Learning Technologies Group plc

ANNUAL REPORT 2018

For the year ended 31 December 2018

ltg learning technologies group

Leading the learning revolution at work

Digital transformation is fundamentally changing how organisations operate and behave[1]. As a result, the workplace is evolving rapidly.

LTG's world-class software and services help our customers adapt to these fast-moving workplace demands.

1 Source: Gartner. By 2022, nearly 80% of organisational skills will have to be reprioritised or revisited because of digital business transformation.

LEARNING FOR IMPROVED BUSINESS PERFORMANCE

LTG integrates a group of best-in-class product and service companies in talent and learning. We have proven ability to close the gap between an organisation's current and future workforce capability.

Our software and service offerings extend beyond customers' direct workforces, into their supply and distribution chains. This reflects the evolution in traditional boundaries of learning and talent management. The sophistication of our products and their ability to be configured to other systems enables us to fit solutions into our clients' processes, not the other way around.

This provides competitive advantage in a supply market which often does not recognise the requirements of complex organisations, where there are serious consequences if the workforce is not proven to be competent.

ltg learning technologies group

CONTENT & SERVICES

LEO | Eukleia | PRELOADED

SOFTWARE & PLATFORMS

PeopleFluent | gomo LEARNING | Rustici Software

Watershed | affirmity | VectorVMS

LTG IS AT THE HEART OF LEARNING AND TALENT INNOVATION

We focus on real problems that companies and governmental bodies face around the world, taking great pride in thinking ahead to the next challenge and its solution.

Innovation is in our DNA – from our investment in R&D to our approach. LTG threads data into the decisions businesses take to recruit, evolve and empower their people – in every language and region.

The challenge for companies and governmental bodies is dynamic and will not sit still.

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LTG

Focuses on industries where talent and learning are critical to performance

Collaborates with customers within multinational companies and governmental bodies with wide and diverse audiences and complex needs

Operates within the fast-growing learning and talent management markets

Helps customers scale learning to support business performance

Supports the talent retention and development central to businesses of the future

Reflects the evolution in traditional boundaries of learning and talent management

Understands that learning does not stop with the direct workforce

CHAIRMAN'S STATEMENT

The Board is delighted to report a year of increased recurring revenue, strong margins and cash generation for Learning Technologies Group plc ('LTG') in 2018.

The year was notable for the transformational acquisition of PeopleFluent Holdings Corp ('PeopleFluent') in May 2018. The addition of PeopleFluent has given LTG a strong foothold in the adjacent talent software market, complementing the Group's strengths in learning software, content and services, whilst substantially deepening the Group's presence in the U.S. market, which accounted for 56% of Group revenues in 2018. PeopleFluent was successfully integrated into the Group ahead of budget and expectations.

In November 2018, LTG also acquired the remaining 73% of Watershed Inc ('Watershed') that it did not already hold. Watershed is a leader in the corporate learning analytics market. Its powerful SaaS platform is used by an increasing number of large corporates and the Board views this as an important strategic capability within LTG's product offering.

Revenues increased by 83% to £93.9 million (2017: £51.4 million) primarily driven by the acquisition of PeopleFluent and a full-year contribution by NetDimensions (acquired in March 2017). LTG delivered strong like-for-like organic revenue growth, on a constant currency basis, of 9% in our Software & Platforms division and saw organic revenues (excluding the large one-off CSL contract) decline by 8% against tough prior year comparatives when we had delivered exceptional 21% organic growth. We are focused on delivering strong organic revenue growth over the medium term, investing substantially in R&D and business development initiatives as well as incentivising staff through annual bonuses, sales commissions and Long-Term Incentive Plans ('LTIPs') linked to revenue and profit growth.

Largely as a result of the significant increase in the proportion of Group revenues now derived from software licence and support contract sales, recurring revenues increased from 38% in 2017 to 68% in 2018 and represent more than 70% of Group revenues on an annualised basis. This gives the Group improved visibility over future revenues.

Adjusted EBIT (refer to the Strategic Review section for definition) increased by 104% to £27.2 million (2017: £13.3 million) and adjusted EBIT margins have improved from 26% in 2017 to 29.0% in 2018 and we expect sustainable adjusted EBIT margins in the high twenties in future periods. Adjusted diluted EPS increased by 68% to 3.2 pence (2017: 1.9 pence). In the five years since LTG listed on the London Stock Exchange, the Group has delivered compound annual growth of 48% in adjusted diluted EPS.

Corporate governance

During the year, Harry Hill, Non-executive Deputy Chairman, retired from the Board. Harry had been on the Board since the formation of LTG, having founded In-Deed Online PLC before its merger with Epic Group Limited. Dale Solomon, Chief Operating Officer, also stepped down from the Board. Dale had been with the business since 2010 and provided invaluable insight and drive in helping to grow and transform the Group, most recently leading the integration of PeopleFluent. The Board thanks Harry and Dale for their respective contributions and wishes them the very best for the future.

