuses	Pension contribution	Gain on exercise of share options	Total
	£'000	£'000	£'000	£'000	£'000
Andrew Brode	-	-	-	-	-
Harry Hill	40	-	-	-	40
Jonathan Satchell	210	54	6	-	270
Neil Elton	158	35	5	-	198
Piers Lea	126	35	4	-	165
Dale Solomon	147	35	1	340	523
Leslie-Ann Reed	30	-	-	-	30
Peter Gordon	23	-	-	-	23
	734	159	16	340	1,249

Key management remuneration	2017	2016
	£'000	£'000
Short-term employee benefits	1,256	909
Share-based payments	184	305
Total key management remuneration	**1,440**	**1,214**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

Directors' emoluments and benefits are stated for the Directors of Learning Technologies Group plc only. The amounts shown were recognised as an expense during the year.

Total social security costs related to Directors during the year was £128,000 (2016: £111,000), these are excluded from the table above.

Peter Gordon resigned as a Non-Executive Director on 4 April 2017.

There were no other short-term or long-term benefits, post-employment benefits or termination benefits paid to Directors in either of the years ended 31 December 2017 or 31 December 2016.

Directors' interests in the shares of the Company at 31 December 2017 and 31 December 2016 are as follows:

LTG Ordinary shares of £0.00375 each	Options				Shares	
	2017	2016	2017	2016	2017	2016
	Weighted Average Exercise Price (pence)		Number		Number	
Andrew Brode	-	-	-	-	115,881,671	113,215,005
Harry Hill	-	-	-	-	2,236,000	2,028,000
Jonathan Satchell	-	-	-	-	103,139,995	105,289,995
Leslie-Ann Reed	-	-	-	-	4,875,074	1,100,000
Neil Elton	30.946	19.000	3,095,744	1,095,744	206,666	160,000
Piers Lea	-	-	-	-	16,023,383	17,023,383
Dale Solomon	5.888	5.653	1,006,469	20,561,013	6,000,000	-
	24.796	6.329	4,102,213	21,656,757	248,362,789	238,816,383

On 29 April 2016 Dale Solomon exercised 1,065,000 options granted in May 2012.

On 14 June 2017, Dale Solomon exercised and sold 1,165,914 share options granted in May 2012 and November 2013. He exercised a further 18,388,607 share options on 23 June 2017 which had been granted in February 2014 and sold 12,388,607 shares on the same date.

See Note 24 for further details on share option plans.

Dividends paid to Directors during the year were as follows.

	2017	2016
	£'000	£'000
Total	556	408

See Note 28 for further details on dividends.

8. Income tax

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Current tax expense:		
- UK Current Tax on profits for the year	1,498	565
- Adjustments in respect to prior years	(253)	(35)
- Foreign Current Tax on profits for the year	421	528
Total current tax	1,666	1,058
Deferred tax (Note 18)		
- Origination and reversal of temporary differences	(2,032)	(943)
- Adjustments in respect to prior years	-	2
- Change in deferred tax rate	(805)	16
Total deferred tax	(2,837)	(925)
Income tax (credit)/expense	**(1,171)**	**133**

The change in deferred tax rate of £805,000 credited to the income statement relates wholly to the US corporation tax reform where the expected future tax rate has changed from 35% to 21%.

A reconciliation of income tax expense applicable to the profit/(loss) before taxation at the statutory tax rate to the income tax expense at the effective tax rate of the Group is as follows:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Profit / (loss) before taxation	692	(1,193)
Tax calculated at the domestic tax rate of 19.25% (2016: 20%):	133	(239)
Tax effects of:		
Income not subject to tax	(288)	(157)
Expenses not deductible for tax purposes	521	467
Joint venture/associate results reported net of tax	39	41
Tax deductions not recognised as an expense	(350)	(234)
Utilisation of previously unrecognised or acquired tax losses	(486)	-
Tax losses in the year for which no deferred tax is recognised	298	2
Difference of deferred rate and current tax rate	(978)	38
Adjustments in respect to prior years	(252)	(33)
Effect of different international tax rates	192	248
Income tax (credit)/expense	**(1,171)**	**133**

The aggregate current and deferred tax directly credited to equity amounted to £1,331,000 (2016: £823,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

9. Earnings per share

	31 Dec 2017	31 Dec 2016
	Pence	Pence
Basic profit/(loss) per share	0.379	(0.317)
Diluted profit/(loss) per share	0.363	(0.317)
Adjusted basic earnings per share	2.156	1.286
Adjusted diluted earnings per share	2.064	1.184

Basic earnings per share is calculated by dividing the profit/(loss) after tax attributable to the equity holders of the Group by the weighted average number of shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potential dilutive shares, namely share options or deferred consideration payable in shares where the contingent conditions have been met.

In order to give a better understanding of the underlying operating performance of the Group, an adjusted earnings per share comparative has been included. Adjusted earnings per share is stated after adjusting the profit/(loss) after tax attributable to equity holders of the Group for certain charges as set out in the table below. Adjusted diluted earnings per share has been calculated to also include the contingent shares payable as deferred consideration on acquisitions where the future conditions have not yet been met, as shown below.

The calculation of earnings per share is based on the following earnings and number of shares.

	Profit after tax	2017 Weighted average number of shares	Pence per share	(Loss) after tax	2016 Weighted average number of shares	Pence per share
	£'000	'000	Pence	£'000	'000	Pence
Basic earnings per ordinary share attributable to the owners of the parent	**2,013**	**530,444**	**0.379**	**(1,326)**	**418,619**	**(0.317)**
Effect of adjustments:						
Amortisation of acquired intangibles	7,756			3,200		
Share-based payment costs	675			605		
Integration costs	1,165			73		
Cost of acquisitions	920			99		
Fair value movement on contingent consideration	(52)			-		
Deferred consideration and earn-outs from acquisitions	1,853			3,211		
Net foreign exchange differences on borrowings	151			333		
Interest receivable	(7)			(1)		
Finance expense	52			57		
Income tax expense	(1,171)			133		
Effect of adjustments	11,342	-	2.138	7,710	-	1.842
Adjusted profit before tax	**13,355**	**-**	**-**	**6,384**	**-**	**-**
Tax impact after adjustments	(1,921)	-	(0.361)	(1,000)	-	(0.239)
Adjusted basic earnings per ordinary share	**11,434**	**530,444**	**2.156**	**5,384**	**418,619**	**1.286**
Effect of dilutive potential ordinary shares:						
Share options	-	21,789	(0.085)	-	30,031	(0.086)
Deferred consideration payable (conditions met)	-	888	(0.004)	-	1,819	(0.005)
Deferred consideration payable (contingent)	-	818	(0.003)	-	4,412	(0.011)
Adjusted diluted earnings per ordinary share	**11,434**	**553,939**	**2.064**	**5,384**	**454,881**	**1.184**

10. Property, plant and equipment

	Computer equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2016	**1,296**	**305**	**-**	**235**	**1,836**
Additions on acquisitions	9	8	-	-	17
Additions	206	211	-	5	422
Foreign exchange differences	15	31	-	-	46
At 31 December 2016	**1,526**	**555**	**-**	**240**	**2,321**
Additions on acquisitions	104	18	10	66	198
Additions	392	57	-	-	449
Foreign exchange differences	(19)	(13)	(1)	(5)	(38)
Disposals	(6)	(6)	(1)	(40)	(53)
At 31 December 2017	**1,997**	**611**	**8**	**261**	**2,877**
Accumulated Depreciation					
At 1 January 2016	**955**	**227**	**-**	**111**	**1,293**
Charge for the year	168	116	-	36	320
At 31 December 2016	**1,123**	**343**	**-**	**147**	**1,613**
Charge for the year	236	117	8	61	422
At 31 December 2017	**1,359**	**460**	**8**	**208**	**2,035**
Net book value					
At 31 December 2016	**403**	**212**	**-**	**93**	**708**
At 31 December 2017	**638**	**151**	**-**	**53**	**842**

11. Acquisitions

NetDimensions (Holdings) Limited

On 3 February 2017 LTG announced an all cash offer for the issued and to be issued share capital of NetDimensions (Holdings) Limited ('NetDimensions') for £53.6 million (£1 per share and share option).

NetDimensions is a leading global enterprise solutions provider of talent and learning management systems, headquartered in Hong Kong and with operations in the USA, UK, Germany, Australia and the Philippines.

On 9 February 2017, the Group announced the purchase of 1,000,000 ordinary shares in NetDimensions (representing 1.95%) for total consideration of £0.984 million. On 20 March 2017, the offer was declared unconditional in all respects; this is the date that the Group obtained control and is the date used for the acquisition accounting. At this date the Group had a 97.2% holding of NetDimensions.

The non-controlling interest has been measured on the proportionate basis of net assets acquired.

On 23 July 2017 the compulsory acquisition of the non-controlling shareholders' interests was completed, for £1.48 million in cash; this represents the reconciling difference between the £52.1 million total consideration shown in the table below and the £53.6 million cash offer disclosed above. The £0.82 million difference between the cash paid to acquire the non-controlling interest (£1.48 million) and the carrying value of the non-controlling interest (£0.67 million) was recognised directly in equity as it related to the repurchase of an equity interest.

None of the goodwill recognised is expected to be deductible for income tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

The following table summarises the consideration paid for NetDimensions, the fair value of assets acquired and liabilities assumed at the acquisition date.

	Fair value
Consideration	£'000
Cash paid to NetDimensions shareholders	49,793
Cash paid to NetDimensions share option holders	2,311
Total consideration	**52,104**
Non-controlling interest on acquisition	859
	52,963
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	7,881
Property, plant and equipment	198
Gross trade and other receivables	8,825
Trade and other payables	(14,435)
Deferred tax liabilities on acquisition	(5,733)
Intangible assets identified on acquisition	34,312
Total identifiable net assets	**31,048**
Goodwill	**21,915**
Total	**52,963**

The goodwill arising is attributable to the acquired workforce, anticipated future profit from expansion opportunities and synergies of the business. The goodwill arising from the acquisition has been allocated to the NetDimensions CGU. Fair value adjustments have been recognised for acquisition-related intangible assets and related deferred tax as well as future liabilities which are in alignment with accounting policies.

Acquisition-related intangible assets of £31.8 million relate to the valuation of the customer relationships which are amortised over a period of five years, and £1.1 million which relates to the value of the NetDimensions brand which is amortised over five years, and £1.4 million which relates to the value of the acquired intellectual property which is amortised over three years.

Acquisition costs of £920,000 have been charged to the statement of comprehensive income in the year relating to the acquisition of NetDimensions.

A deferred tax liability of £5.7 million in respect of the acquisition-related intangible assets was established on acquisition (refer to Note 18).

NetDimensions contributed £12.9 million of revenue for the period between the date of acquisition and the balance sheet date and £3.5 million of profit before tax. If the acquisition of NetDimensions had been completed on the first day of the financial year, Group revenues would have been £4.5 million higher and Group profit attributable to equity holders of the parent would have been £0.2 million higher.

Details regarding the strategic decision to acquire NetDimensions can be found in the Chairman's Statement and Strategic Report on pages 1 and 9 respectively.

12. Intangible assets

	Goodwil	Customer contracts & relationships	Branding	IP & Software development	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2016	**12,379**	**6,291**	**428**	**1,127**	**20,225**
Additions on acquisitions	12,233	8,584	256	249	21,322
Additions	-	-	-	796	796
Foreign exchange differences	1,996	1,317	125	69	3,507
At 31 December 2016	**26,608**	**16,192**	**809**	**2,241**	**45,850**
Additions on acquisition	21,915	31,811	1,069	1,432	56,227
Additions	-	-	-	1,384	1,384
Foreign exchange differences	(2,473)	(2,983)	(90)	(202)	(5,748)
At 31 December 2017	**46,050**	**45,020**	**1,788**	**4,855**	**97,713**
Accumulated amortisation					
At 1 January 2016	**-**	**1,609**	**164**	**522**	**2,295**
Amortisation charged in year	-	3,060	140	405	3,605
At 31 December 2016	**-**	**4,669**	**304**	**927**	**5,900**
Amortisation charged in year	-	7,144	286	974	8,404
At 31 December 2017	**-**	**11,813**	**590**	**1,901**	**14,304**
Carrying amount					
At 31 December 2016	**26,608**	**11,523**	**505**	**1,314**	**39,950**
At 31 December 2017	**46,050**	**33,207**	**1,198**	**2,954**	**83,409**

Goodwill and acquisition-related intangible assets recognised have arisen from acquisitions. Refer to Note 11 for further details of acquisitions undertaken during the year. IP and software development reflects the recognition of development work undertaken in-house.

The amortisation charge for the year of £8,404,000 includes £7,756,000 relating to acquired intangibles. Included within IP and software development are acquired intangibles with a cost of £1,432,000 and cumulative amortisation of £326,000.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination. The Group has four CGUs. Following the acquisition of LINE and its merger with Epic in July 2014, to form LEO, management have determined that LEO represents one CGU. The carrying amount of goodwill has been allocated as follows:

CGU	Goodwill		Growth rate		Pre-tax discount rate	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	%	%	%	%
LEO	7,435	7,435	8%	8%	11.0%	11.0%
Preloaded	2,180	2,180	9%	9%	12.5%	12.5%
Eukleia	2,764	2,764	9%	9%	12.5%	12.5%
Rustici	12,911	14,229	9%	9%	12.5%	12.5%
NetDimensions	20,760	-	9%		12.5%	
	46,050	**26,608**				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use. The key assumptions for the value in use calculations are those regarding the discount rates (being the companies cost of capital), growth rates (based on past experience and pipeline in place) and future EBIT margins (which are based on past experience). The Group monitors its pre-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rates applying to CGUs, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows. The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates revenues, net margins and cash flows for the following four years based on forecast growth rates of the CGUs. Cash flows beyond this five-year period are also considered in assessing the need for any impairment provisions. The growth rates are based on internal growth forecasts of between 8% and 9% for the first five years. The terminal rate used for the value in use calculation thereafter is 2.25%.

If the growth rate or the discount rate used increased or decreased by 10%, with all other factors being equal, there would be no impact on the goodwill impairment assessment.

Customer contracts, relationships and branding

These intangible assets include the Group's aggregate amounts spent on the acquisition of industry-specific knowledge, software technology, branding and customer relationships. These assets arose from acquisition as part of business combinations.

The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists.

The cost of these intangible assets is amortised over the estimated useful life of each separate asset of between two and five years.

IP and software development

IP and software development costs principally comprise expenditure incurred on major software development projects and the production of generic e-learning content where it is reasonably anticipated that the costs will be recovered through future commercial activity.

Capitalised development costs are amortised over the estimated useful life of between three and five years.

13. Investments accounted for using the equity method

Joint ventures

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Investment in joint ventures:		
Cost of investments	274	274
Share of accumulated losses	(271)	(271)
Foreign exchange differences	(3)	(3)
	-	-

The movements in joint venture investments is as follows:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Balance at beginning of year	-	-
Share of losses for the year	-	-
Investment during the year	-	-
Foreign exchange differences	-	-
	-	-

The joint venture has share capital consisting solely of ordinary shares, which are held directly by the Group. The nature of the investment at 31 December 2016 and 31 December 2017 is listed below.