Aimie Chapple joined the Board as a Non-executive Director in September 2018, adding deep industry experience in the talent and consulting sectors. Aimie was a senior partner at Accenture and during a 25-year career in consulting led practices in management consulting, human performance and innovation. She has extensive experience of operating in the U.S. and U.K. markets. Aimie chairs the Remuneration Committee and sits on the Audit Committee.

The Board is actively searching for a fourth Non-executive Director and I look forward to updating shareholders later this year.

With effect from September 2018, LTG adopted the QCA Corporate Governance Code. Further details are provided in the Corporate Governance section of this report.

Dividend and Annual General Meeting

In light of the results for 2018 and to demonstrate our confidence in the prospects for the Group in 2019, the Board is recommending an increased final dividend of 0.35 pence per share (2017: 0.21 pence per share), giving a total dividend for the year of 0.50 pence per share (2017: 0.30 pence per share) representing a 67% annual increase. This final dividend is subject to shareholder approval at the forthcoming Annual General Meeting to be held on 5 June 2019.

If approved, the final dividend will be paid on 28 June 2019 to all shareholders on the register at 7 June 2019.

Current trading and outlook

LTG has made a fundamental transition in 2018 towards a software-led, licence model delivering high-margin recurring revenue. The acquisition and successful integration of PeopleFluent has been central to this shift, extending LTG's offering into talent management and significantly growing the Group's U.S. revenues. This could not have been achieved without the dedication and professionalism of all our staff across the globe and, on behalf of the Board, I would like to thank them for their efforts during the year.

A good start to the current year, with trading in line with management expectations and an improving content projects order book, supports our confidence in further progress in 2019. This is underpinned by a strong balance sheet, excellent cash generation, a high proportion of recurring revenues and a healthy pipeline of attractive acquisition opportunities.

The Board expects to report enhanced progress during 2019 and considers LTG well placed to achieve our new strategic goal of run-rate revenues of £200m and run-rate EBIT of at least £55m by the end of 2021.

Andrew Brode
Chairman
18 March 2019

CASE STUDIES

PeopleFluent Learning • Morses Club PLC

PeopleFluent Talent Manangement • A medical technology, services, and solutions provider

Affirmity • A U.S. banking organisation

Vector VMS • A commercial financial services company

LEO Learning • Fidelity International

LEO Learning • InterContinental Hotels Group

gomo • A technology and multi-industrial leader

Eukleia • A multinational North American financial services company

PRELOADED • WITHIN

Rustici Software • CustomGuide

Watershed • Visa

PeopleFluent Learning

morsesclub

Morses Club PLC

Meeting stringent regulatory compliance requirements and providing learning for a mobile workforce

The challenge

As a regulated lender that is fully authorised by the FCA, compliance training is business-critical for Morses Club and its 1,942 agents across 98 U.K. locations. However, ensuring that this large, mostly remote workforce completes the right training at the right time presented a major challenge – particularly for monthly compliance training which could only be completed via managers' laptops at local branches.

The solution

- Morses Club implemented NetDimensions LMS over a decade ago to launch and track its training programmes, making full use of features such as training reminder alerts and emails.
- Supplying staff with tablets and introducing mobile learning app, NetDimensions Mobile, freed up manager laptops, allowing employees to learn on their own devices at their own pace.
- NetDimensions Mobile, like NetDimensions LMS, allowed for full compliance training tracking to ensure the business can fully evidence competency.

The results

Training completion rates have risen from around 95% to around 99%. Morses Club reports a 98% pass rate, and has saved time and money by freeing up managers' laptops.

CASE STUDIES - SOFTWARE & PLATFORMS

PeopleFluent Talent Management

A medical technology, services, and solutions provider

Consolidating and streamlining compensation management systems to save time and costs

The challenge

A major acquisition required a global medical technology company to bring two very different compensation models together. With over 100,000 employees, primarily servicing a U.S. customer base, the business also faced manual workarounds for hundreds of individuals with "special arrangement" employee compensation plans. In addition, there were major time constraints due to regulatory filings and year-end bonus releases, as well as a significant amount of data and around 900 different metrics to track across their manufacturing divisions.

The solution

PeopleFluent Compensation provided a flexible solution with exceptional support for change management. It ensured:

- The ability to model mid-year accruals in a very complex scenario
- Integration of PeopleFluent's compensation product into their existing instance of Workday
- The ability to aggregate all job types (e.g. salary, hourly) on one compensation platform
- Support for the high number of metrics-driven incentive plans
- Total rewards statements to elevate employee understanding of compensation.