Name of entity	Country of Registration or Incorporation	Principal activity	Percentage of ordinary shares held by Group
LEO Brasil Tecnologia Educacional Ltda (formerly Epic Brasil Tecnologia Educacional Ltda)	Brazil	Bespoke e-learning	50%

The joint venture is a private company and there is no quoted market price available for its shares.

The accounting reference date of the joint venture is coterminous with that of the Company.

There are no contingent liabilities or commitments relating to the Group's interest in the joint venture.

Where the Group's share of losses in a joint venture exceeds its interests in the joint venture, the Group does not recognise further losses as it has no further obligation to make payments on behalf of the joint venture.

No further disclosures are provided on the grounds of materiality.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

Associates

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Investment in associates:		
Cost of investments	2,095	2,095
Share of accumulated losses	(406)	(205)
Foreign exchange differences	-	-
	1,689	**1,890**

The movements in associate investments is as follows:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Balance at beginning of year	1,890	-
Share of losses for the year	(201)	(205)
Investment during the year	-	2,095
Foreign exchange differences	-	-
	1,689	**1,890**

The Group acquired a 27.27% interest in Watershed LLC ('Watershed') on 28 January 2016, for a total consideration of $3 million, approximately £2.095 million.

The associate has share capital consisting solely of ordinary shares, which are held directly by the Group. The nature of the investment at 31 December 2016 and 31 December 2017 is listed below.

Name of entity	Country of Registration or Incorporation	Principal activity	Percentage of ordinary shares held by Group
Watershed LLC	USA	Learning Analytics	27.27%

The associate is a private company and there is no quoted market price available for its shares.

The accounting reference date of the associate is coterminous with that of the Company.

There are no contingent liabilities or commitments relating to the Group's interest in the associate.

Summarised financial information for the associate

Set out below is summarised financial information for Watershed which is accounted for using the equity method. The information reflects the amounts presented in the Financial Statements of the associate adjusted for differences in accounting policies between the Group and the associate where appropriate, and not the Group's share of those amounts. Other than disclosed below there are no other current or non-current financial liabilities.

Summarised statement of financial position:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Non-current assets	**857**	**610**
Current assets		
Cash and cash equivalents	889	1,753
Other current assets	349	219
Total current assets	**1,238**	**1,972**
Current liabilities		
Other current liabilities (including trade payables)	(394)	(131)
Total current liabilities	**(394)**	**(131)**
Non-current liabilities	**(101)**	**(34)**
Net assets	**1,600**	**2,417**

Summarised statement of comprehensive income:

	Year ended 31 December 2017	(Post acquisition) Period ended 31 December 2016
	£'000	£'000
Revenue	844	299
(Loss) from continuing operations	**(742)**	**(752)**
Income tax (expense) / release	(3)	-
(Loss) for the year	**(745)**	**(752)**
Other comprehensive (expense) / income	-	-
Total comprehensive (loss) for the year	**(745)**	**(752)**

No depreciation or amortisation was charged in the period.

Reconciliation of summarised financial information:

	2017	2016
	£'000	£'000
Opening net assets/(liabilities)	**2,417**	**(9)**
(Loss) for the year	(745)	(752)
Issue of share capital or capital contribution	-	2,797
Foreign exchange differences	(72)	381
Closing net assets at 31 December	**1,600**	**2,417**
Interest in associate's net assets at 27.27%	**436**	**659**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

14. Trade receivables

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Trade receivables	12,253	4,286
Allowance for impairment losses	(186)	(57)
	12,067	**4,229**
Impairment losses:		
At 1 January	57	40
Additions on acquisition	111	-
Additions	18	17
Amounts written-back	-	-
At 31 December	**186**	**57**

The Group's normal trade credit term is 30 days. Other credit terms are assessed and approved on a case-by-case basis.

The fair value of trade receivables approximates their carrying amount, as the impact of discounting is not significant. No interest has been charged to date on overdue receivables.

15. Other receivables, deposits and prepayments

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Current assets		
Sundry receivables	577	238
Prepayments	1,786	1,757
	2,363	**1,995**
Non-current assets		
Prepayments	-	1,293
	-	**1,293**

16. Amount recoverable on contracts

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Amount recoverable on contracts	4,242	2,642
	4,242	**2,642**

17. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Cash and bank balances	15,662	5,348

18. Deferred tax assets/(liabilities)

Deferred tax assets	Share options	Tax losses	Short-term timing differences	Total
	£'000	£'000	£'000	£'000
At 1 January 2016	1,029	-	-	1,029
Acquisition of subsidiaries	-	-	-	-
Deferred tax charge directly to the income statement	38	-	2	40
Deferred tax charged directly to equity	648	-	-	648
At 31 December 2016	**1,715**	**-**	**2**	**1,717**
Acquisition of subsidiaries	-	-	-	-
Deferred tax charged/(credited) directly to the income statement	(143)	521	6	384
Deferred tax charged directly to equity	1,331	-	-	1,331
Exercise of share options	(1,499)	-	-	(1,499)
At 31 December 2017	**1,404**	**521**	**8**	**1,933**

Deferred tax liabilities	Intangibles	Accelerated tax depreciation	Total
	£'000	£'000	£'000
At 1 January 2016	(996)	(186)	(1,182)
Deferred tax on acquired intangibles and via acquisition	(3,094)	-	(3,094)
Deferred tax charge directly to the income statement	919	(34)	885
Exchange rate differences	(506)	-	(506)
At 31 December 2016	**(3,677)**	**(220)**	**(3,897)**
Deferred tax on acquired intangibles and via acquisition	(5,733)	-	(5,733)
Deferred tax charge directly to the income statement	2,443	16	2,459
Exchange rate differences	694	-	694
At 31 December 2017	**(6,273)**	**(204)**	**(6,477)**

The deferred tax balances relate to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax assets are recognised to the extent that it is probable that the future taxable profits will allow the deferred tax assets to be recovered. Deferred tax assets of £664,000 relating to carried forward tax losses have not been recognised as it is not probable that future taxable profits will allow these deferred tax assets to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

19. Trade and other payables

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Trade payables	946	871
Payments received on account	13,930	2,711
Tax and social security	1,673	1,002
Contingent consideration	168	59
Acquisition-related deferred consideration and earn-outs	2,641	2,824
Accruals	4,398	1,748
	23,756	**9,215**

TThe contingent consideration relates wholly to the acquisition of Preloaded Limited and is a financial instrument held at fair value within the scope of IAS 39. The acquisition-related deferred consideration and earn-outs balance relates wholly to the acquisition of Rustici Software LLC. This is treated as post-combination remuneration and is accrued over the service period.

20. Other long-term liabilities

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Acquisition-related deferred consideration and earn-outs	-	1,055
Contingent consideration	192	371
	192	**1,426**

The contingent consideration relates wholly to the acquisition of Preloaded Limited and is repayable during 2019 (see Note 19).

21. Borrowings

On the acquisition of NetDimensions the debt facility with Barclays Bank plc was fully repaid and a new debt facility of £30 million was entered into with Silicon Valley Bank on 29 March 2017. Part of this facility was applied to settle a portion of the consideration payable to NetDimensions (Holdings) Limited shareholders. The facility comprises a £10 million equivalent multicurrency term loan, a £10 million equivalent multicurrency revolving credit facility and a £10 million accordion facility, all available to the Group for 5 years. The facility attracts variable interest between 1.6% and 2.1%, based on the Group's leverage, above LIBOR for the currency of the loan. The term loan was drawn down in USD ($12.4 million) and is repaid with quarterly instalments of $0.622 million with the balance repayable on the expiry of the loan in March 2022.

The bank loan is secured by a fixed and floating charge over the assets of the Group and is subject to various financial covenants.

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Current interest-bearing loans and borrowings	1,849	3,252
Non-current interest-bearing loans and borrowings	12,765	10,582
	14,614	**13,834**

22. Provisions

	31 Dec 2017	31 Dec 2016
	£'000	£'000
At 1 January – brought forward	99	99
Paid in the year	-	-
Addition	158	-
	257	**99**

The provision relates to the Group's share of dilapidation costs in respect of costs to be incurred at the end of property leases.

23. Share capital

Shares were issued during the year as follows:

	Number of shares	Share capital	Share premium	Merger reserve	Total
		£'000	£'000	£'000	£'000
At 1 January 2017	421,411,980	1,580	17,044	31,983	50,607
Placing of shares	124,000,000	465	46,035	-	46,500
Cost of issuing shares	-	-	(1,122)	-	(1,122)
Issue of shares on payment of Rustici contingent consideration	1,931,911	7	620	-	627
Shares issued on the exercise of options	24,656,614	93	1,631	-	1,724
At 31 December 2017	**572,000,505**	**2,145**	**64,208**	**31,983**	**98,336**

The par value of all shares is £0.00375. All shares in issue were allotted, called up and fully paid.

On 3 March 2015 the Group incorporated Learning Technologies Group (Trustee) Limited, a wholly owned subsidiary of the Company. The purpose of the company is to act as an Employee Benefit Trust ('EBT') for the benefit of current and previous employees of the Group. At 31 December 2017 the EBT holds 404,340 ordinary shares in the Company. These shares are held in treasury.

On 3 February 2017, the Company announced its proposed recommended cash offer for the acquisition of NetDimensions (Holdings) Limited ('NetDimensions') and the conditional placing of 124,000,000 shares to raise approximately £46.5 million. On 20 February 2017 at the General Meeting the Resolutions were passed and the Placing Shares were admitted to trading on AIM on 30 March 2017. Further details of the acquisition are provided in Note 11.

During the year, 1,931,911 new ordinary shares were issued as part payment of the acquisition-related deferred consideration due on the acquisition of Rustici Software LLC.

24,656,614 ordinary shares were issued during the course of the year as a result of the exercise of employee share options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

24. Share-based payment transactions

The Group operates an Approved and Unapproved share option plan and Sharesave option scheme. The Group's share-based payment arrangements are summarised below.

(a) Share option plans

As part of its strategy for executive and key employee remuneration, on Admission to AIM the Company established a Share Option Scheme under which share options may be granted to officers and employees or members of the Group. Under the rules of the Share Option Scheme, the Company may grant EMI options and/or unapproved options. Prior to the reverse takeover by LTG in November 2013, Epic Group Limited ran their own share option scheme. Option holders in this plan either exercised their options or modified them into share options in the new scheme, such that they had a neutral effect on the option holders immediately before and after the amendment of the options.

There is no limit on the number of shares, or the percentage of issued share capital, that can be used by the Company for share options. The rules of the Share Option Scheme do not comply with the ABI's guidelines on policies and practices in respect of executive remuneration.

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		pence		pence
Approved share option plan - Enterprise Management Incentive ('EMI'):				
At 1 January	17,834,083	9.478	24,449,914	9.397
Options granted by Company	-	-	-	-
Forfeited	-	-	(2,600,000)	16.600
Exercised during the year	(5,689,570)	5.278	(4,015,831)	4.380
At 31 December	**12,144,513**	**11.446**	**17,834,083**	**9.478**

EMI options are granted to employees of the Group and vesting criteria are subject to challenging performance targets, such as share price growth, or other criteria such as annual sales. Except where agreed by the Board, options will lapse if an option holder ceases to be an employee of the Group. All EMI options are settled by equity.

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		pence		pence
Unapproved share option plan:				
At 1 January	19,412,353	9.671	17,412,353	7.130
Granted by Company	9,400,000	43.588	2,800,000	28.500
Forfeited	-	-	(800,000)	20.250
Exercised during the year	(16,002,452)	5.880	-	-
At 31 December	**12,809,901**	**39.295**	**19,412,353**	**9.671**

Unapproved options are granted to employees of the Group and vesting criteria are subject to challenging performance targets, such as share price growth, or other criteria such as annual sales. Except where agreed by the Board, options will lapse if an option holder ceases to be an employee of the Group. All unapproved options are settled by equity.

(b) Sharesave option scheme

The Company established the 2014, 2015, 2016 and 2017 Learning Technologies Group plc Sharesave Scheme in April 2014, April 2015, April 2016 and April 2017 respectively. The scheme enables UK permanent employees of the Group to buy shares in the Company at a discount on maturity of a three-year savings contract, unless they are made redundant, in which case they can exercise their options at the time of redundancy. The savings are held with the Yorkshire Building Society.

Each member of the scheme may save a fixed amount of up to £500 per month for three years at the end of which period, each employee may buy shares at a fixed price of 16.25, 18.8, 29.6 and 40.8 pence per share respectively (the 'Option Price'), being a discount of 20% on the share price as of 28 April 2014, 24 April 2015, 26 April 2016 and 20 April 2017 respectively. At the end of three years, an employee may either opt to buy shares at the Option Price or take the savings in cash.

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		pence		pence
Sharesave Option Scheme:				
At 1 January	3,908,777	17.911	3,964,574	16.594
Granted by Company	984,231	40.800	406,815	29.600
Forfeited	(307,465)	25.349	(398,003)	17.017
Exercised during the year	(2,964,593)	16.250	(64,609)	16.250
At 31 December	**1,620,950**	**33.436**	**3,908,777**	**17.911**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

At 31 December 2017, options granted to subscribe for ordinary shares of the Company, and the valuation criteria, are as follows:

Date of grant	Number of shares under option			Exercise Price	Remaining vesting period	Fair value of options	Life	Volatility
	Approved Scheme	Unapproved scheme	Sharesave Scheme	Pence		Pence	Years	Percent
May 2012	2,371,359	-	-	1.882	-	12.52	10	45%
Jun 2013	831,824	-	-	2.718	-	11.96	10	45%
Nov 2013	3,012,960	-	-	5.880	-	10.46	10	45%
Mar 2014	200,000	-	-	15.500	-	8.76	10	45%
Apr 2014	-	-	11,076	16.250	-	7.57	3	45%
Nov 2014	650,000	-	-	17.625	-	9.96	10	45%
Nov-2014	200,000	-	-	17.625	-	9.96	10	45%
Nov 2014	450,000	-	-	17.625	-	9.96	10	45%
Nov 2014	200,000	-	-	17.625	-	9.96	10	45%
Nov 2014	450,000	-	-	17.625	Jan 2018	9.96	10	45%
Nov 2014	200,000	-	-	17.625	Oct 2018	9.96	10	45%
Nov 2014	250,000	-	-	17.625	Jan 2019	9.96	10	45%
Jan 2015	500,000	-	-	19.000	-	8.81	10	45%
Jan 2015	250,000	-	-	19.000	-	3.35	10	45%
Jan 2015	250,000	-	-	19.000	-	2.59	10	45%
Apr 2015	-	-	371,483	18.800	-	9.47	3	45%
Dec 2015	200,000	-	-	20.250	-	4.22	10	45%
Dec 2015	400,000	-	-	20.250	Jan 2018	5.77	10	45%
Dec 2015	400,000	-	-	20.250	Jan 2019	6.95	10	45%
Dec 2015	338,271	-	-	20.250	Jan 2020	7.94	10	45%
Dec 2015	200,000	-	-	25.250	-	6.71	10	45%
Dec 2015	200,000	-	-	25.250	Dec 2018	8.18	10	45%
Dec 2015	590,099	609,901	-	25.250	Dec 2019	9.40	10	45%
Apr 2016	-	-	311,952	29.600	-	9.53	3	45%
Aug 2016	-	250,000	-	28.500	-	16.11	10	45%
Aug 2016	-	700,000	-	28.500	Dec 2018	16.11	10	45%
Aug 2016	-	700,000	-	28.500	Dec 2019	16.11	10	45%
Aug 2016	-	700,000	-	28.500	Dec 2020	16.11	10	45%
Aug 2016	-	450,000	-	28.500	Dec 2021	16.11	10	45%
Mar 2017	-	200,000	-	42.500	Jan 2019	19.63	10	34%
Mar 2017	-	200,000	-	42.500	Jan 2020	19.63	10	34%
Mar 2017	-	200,000	-	42.500	Jan 2021	19.63	10	34%
Mar 2017	-	200,000	-	42.500	Jan 2022	19.63	10	34%
Apr 2017	-	1,000,000	-	37.500	-	13.86	10	34%
Apr 2017	-	1,000,000	-	37.500	Mar 2018	5.20	10	34%
Apr 2017	-	-	926,439	40.800	-	17.63	3	34%
May 2017	-	1,000,000	-	37.500	Jan 2019	29.63	10	34%
May 2017	-	1,000,000	-	37.500	Jan 2020	29.63	10	34%
May 2017	-	1,000,000	-	37.500	Jan 2021	29.63	10	34%
Jun 2017	-	400,000	-	42.500	Jan 2019	20.46	10	36%
Jun 2017	-	400,000	-	42.500	Jan 2020	20.46	10	36%
Jun 2017	-	400,000	-	42.500	Jan 2021	20.46	10	36%
Jun 2017	-	400,000	-	42.500	Jan 2022	20.46	10	36%
Dec 2017	-	500,000	-	60.114	Jan 2020	30.10	10	38%
Dec 2017	-	500,000	-	60.114	Jan 2021	30.10	10	38%
Dec 2017	-	500,000	-	60.114	Jan 2022	30.10	10	38%
Dec 2017	-	500,000	-	60.114	Jan 2023	30.10	10	38%
Totals	**12,144,513**	**12,809,901**	**1,620,950**					