The results

The business was able to eliminate complicated manual workarounds, saving many precious hours, and reduce budget overspend. They also:

- Consolidated all compensation plans into one solution
- Reduced risk and human error
- Increased transparency into compensation data.

CASE STUDIES - SOFTWARE & PLATFORMS

affirmity

A U.S. banking organisation

Automating complex affirmative action processes and ensuring 100% compliance

The challenge

Since 2004, Affirmity (previously operating as PeopleFluent) has provided affirmative action[2] software and support for one of the 25 largest U.S. financial holding companies. The firm operates more than 400 banking centres and has a long history of investing in diversity in its workforce, business and community outreach, and supplier base. The bank needed to automate preparation of its Affirmative Action Plans (AAPs) and ensure 100% technical compliance. But it would take months of effort to gather and reconcile workforce data, conduct the required analyses and prepare narratives.

The solution

The bank outsourced AAP generation to Affirmity's expert consultants, who produced audit-ready plans for all locations within 60 days, including data cleansing and reconciliation, adverse impact analysis, and compensation analysis. Affirmity also:

- Provided training to their compliance and HR teams on good faith efforts[3], recruiting compliance and other important regulatory issues
- Conducted comprehensive pay equity studies to deliver insight into potential imbalances and supported the customer's efforts to ensure employees receive equitable pay
- Supported robust reporting against diversity initiatives, eliminating the need to replicate compliance data in reports prepared for executive leadership.

The results

Today, the bank relies on a single data source, prepared by Affirmity experts, that provides total visibility of workforce diversity across the organisation and at each stage in the talent lifecycle. Their HR and business leaders use the data to drive and track initiatives to foster a diverse and inclusive workplace. In recognition of their successful diversity programme, the bank has twice been ranked among the top 10 by leading diversity publication, DiversityInc®.

2. Affirmative action refers to the practice of favouring individuals belonging to groups that have previously been discriminated against.

3. Good faith efforts in affirmative action are actions taken to prevent discrimination in the hiring process through recruitment and outreach for minorities, women, veterans and individuals with disabilities.

CASE STUDIES -
SOFTWARE & PLATFORMS

VectorVMS

A commercial financial services company

Automating compliance and gaining visibility into a growing contingent workforce

The challenge

For more than a century, this U.S.-based financial services organisation has met the needs of individuals and businesses for banking, wealth management, insurance, and other financial services, and now maintains over $35-billion in assets. To efficiently operate its 500+ branches and meet customer expectations, it relies on a growing contingent labour pool of administrative, IT, and other professionals. However, the organisation struggled with:

- Manual systems that couldn't scale with the expanded need for contingent labour
- Compliance requirements that were documented manually
- A lack of visibility into headcount and spend which was hindering strategic planning.

The solution

- VectorVMS' implementation services team worked closely with the organisation to configure the VectorVMS vendor management system according to their workflows, compliance needs, timesheets and invoicing process.
- Training system administrators, hiring managers, HR service team and staffing partners ensured a smooth transition from the previous system.

The results

With a single, centralised system of record, the organisation is now able to automate its rigorous compliance requirements review, as well as analyse spend across the company – by position, branch location, hiring manager, staffing supplier and more. With this granular visibility, it can manage costs effectively and maximise value across the company.

Built-in reporting enables the company to also track the performance of their staffing suppliers using clear vendor scorecards that capture time-to-fill, quality of candidate, compliance and other critical supplier metrics. This data ensures the ability to define and implement a tiered system for staffing suppliers. Its preferred, or Tier One, suppliers receive requisitions first – meaning the organisation is able to find and engage skilled contractors faster and at the most competitive rates.

CASE STUDIES -
CONTENT & SERVICES

LEO

Fidelity INTERNATIONAL

Fidelity International

Embracing the power of LTG group-selling to deliver a supercharged learning ecosystem

The challenge

Fidelity International, one of the world's leading investment management firms, needed to ensure a larger proportion of their customer-facing staff had the skills, knowledge and confidence to guide customers on their retirement investment options.

The solution

- The Retirement Academy is a story-driven solution that delivers emotionally powerful learning to Fidelity's people working in the U.K.'s pensions and retirement business areas.
- Through microlearning, broadcast-quality video drama and animation, the learning content reflects the choices of a fictional family as they make key decisions about their personal finances.
- The delivery platform is an ecosystem that makes the most of Fidelity's existing LMS and SharePoint platforms whilst integrating gomo Authoring and Hosting, and Watershed LRS (for learning analytics and business impact measurement) to create a seamless and continuously improving learning experience for staff.

The results

The full launch takes place from February-July 2019 to a cohort of 5,500 learners. In addition, in February 2019, LEO Learning launched an interactive VR 360-degree film experience to the learner cohort as well as employees of the Workplace Investing Communications & Engagement team (B2B sales). Early feedback has indicated that the programme is already having an impact on customer service and product knowledge confidence. So far, learner feedback has been overwhelmingly positive, with 96% volunteering to learn more. Fidelity has also noted more learners increasing their own pension contributions following the pilot.