An option-holder has no voting or dividend rights in the Company before the exercise of a Share option.

The weighted average share price at grant date of options granted during the year in the Unapproved Share Option Scheme at grant date was £0.5020 (2016: £0.2850) and the estimated fair value of each share option granted was £0.2304 (2016: £0.1611).

The weighted average share price at grant date of the Sharesave Scheme was £0.5100 (2016: £0.3700) and the estimated fair value of each share option was £0.1763 (2016: £0.0953). It is assumed that 75% of members will remain in the Group after three years.

A 1.78% (2016: 1.78%) risk-free interest rate has been assumed for all three schemes.

This estimated fair value was calculated by applying a Black-Scholes option pricing model. The expected volatility of the Group's share price is calculated based on an assumption of historical volatility.

The expense and equity reserve arising from share-based payment transactions recognised in the year ended 31 December 2017 was £675,000 (year ended 31 December 2016: £605,000).

The weighted average share price at the date of exercise of options under the EMI Share Option Scheme was £0.3244.

The weighted average share price at the date of exercise of options under the Sharesave Scheme was £0.3300.

The number of options that are exercisable at 31 December 2017 is 9,727,198 (2016: 13,555,713).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

25. Subsidiaries of the Group

The subsidiaries of the Group, all of which are private companies limited by shares, as at 31 December 2017, are as follows:

Company	Country of Registration or Incorporation	Registered Office	Principle Activity	Percentage of ordinary shares held by Company
Epic Group Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Holding company	100%
gomo Learning Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Mobile e-learning	100%
Leo Learning Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Bespoke e-learning	100%
Leo Learning Inc	USA	C/O RWS Group, 11 Broadway, Suite 466, New York, New York, 10004, USA	Bespoke e-learning	100%
Preloaded Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Educational Games	100%
Learning Technologies Group (Trustee) Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Employee Benefit Trust	100%
Eukleia Training Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Bespoke e-learning	100%
Rustici Software LLC	USA	210 Gothic CT # 100, Franklin, TN 37067-8256, USA	e-learning interoperability	100%
NetDimensions Limited	Hong Kong	17/F, Sui on Center, 188 Lockhart Road, Wan Chai, Hong Kong	e-learning software licencing and services	100%
NetDimensions, Inc.	USA	c/o The Corporation Trust Company (Delaware), 1209 Orange Street, New Castle, DE 19801, USA	e-learning software licencing and services	100%
NetDimensions (UK) Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	e-learning software licencing and services	100%
NetDimensions (China) Limited	Hong Kong	17/F, Sui on Center, 188 Lockhart Road, Wan Chai, Hong Kong	e-learning software licencing and services	100%
NetDimensions (Australia) Pty Limited	Australia	19 Northcote Street, Haberfield, NSW 2015, Australia	e-learning software licencing and services	100%
NetDimensions Asia Limited	Hong Kong/Philippines	17/F, Sui on Center, 188 Lockhart Road, Wan Chai, Hong Kong	e-learning software licencing and services	100%
NetDimensions Germany GmbH	Germany	Arcisstr. 32, c/o Taxon GmbH, 80799 Munchen, Germany	e-learning software licencing and services	100%
NetDimensions Holdings (UK) Limited	England and Wales	Sherborne House, 5th Floor 119-121 Cannon Street, London, EC4N 5AT, England	Holding company	100%
NetDimensions (Holdings) Limited	Cayman Islands	Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Catman, KY1-1104, Cayman Islands	Dormant	100%
Line Communications Holdings Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Dormant	100%
Line Communications Group Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Dormant	100%

The accounting reference date of each of the subsidiaries is coterminous with that of the Company.

On 19 December 2017, the Group disposed of its 100% holding in LEO Learning AG for £4,000 resulting in a profit on disposal of £42,000 which has been included within integration costs.

26. Reserves

The share premium account represents the amount received on the issue of ordinary shares by the Company in excess of their nominal value and is non-distributable.

The merger reserve arose on the acquisition of Leo Learning Limited (formerly Epic Performance Improvement Limited) by Epic Group Limited in 1996, and the Company's reverse acquisition of Epic Group Limited. The merger reserve also includes the merger relief on the issue of shares to acquire Line Communications Holding Limited on 7 April 2014, Preloaded Limited on 12 May 2014, Eukleia Training Limited on 31 July 2015 and Rustici Software LLC on 29 January 2016.

The reverse acquisition reserve was created in accordance with IFRS3 'Business Combinations'. The reserve arises due to the elimination of the Company's investment in Epic Group Limited. Since the shareholders of Epic Group Limited became the majority shareholders of the enlarged group, the acquisition is accounted for as though there is a continuation of the legal subsidiary's Financial Statements. In reverse acquisition accounting, the business combination's costs are deemed to have been incurred by the legal subsidiary (see Note 2(b)).

The share-based payment reserve arises from the requirement to value share options in existence at the grant date (see Note 24).

The translation reserve represents cumulative foreign exchange differences arising from the translation of the Financial Statements of foreign subsidiaries and is not distributable by way of dividends.

27. Related party transactions

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Amount owing (from)/to joint venture/associate:		
Current		
Trade balances with joint venture	10	45
Trade balances with associate	10	-
Total	**20**	**45**

The amounts due to related parties were unsecured, interest-free and repayable on demand.

Balances and transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed in this Note. Balances and transactions between the Group and other related parties are disclosed below.

Remuneration of Directors and other transactions

During the year there were no material transactions between the Company and the Directors, other than their emoluments (disclosed in Note 7). The Directors of the Company are considered to be the key management personnel of the entity.

During the normal course of business, the Group purchased translation and accommodation services from RWS Group Limited totalling £255,000 in the year ended 31 December 2017 (2016: £453,000). Andrew Brode is the Chairman of RWS Group Limited. The amount due/accrued to RWS Group Limited at 31 December 2017 was £57,000 (31 December 2016: £69,000). These balances are included in trade and other payables (refer to Note 19).