CASE STUDIES -
CONTENT & SERVICES

InterContinental Hotels Group

Equipping L&D with the skills to conduct their own business-impact measurement

The challenge

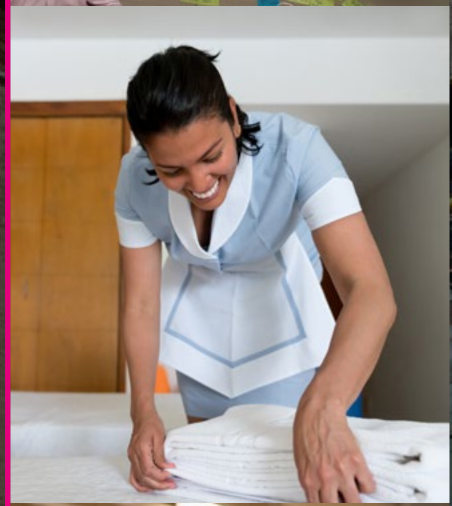
InterContinental Hotels Group (IHG), a multinational hospitality company managing more than 5,500 hotels in 100 countries, wanted to improve their measurement capabilities. Their goal was to move from recording learning volumes to actually identifying insights into the impact of learning. With over 400,000 hotel staff, they needed to put in place the policy, processes and tools required to measure L&D's (Learning & Development) impact on individual and business performance.

The solution

- A series of four LEO Learning-led webinars, supplemented by curated content and formal assessments, explored measurement principles.
- Several post-work assignments allowed delegates to apply the principles.
- Content solutions integrate with IHG's existing Learning Experience Platform (LXP), which allowed participants to develop their own learning journey.

The results

IHG's team say they have seen "amazing engagement" with the programme – 75% of the potential audience logged in for the first webinar, and participation in the programme was high even though it was not compulsory. Crucially, more training managers are now seeking the analytics team's help to develop truly effective measurement plans for programmes that are business-critical.



CASE STUDIES -
SOFTWARE & PLATFORMS

A technology and multi-industrial leader

Creating a popular video learning platform for a worldwide workforce

The challenge

Employing over 120,000 staff in 2,000 locations worldwide, the organisation is a global diversified technology and multi-industrial leader, producing automotive parts, electronics and climate control equipment. The organisation wanted to create a culture of continuous learning for its global employees, primarily based in China, the U.S. and Ireland, but their existing portal was limited and lacked the ability to generate learning videos.

The solution

- Using the gomo Video product, the organisation created an in-house video learning platform. This allowed their Learning & Development (L&D) team to organise their content into a consolidated, scalable, on-demand resource, and preserve subject matter expertise.
- Customisable chaptering and 'deep search' functionality allow users to search to moments in time within videos.
- Cloud-based screen recording makes it simple for L&D as well as employees to record, upload, share and comment on high-quality video content.
- Multiple other file types can be added to videos and the library, including audio files, PowerPoint presentation and PDFs.
- Dispersed learning teams can easily collaborate on content, while robust analytics help them to produce key data at a granular and organisation-wide level.

The results

In just 20 months, the number of user-generated videos rocketed from 150 to around 3,000, including 900 hours of SME-led and learner-generated content. The company's learning community now has about 45,000 active users with about 17,000 weekly views and more than 3,000 comments. In addition, its HR/recruitment team promotes the learning programme as a way to attract top candidates.

Eukleia

A multinational North American financial services company

Rebuilding technologically outdated compliance training for a user-friendly, mobile-focused experience

The challenge

As one of North America's biggest banks, and one of the largest in the world based on market capitalisation, the organisation has over 80,000 full- and part-time employees serving 16 million clients in the U.S., Canada and 33 other countries. They wanted to rebuild their existing course on combating money laundering and terrorist financing, which was a highly stranded (over 10,000 possible strand combinations), multi-language Flash course that has had over four years of layered content updates.

The solution

- Having worked with Eukleia on the original build as well as other projects, the bank trusted Eukleia to extensively reimagine the course's look and feel, and improve the user journey.
- The new course is customised so that learners only receive the content, scenarios, and assessment questions that apply to them.
- Features simplified learner testing by moving from one lengthy assessment to per-topic testing.
- Was rebuilt as an accessible HTML5 course that's future-proofed for mobile learners.
- Content delivered in English as well as Italian, Dutch and French.

The results

Learner feedback has been very positive with noticeable improvements on previous versions. For another global client, the technical stranding process, which profiles roles and takes on board prior learning at a granular enough level for the regulators, has saved more than 10,000 working days per year.

PRELOADED

WITHIN

WITHIN

Voice-driven Augmented Reality to create a new type of learning experience

The challenge

WITHIN, the premier destination for innovative, entertaining, and informative story-based Virtual and Augmented Reality (VR and AR), was looking for partners to create compelling content to launch Wonderscope, their iOS app that uses the power of AR to transform ordinary spaces into extraordinary stories. WITHIN felt PRELOADED's expertise in creating family-focused and immersive content made them perfect partners to help realise their vision.

The solution

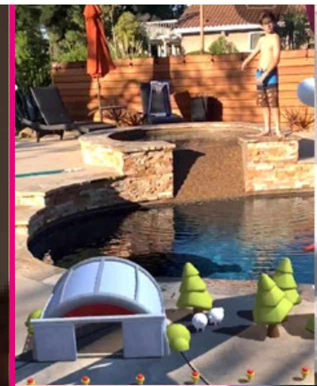
- Using the latest technology in voice-driven AR, A Brief History of Amazing Stunts empowers the user with narratives designed to encourage movement, reading aloud and exploration.
- Built using Apple's ARKit and available on iOS devices, this immersive experience uses "spatial storytelling" techniques to transform ordinary spaces into extraordinary stories.
- Art direction inspired by vinyl toys uses bright palettes and distinctive, chunky characters and props to allow users to take part in three of history's most impossible stunts, and 'meet' and interact with the real people that made them happen.

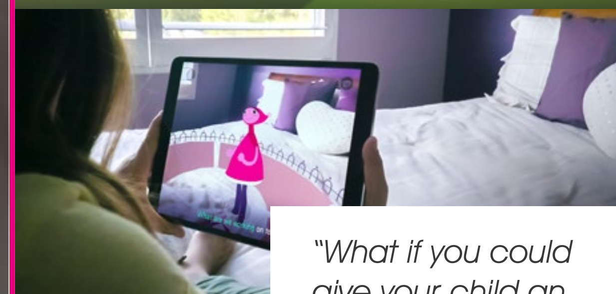
The results

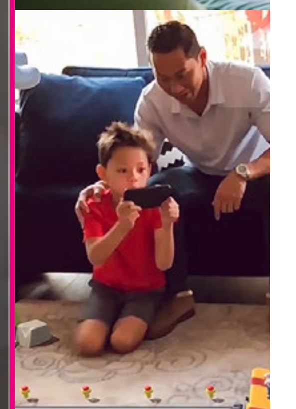
Launching to critical acclaim in November 2018, Wonderscope: A Brief History of Amazing Stunts won Best AR at the 2019 Bologna Ragazzi Digital Awards. The app is rated 4.1 out of 5 stars on the App Store, with extremely positive user reviews.

"We loved working with PRELOADED. Everything from their decks, to their animations, and their interactive sensibilities surprised us with their joyfulness, playfulness and minute attention to detail."

– Jonny Ahdout, Director of Development, WITHIN







"What if you could give your child an iPad for an hour and not feel guilty about it?... an app that makes kids smile and feel confident as they read absolutely feels like a win."

– VOGUE review

CASE STUDIES -
SOFTWARE & PLATFORMS

Rustici Software

CustomGuide

CustomGuide

Ensuring an optimal learning experience and guaranteed delivery of thousands of courses to a wide variety of systems

The challenge

CustomGuide's simulation-based training covers 300 skills to help learners become proficient in software like Windows 10, Excel, Word and PowerPoint. Traditionally, customers logged in to the CustomGuide LMS to access training, but as the customer base grew, more customers wanted to import training into their existing Learning Management Systems (LMSs). CustomGuide's attempts to export their course content only met with a 75% success rate.

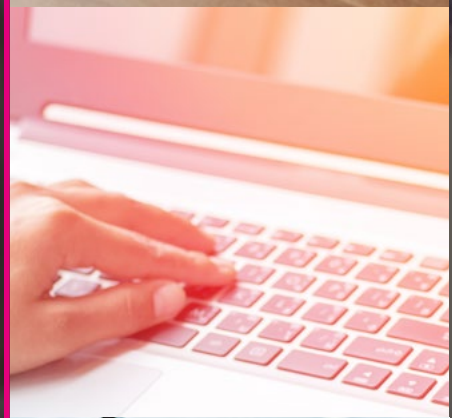
The solution

- Rustici Cross Domain (RXD) allows CustomGuide to manage content from a single, central location and easily share access to third-party systems as proxy files.
- RXD sits on CustomGuide's servers, which allows them to release, update and control access to their training content.
- RXD saves developer time, freeing them up to work on new projects.
- Because CustomGuide is hosting the content centrally on their servers, they have immediate access to learning data and can fully leverage their proprietary reporting for all of their customers.