Transactions with joint venture

During the normal course of business, the Group purchased graphics services from its joint venture, LEO Brazil, totalling £192,000 and received licence fee income, totalling £5,000 in the year ended 31 December 2017.

Transactions with associate

In the year ended 31 December 2017, the Group purchased licences and services totalling £48,000 from its associate, Watershed, during the normal course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

28. Dividends paid

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Final dividend paid	766	418
Interim dividend paid	513	294
Total	**1,279**	**712**

On 24 October 2017, the Company paid an interim dividend of 0.09 pence per share (2016: 0.07 pence per share). The Directors propose to pay a final dividend of 0.21 pence per share for the year ended 31 December 2017 (totalling £1.2 million based on the issued share capital of the Company at the date of this report), equating to a total pay-out in respect of the year of 0.30 pence per share (2016: 0.21 pence per share). The final dividend paid in 2017 relates to the year ending 31 December 2016.

29. Financial instruments

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

(a) Financial risk management policies

The Group's policies in respect of the major areas of treasury activity are as follows:

(i) Market risk

(i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Pounds Sterling. The currencies giving rise to this risk are primarily the United States Dollar, Swiss Franc, Euro and the Brazilian Real. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The Group maintains a natural hedge whenever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital and operational expenditure in the respective currencies.

The carrying amounts of the Group's foreign currency denominated financial assets and liabilities at the end of year were as follows:

	United States Dollar	Hong Kong Dollar	Euro	Swiss Francs	Canadian Dollar	Australian Dollar	Philippine Piso	Swedish Krona	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 Dec 2017									
Financial assets	11,712	146	4,984	108	163	349	9	29	17,500
Financial liabilities	15,858	193	94	-	-	5	6	-	16,156
31 Dec 2016									
Financial assets	3,623	-	265	49	-	-	-	-	3,937
Financial liabilities	13,948	-	-	-	-	-	-	-	13,948

Foreign currency risk sensitivity analysis

The following table details the sensitivity analysis to possible changes in the relative values of foreign currencies to which the Group is exposed as at the end of each year, with all other variables held constant:

Effects on profit after taxation/equity	31 December 2017 increase/ (decrease)	31 December 2016 increase/ (decrease)
	£'000	£'000
United States Dollar:		
- Strengthened by 10%	(415)	(1,033)
- Weakened by 10%	415	1,033
Hong Kong Dollar:		
- Strengthened by 10%	(5)	-
- Weakened by 10%	5	-
Euro:		
- Strengthened by 10%	489	27
- Weakened by 10%	(489)	(27)
Swiss Franc:		
- Strengthened by 10%	11	5
- Weakened by 10%	(11)	(5)
Canadian Dollar:		
- Strengthened by 10%	16	-
- Weakened by 10%	(16)	-
Australian Dollar:		
- Strengthened by 10%	34	-
- Weakened by 10%	(34)	-
Philippine Piso:		
- Strengthened by 10%	-	-
- Weakened by 10%	-	-
Swedish Krona:		
- Strengthened by 10%	3	-
- Weakened by 10%	(3)	-

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk sensitivity analysis

The Group's external borrowings at the balance sheet date comprise loan facilities on floating interest rates. The Group considers the exposure to interest rate risk acceptable.

If the interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2017 and net assets at that date would decrease by £45,000 (2016: £64,000). This is attributable to the Group's exposure to movements in interest rate on its variable borrowings.

(ii) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. Impairment is estimated by management based on prior experience and the current economic environment.

Credit risk concentration profile

The Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics (2016: No significant credit risk exposure). The Group defines major credit risk as exposure to a concentration exceeding 10% of a total class of such asset.

Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of each reporting period.

The exposure of credit risk for trade receivables by geographical region is as follows:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
United Kingdom	6,467	2,870
United States	2,775	1,136
Europe	494	280
Asia Pacific	2,517	-
Allowance for impairment losses	(186)	(57)
	12,067	**4,229**

Ageing analysis

The ageing analysis of the Group's trade receivables is as follows:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Not past due	8,183	2,743
Past due:		
Less than three months	2,879	1,135
Three to six months	603	330
Past six months	588	78
Gross amount	**12,253**	**4,286**

Trade receivables that are individually impaired were those in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

Collective impairment allowances are determined based on estimated irrecoverable amounts from the sale of goods, determined by reference to experience of past defaults.

Trade receivables that are past due but not impaired

The Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantial companies with good collection track record and no recent history of default.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due. All current liabilities are repayable within one year.

Ageing analysis

The table below summarises the maturity profile of the Group's financial liabilities, including interest payments, where applicable based on contractual undiscounted payments:

	Less than 1 year	1-2 years	2-3 years	>3 years	Total
	£'000	£'000	£'000	£'000	£'000
Year ended 31 December 2017					
Trade payables	946	-	-	-	946
Amounts owing to related parties	20	-	-	-	20
Borrowings	2,279	2,184	2,125	9,463	16,051
Contingent consideration	168	192	-	-	360
	3,413	**2,376**	**2,125**	**9,463**	**17,377**
Year ended 31 December 2016					
Trade payables	871	-	-	-	871
Amounts owing to related parties	45	-	-	-	45
Borrowings	3,602	3,516	7,401	-	14,519
Contingent consideration	59	371	-	-	430
	4,577	**3,887**	**7,401**	**-**	**15,865**

(b) Capital risk management

The Group defines capital as the total equity of the Group attributable to the owners of the parent Company and net funds. The Group's objectives when managing capital are to safeguard its 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 and to provide funds for merger and acquisition activity.

During the year, the Group fully repaid the term loan with Barclays PLC with a new term loan and revolving credit facility up to £30 million with Silicon Valley Bank – see Note 21 – this is the only external debt finance of the Group.

The Company made dividend distributions of 0.23 pence per share during the year ended 31 December 2017 (2016: 0.17 pence per share).

Total equity increased from £30.7 million to £76.8 million during the year and net funds increased from net debt of £8.5 million to net cash of £1 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

(c) Classification of financial instruments

Financial assets	31 Dec 2017	31 Dec 2016
	£'000	£'000
Loans and receivables financial assets:		
Trade receivables	12,067	4,229
Amounts recoverable on contracts	4,242	2,642
Cash and bank balances	15,662	5,348
	31,971	**12,219**

Financial liabilities	31 Dec 2017	31 Dec 2016
	£'000	£'000
Fair value through the profit and loss:		
Contingent consideration	360	430
	360	**430**
At amortised cost:		
Trade payables	946	871
Borrowings	14,614	13,834
Amount owing to related parties	20	45
	15,580	**14,750**

(d) Reconciliation of liabilities arising from financing activities

	Note	31 December 2016	Net financing cashflows	Interest paid	Fair value movement	Foreign exchange movement	31 December 2017
Borrowings	21	13,834	1,807	(474)	594	(1,147)	14,614
Contingent consideration	19,20	430	(59)	-	(11)	-	360

(e) Fair values of financial instruments

The financial assets and financial liabilities maturing within the next 12 months approximate their fair values due to the relatively short-term maturity of the financial instruments.

The Group holds certain financial instruments on the statement of financial position at their fair value. The following table provides an analysis of those that are measured subsequent to initial recognition at fair value through profit or loss, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- **Level 1**- Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities:
- **Level 2** - Fair value measurements are those derived from inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices), and
- **Level 3** - Fair value measurements are those derived from the valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value of the contingent consideration is calculated using actual and forecast results to value the amount which will be payable according to the earnout metrics on acquisitions. These liabilities are discounted to their present value using the Group's weighted average cost of capital of 10%. Both the future cash flows and discount rate used are unobservable inputs. Management believes that reasonably possible changes to the unobservable inputs would not result in a significant change in the estimated fair value.