The results

Using RXD, CustomGuide is able to serve customers in whichever platform they prefer. Since implementing, CustomGuide has:

- Enjoyed a 100% success rate of delivering their training to their clients' LMSs
- Delivered over 10,000 courses and 750,000 tutorials and assessments
- Served 900 organisations across 80 systems.
- Helped learners around the world average post-assessment scores of 95% after completing CustomGuide training, an improvement of 40% or higher for most learners.



CASE STUDIES -
SOFTWARE & PLATFORMS

Watershed

VISA

Visa

A data-driven learning ecosystem with a Learning Record Store (LRS) at its heart

The challenge

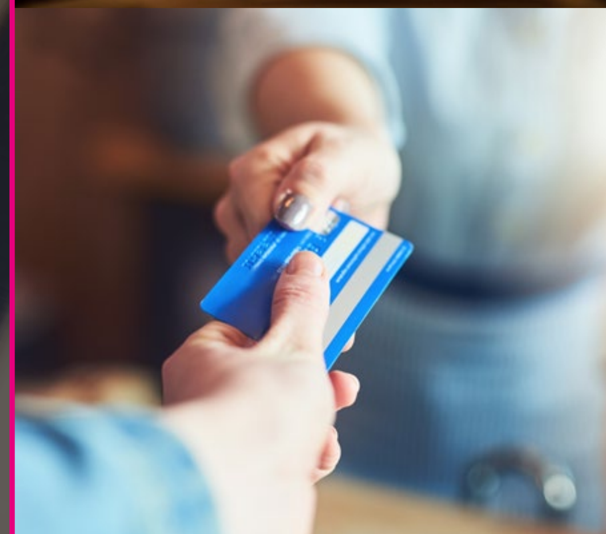
In the midst of industry disruption and an ambitious business strategy, Visa's Learning & Development (L&D) team needed a framework for understanding how they support the overall business and improve alignment to business goals. In addition, they wanted to shift L&D from a compliance-driven to a learner-driven function. However, with multiple learning tools, including an LMS (Learning Management System) and an LXP (Learning Experience Platform), they struggled with no single platform for training and inconsistent reporting.

The solution

- Visa's L&D team established Visa University, a physical learning hub and a next-generation digital learning ecosystem powered by xAPI and the Watershed LRS.
- The ecosystem brings all learning together so learners can create their own learning paths and develop skills they want.
- The ecosystem standardises all data points, including all individual and group progress, to xAPI statements, which Watershed tracks and visualises.

The results

Visa's learning ecosystem allows them to better build and maintain an ongoing culture of learning. Six months after launch, more than 80% of the company had interacted with the digital campus. In addition to engagement dramatically rising, early impacts also include better engagement with learners around strategic business needs, and enhanced analytics which help Visa understand learning trends, correlations and moments of need.



GROWTH STRATEGY

Learning Technologies Group's ambition to build a global market leader in the digital learning and talent management software sector is undiminished. We will continue to build the business through a mix of organic growth, strategic cross-selling and acquisitions. This will enable us to continue providing market-leading, seamless solutions to meet the demanding expectations of large corporate and government customers

The core focus is to continue to develop and innovate group brands in the learning and talent software sector.

We seek to broaden capability, extend geographical reach and increase specialist industry expertise. This means finding domain-specific businesses in high-consequence industries (such as pharma, finance, energy and aviation) where learning and talent is critical to business success.

We will continue to extend our range of software and services to ensure LTG's offering is truly comprehensive and differentiated from the industry. Our base of 2,700 customers is fertile ground and the demand for services and products being pulled from across the Group by our larger customers shows what is possible. We will build on this over the coming years.

With our Group capability to provide insight to customers via measurement and analytics, first-class customer service, and a focus on customer results, we will seek to maximise effectiveness and value for all our stakeholders.

ltg learning technologies group

CONTENT & SERVICES	LEO	**Learning services -** content and blends, learning campaigns, capability building and system implementation.
	Eukleia	**Learning services for global risk and compliance -** specialists in training for financial services and investment banking.
	PRELOADED	**Immersive learning -** play with purpose, learning games, augmented and virtual reality.
SOFTWARE & PLATFORMS	PeopleFluent	**Integrated talent management in the cloud -** recruitment, performance, succession, compensation and learning solutions.
	gomo LEARNING	**Learning creation and distribution -** SaaS product for learning creation and distribution, inclusive of authoring, hosting, and enterprise video.
	Rustici Software	**Technical interoperability -** world leader in system interoperability and technical standards.
	Watershed	**Analytics and measurement -** industry-leading learning record store with powerful visualisation for management decision-making.
	affirmity	**Workforce compliance and diversity -** U.S. market-leader for affirmative action planning.
	VectorVMS	**Contingent workforce management system -** to control costs, maintain compliance, and drive efficiency.

STRATEGIC REVIEW

For the year ended 31 December 2018

Chief Executive's review

Market overview

In an increasingly fast-moving global service-based economy, organisations are becoming more aware of the benefit of improvements in staff performance to their businesses, particularly in efficiency, customer service and profitability. There is increasing corporate demand for digital services to develop staff.

The global corporate training market is estimated to be worth approximately $365 billion[4] and includes many product and service offerings ranging from traditional formats, such as classroom training, to various types of learning content and delivery platforms. LTG is focused on the outsourced digital learning segment of this market, which is disrupting the more traditional methodologies and estimated to be growing at approximately 10% per annum. The 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.

The complementary talent market is estimated to be worth more than $6 billion and growing at approximately 9% per annum[5]. Talent management software refers to the wide array of integrated applications that companies use for recruitment, performance management, training & development, and compensation management of employees. Talent management software plays a very important role in keeping track of individual employees from the date of hiring to the complete employee lifecycle in the organisation, facilitating employee engagement and retention as well as helping companies align their business strategies with the professional development of their workforce.

Strategic goals

In November 2018, the Group set out its new strategic financial objectives for the end of 2021. This is the third set of targets LTG has issued since joining the AIM market five years ago. Our first target was run-rate revenues of £50 million and EBITDA margins of 20% by the end of 2018, which we met one year ahead of plan. In October 2017, LTG announced new strategic objectives to the end of 2020, to double run-rate revenues to £100 million and for run-rate EBIT to exceed £25 million, achieved without significant dilution to shareholders. Following the acquisition of PeopleFluent in May 2018, the 2020 goal was achieved more than two years ahead of plan with the acceleration aided by a placing of new shares, equivalent to c.15% of issued share capital.

LTG's new goal is to achieve run-rate revenues of £200 million and run-rate EBIT of at least £55 million by the end of 2021, again through a combination of organic growth and strategic acquisitions that complement the current business. It is the intention of the Board to finance any acquisitions and research & development that support the outlined revenue and EBIT targets through the use of internally generated operating cash flows and prudent debt financing.

In addition, we will continue to evaluate strategic acquisitions of scale that may require shareholder financing and would be additive to these targets. Strict criteria will continue to be used in assessing all acquisitions, including the financial effects, integration risk and prospective returns.

Investment case

The market opportunity for LTG is attractive, driven by our clients' desire to close the gap between current and future workforce capability.

Our aim is to build a leading end-to-end workplace digital talent and learning solutions provider to partner global clients through the creation, implementation and maintenance of their integrated talent and learning strategies. Working as a strategic partner to our clients, we deliver unparalleled depth in talent management solutions, learning content and technologies, from enterprise platforms to personalised and immersive learning experiences.

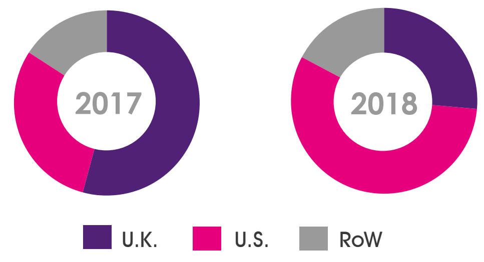
Our intention is to leverage the technical and professional capabilities we have already developed by deepening our presence in specific geographical markets, particularly the U.S.; expanding our offering in highly-regulated, high-consequence vertical markets such as healthcare, energy and aviation; and broadening and deepening our offering to existing customers.

LTG aims to deliver strong earnings growth over the medium to long term through a combination of top-line organic growth, appropriate cost control, investment in innovation, robust operating cash conversion and strategic M&A as well as improving the operating business models and performance of the businesses that we acquire.

Strategy and approach

LTG aims to create a group of market-leading businesses providing complementary services in the growing learning and talent technologies sectors to form an international business of 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 solution for our customers, strategic partnerships to deliver 'blended' 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 organic growth.

Increasing international footprint: revenue split by geography



As the pace and progress of technology and innovation increases, corporates and government bodies are realising that to succeed, they must invest in programmes and technologies to manage change, develop skills, grow knowledge, and instil desired attitudes and behaviours in their staff and their 'extended enterprises', including suppliers and partners. To do so, their talent strategies are increasingly focusing on learning. By combining PeopleFluent's talent software with LTG's learning platforms and services, the Group offers a compelling suite of industry-leading solutions.

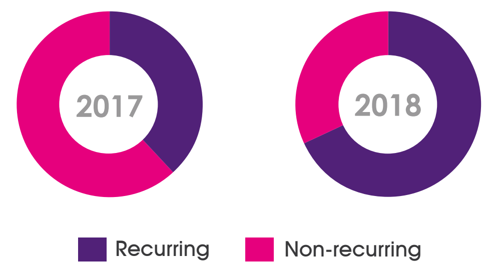
We continue to pursue our strategy of helping organisations adopt learning at a strategic level. 'Moving learning to the heart of business strategy' is achieved through our end-to-end service offering, which enables us to partner with global clients throughout the creation, implementation and maintenance of their learning strategies. We deliver transformational results through learning innovation and the effective use of learning technology. Our recent acquisition of market-leader, Watershed, completes an important part of the picture, enabling rich visualisation of clients' learning and talent, which in turn enables future people-related investment decisions to be data-based.