There have been no transfers between these categories in the current or preceding year

2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Contingent consideration	-	-	360	360
	-	**-**	**360**	**360**

2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Contingent consideration	-	-	430	430
	-	**-**	**430**	**430**

30. Commitments

The Group had no material capital commitments contracted but not provided for in the Financial Statements. Operating lease payments represent rental payable by the Group for its office properties.

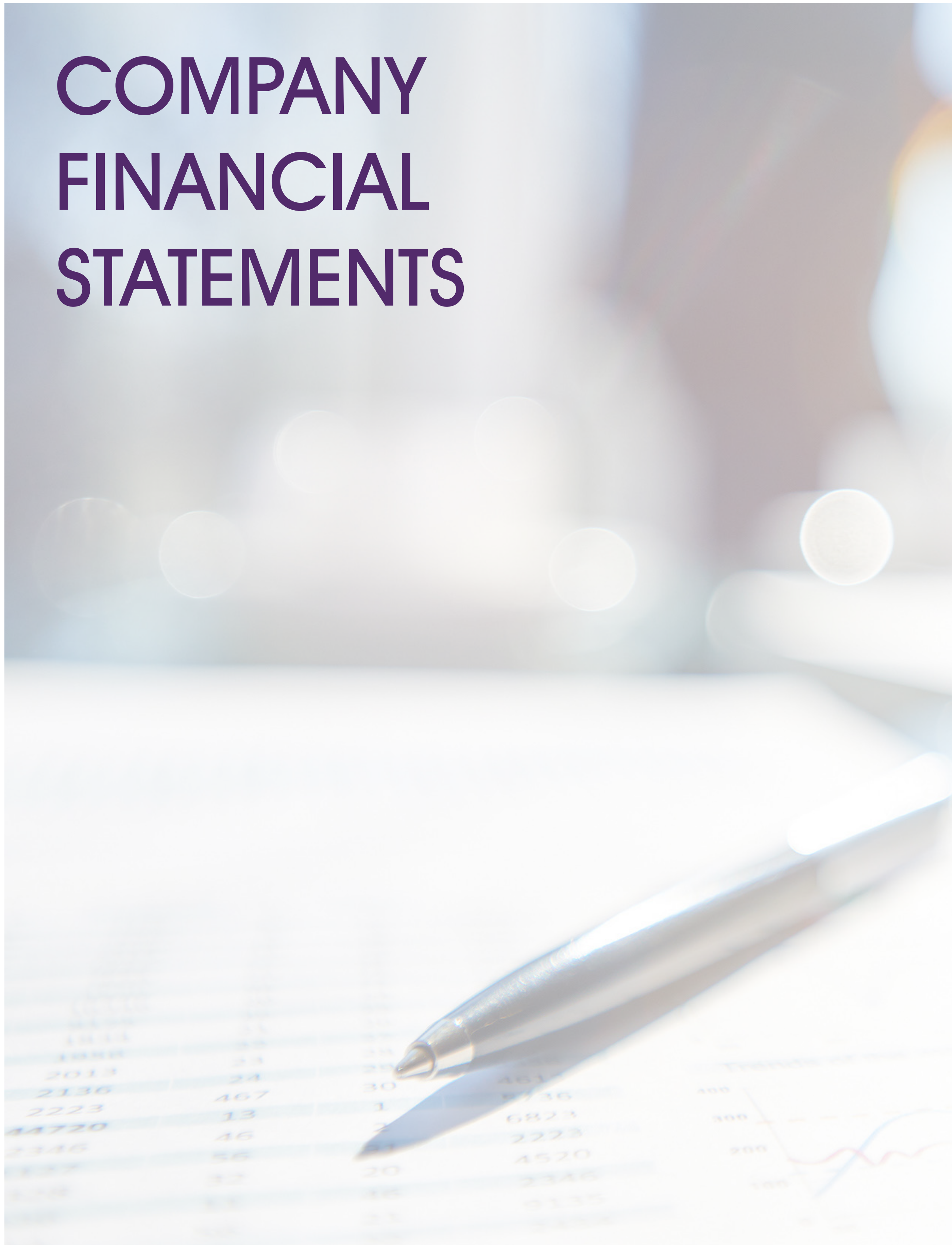
The amounts of minimum lease payments under non-cancellable operating leases are as follows:

	31 Dec 2017	31 Dec 2016
	Land and buildings	Land and buildings
Operating leases which are due:	£'000	£'000
Within one year	1,075	666
In the second to fifth years inclusive	1,841	1,530
Over five years	330	553
	3,246	**2,749**

31. Events since the reporting date

The Company appointed Goldman Sachs International as joint corporate broker on 15 February 2018.

COMPANY FINANCIAL STATEMENTS



COMPANY STATEMENT OF FINANCIAL POSITION

(Registered number: 07176993)
As at 31 December 2017

	Note	31 Dec 2017 £'000	31 Dec 2016 £'000
Fixed assets:			
Investment in subsidiaries	3	91,160	36,271
		91,160	**36,271**
Current assets:			
Debtors	4	13,243	13,283
Cash and bank balances		2,001	317
		15,244	**13,600**
Creditors:			
Amounts falling due within one year	8	2,397	3,397
		2,397	**3,397**
Net current assets		**12,847**	**10,203**
Total assets less current liabilities		**104,007**	**46,474**
Creditors:			
Amounts falling due after more than one year	9	12,957	12,008
Net Assets		**91,050**	**34,466**
Capital and Reserves:			
Share capital	7	2,145	1,580
Share premium account	7	64,168	17,004
Merger reserve	7	9,714	9,714
Share-based payments reserve	7	1,090	1,879
Retained profits		13,933	4,289
		91,050	**34,466**

Capital and reserves includes profit or loss for the year of the parent company, of £9.459 million (2016 - £3.854 million).

The Notes on pages 72 to 76 form an integral part of these Financial Statements.

The Financial Statements on pages 70 to 76 were approved and authorised for issue by the Board of Directors on 16 March 2018 and were signed on its behalf by:

Neil Elton
Group Finance Director
16 March 2018

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Share capital	Share premium	Merger reserve	Share-based payments reserve	Retained Profits	Total
		£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2016		**1,506**	**15,948**	**5,851**	**1,555**	**1,147**	**26,007**
Profit for the year		-	-	-	-	3,854	3,854
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**3,854**	**3,854**
Issue of shares	6	74	1,056	3,863	-	-	4,993
Costs of issuing shares		-	-	-	-	-	-
Payment of dividends		-	-	-	-	(712)	(712)
Share-based payment charge credited to equity	11	-	-	-	605	-	605
Transfer on exercise and lapse of options		-	-	-	(281)	-	(281)
Transactions with owners		**74**	**1,056**	**3,863**	**324**	**(712)**	**4,605**
At 31 December 2016		**1,580**	**17,004**	**9,714**	**1,879**	**4,289**	**34,466**
Profit for the year		-	-	-	-	9,459	9,459
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**9,459**	**9,459**
Issue of shares	6	565	48,286	-	-	-	48,851
Costs of issuing shares		-	(1,122)	-	-	-	(1,122)
Payment of dividends		-	-	-	-	(1,279)	(1,279)
Share-based payment charge credited to equity	11	-	-	-	675	-	675
Transfer on exercise and lapse of options		-	-	-	(1,464)	1,464	-
Transactions with owners		**565**	**47,164**	**-**	**(789)**	**185**	**47,125**
At 31 December 2017		**2,145**	**64,168**	**9,714**	**1,090**	**13,933**	**91,050**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. General information

The Company is a public limited company, which is listed on the AIM Market of the London Stock Exchange and domiciled in England and incorporated and registered in England and Wales. The address of its registered office is Sherborne House, 5th Floor, 119-121 Cannon Street, London, EC4N 5AT. The registered number of the Company is 07176993.

2. Summary of significant accounting policies

(a) Basis of preparation

The Company's Financial Statements have been prepared in accordance with applicable law and accounting standards in the United Kingdom and under the historical cost accounting rules (Generally Accepted Accounting Practice in the United Kingdom).

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future in accordance with the FRC guidance on the going concern basis of accounting and reporting on solvency and liquidity risks (April 2016). It is considered appropriate to continue to prepare the Financial Statements on a going concern basis.

These Financial Statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The Financial Statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate Financial Statements. The profit attributable to members of the Company for the year ended 31 December 2017 is £9,459,000 (year ended 31 December 2016: profit of £3,854,000).

The company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows
- the requirements of Section 11 Financial Instruments

(b) Revenue recognition

Revenue is stated net of Value Added Tax and net of any applicable discounts or rebates. Revenue is recognised for the rendering of services when all the following conditions are satisfied:

- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Company.

(c) Interest revenue

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

(d) Fixed asset investments

Fixed asset investments in Group undertakings are carried at cost less any provision for impairment.

(e) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(g) Income taxes

The charge for taxation is based on the profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

(h) Pensions

The policy for the company's defined contribution plan can be found in Note 2 of the Consolidated Accounts.

(i) Share-based payment arrangements

The policy for the company's share-based payment arrangements can be found in Note 2 of the Consolidated Accounts.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

3. Investment in subsidiaries

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Cost		
At 1 January	36,271	26,558
Additions	54,889	9,713
Disposals	-	-
At 31 December	**91,160**	**36,271**
Amortisation/impairment:		
At 1 January	-	-
Provision for impairment	-	-
Disposals	-	-
At 31 December	**-**	**-**
Net Book Value	**91,160**	**36,271**

Details of the Company's acquisitions during the year ended 31 December 2017 are set out in Note 11 to the Consolidated Financial Statements.

Details of the Company's subsidiaries as at 31 December 2017 are set out in Note 25 to the Consolidated Financial Statements.

4. Debtors

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Amounts due from subsidiary undertakings	13,091	13,167
Deferred tax asset (see Note 5)	51	77
Other debtors	101	39
	13,243	**13,283**

Deferred tax includes £51,000 (2016: £77,000) falling due after more than one year.

5. Deferred tax assets

	31 Dec 2017	31 Dec 2016
	£'000	£'000
At 1 January	77	53
Deferred tax credit on share options in issue	-	24
Release of deferred tax on exercise of share options	(26)	-
	51	**77**

6. Share capital

Details of the Company's authorised, called-up and fully paid share capital are set out in Note 23 to the Consolidated Financial Statements.

The ordinary shares of the Company carry one vote per share and an equal right to any dividends declared.

7. Reserves

The share-based payment reserve arises from the requirement to value share options in existence at the fair value at the date they are granted.

The share premium account represents the amount received on the issue of ordinary shares by the Company, other than those recognised in the merger reserve described below, in excess of their nominal value and is non-distributable.

The merger reserve represents the amount received on the issue of ordinary shares by the Company in excess of their nominal value on acquisition of subsidiaries where merger relief under section 612 of the Companies Act 2006 applies. The merger reserve consists of the merger relief on the issue of shares to acquire Line Communications Holding Limited on 7 April 2014, Preloaded Limited on 12 May 2014, Eukleia Training Limited on 31 July 2015 and Rustici Software LLC on 29 January 2016.

8. Creditors: amounts falling due within one year

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Trade creditors	55	25
Contingent consideration	168	59
Other creditors and accruals	325	61
Borrowings	1,849	3,252
	2,397	**3,397**

Details of the Company's contingent consideration as at 31 December 2017 are set out in Notes 19 and 20 to the Consolidated Financial Statements.

9. Creditors: amounts falling due after more than one year

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Contingent consideration	192	371
Deferred consideration on acquisitions charged to the Income Statement	-	1,055
Borrowings	12,765	10,582
	12,957	**12,008**

The interest expense relating to the movement in present value of contingent consideration in the year ending 31 December 2017 amounted to £41,000 (2016: £57,000).

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2017

10. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in Note 7 to the Consolidated Financial Statements.

The following transactions with subsidiaries occurred in the year:

	31 Dec 2017	31 Dec 2016
	£'000	£'000
Opening amount due from related parties	13,167	602
Amounts (repaid) by related parties	(20,121)	(15,808)
Amounts advanced from related parties	20,045	28,373
Closing amount due from related parties	**13,091**	**13,167**

The amounts owing to/from related parties are unsecured, interest-free and repayable on demand.

11. Share-based payments

Details of the group share-based plans are contained in Note 24 to the Consolidated Financial Statements.

The company operates an Approved share option plan. The company's share-based payment arrangements are summarised below.

Approved share option plan - Enterprise Management Incentive ('EMI'):

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		pence		pence
At 31 December	2,000,000	5.88	3,000,000	5.88

At 31 December 2017, options granted to subscribe for ordinary shares of the Company, and the valuation criteria are as follows:

Date of grant	Approved Scheme	Exercise Price	Remaining vesting period	Fair value of options	Life	Volatility
		Pence		Pence	Years	Percent
Nov 2013	2,000,000	5.88	-	10.46	10	45%
Totals	**2,000,000**					

An option-holder has no voting or dividend rights in the Company before the exercise of a share option.

1,000,000 options were exercised during the year (2016: nil), the weighted average share price at exercise was £0.6025. No options were granted, forfeited or expired during the year (2016: nil)

A 1.78% (2016: 1.78%) risk-free interest rate has been assumed for all schemes.

This estimated fair value was calculated by applying a Black-Scholes option pricing model. The expected volatility of the Group's share price is calculated based on an assumption of historical volatility.

The number of options that are exercisable at 31 December 2017 is 2,000,000 (2016: 3,000,000).

Share-based payments which were expensed in the entity and taken to equity in the year ended 31 December 2017, amounted to £nil (year ended 31 December 2016: £141,000). The remaining difference between the share-based payments which were expensed as per Note 24 and the entity, relate to the options over the Company's share capital held by employees of subsidiaries.

12. Dividends paid

Disclosure of dividends paid can be found in Note 28 to the Consolidated Financial Statements.

13. Subsequent events

Disclosures in relation to events after 31 December 2017 are shown in Note 31 to the Consolidated Financial Statements.

COMPANY INFORMATION

Directors

Andrew Brode, Non-executive Chairman
Harry Hill, Non-executive Deputy Chairman
Leslie-Ann Reed, Non-executive Director
Jonathan Satchell, Chief Executive
Neil Elton, Group Finance Director
Piers Lea, Chief Strategy Officer
Dale Solomon, Chief Operating Officer

Company Secretary

Neil Elton

Company number

07176993

Registered address

Sherborne House
5th Floor
119-121 Cannon Street
London
EC4N 5AT

Legal adviser

DWF LLP
Bridgewater Place
Water Lane
Leeds
LS11 5DY

Independent auditor

Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Nominated adviser and joint broker

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Joint broker

Goldman Sachs
Peterborough Court
133 Fleet Street
London
EC4A 2BB

Registrar

Computershare Investor Services plc
The Pavilions
Bridgewater Road
Bristol BS13 8AE

Principal banker

Silicon Valley Bank
Alphabeta
14-18 Finsbury Square
London
EC2A 1BR

Communications consultancy

FTI Consulting LLP
200 Aldersgate
Aldersgate Street
London
EC1A 4HD

ltgplc.com

UK
London
Brighton
Sheffield

USA
Atlanta, GA
Bloomington, IN
Nashville, TN
New York, NY

Brazil
Rio de Janeiro
São Paulo

Germany
Frankfurt

Hong Kong
Wan Chai