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

Investment in innovation for long-term growth

Over the past three years, LTG has substantially grown its Software & Platforms division. Most of LTG's software solutions are well-established products developed over many years and enjoying high customer retention rates. The Group's policy is to work closely with its customers to understand their requirements in developing LTG's product roadmap and the Group undertakes regular business and market surveys. LTG has also developed some new ground-breaking software products including gomo's Authoring and Hosting solutions, Watershed's learning analytics platform and Rustici Software'ss Content Controller.

Increasing recurring revenue



The Group currently invests approximately £17.5 million per year on product development and software engineering, which represents approximately 19% of related annualised platform revenues. Of this annual investment, approximately £5.8 million (33%) is capitalised as R&D.

Following the integration of PeopleFluent into the Group, management has reviewed and prioritised the Group's product development roadmap in conjunction with feedback from customers. Key developments already in train or planned over the next year include:

- Developing the PeopleFluent Productivity Platform to allow for greater integration across the component elements of the PeopleFluent talent suite and an improved user experience
- Opening up LTG's software platforms through APIs to allow for easier integration with other client business systems, allowing them to operate LTG's best-of-breed point solutions as part of their overall systems architecture
- Integration of gomo and Watershed SaaS platforms into the PeopleFluent talent suite
- Improved functionality and user experience for PeopleFluent Talent Acquisition software
- Launch of a new Learning Experience Platform ('LXP') to complement the Group's offering in the developing LMS (Learning Management System) market, building on the functionality of gomo's Authoring and Video products, Rustici's SCORM Engine and Watershed, plus additional features
- Launch of an Affirmity workforce diversity analysis service in EMEA, driven by its U.S. market-leading software platform that will build benchmarks for gender (pay equity) and other key diversity issues.

4. Source: Training Industry, Inc. Research Data, 2018 estimated data.
5. Source: IDC Market Analysis Worldwide and U.S. Human Capital Management Applications Forecast by Lisa Rowan

STRATEGIC REVIEW (CONTINUED)

For the year ended 31 December 2018

The Group also continues to invest in its Content & Services division offering, whether that be as part of PRELOADED's award-winning work in VR and AR (virtual and augmented reality) solutions, or LEO's strategic learning programmes, combining 'blended' solutions incorporating products and services from within the Group or alongside strategic partners. For the third year in a row, LTG was identified by independent industry analyst Fosway as the industry's strategic leader in digital learning.

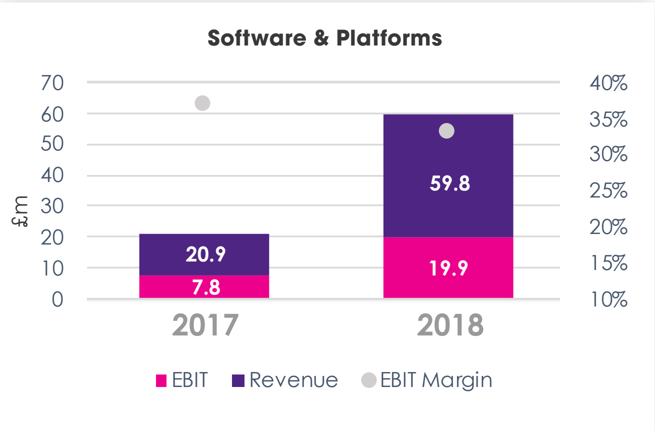
Divisional review

Software & Platforms

The Software & Platforms division comprises on-premise and SaaS-licenced product solutions as well as hosting, support and maintenance services.

Overview and performance

In 2018 Software & Platforms accounted for £59.8 million or 64% of Group revenues, 70% on an annualised basis, up from £20.9 million (41%) in 2017, aided by strong organic growth of 9% and the acquisitions of PeopleFluent and Watershed. The Software & Platforms division contributes 90% of the Group's recurring revenues. Adjusted EBIT margins decreased from 37% to 33% reflecting the inclusion of PeopleFluent for the seven months post-acquisition.



The Software & Platforms division has seen a dramatic change during 2018. PeopleFluent's talent software solutions have been merged with NetDimensions' Learning Management System ('LMS') under the PeopleFluent brand. The combined offering delivers a best-of-breed integrated platform solution encompassing talent acquisition (i.e. recruitment and onboarding), talent management (performance, succession, compensation and talent mapping) and a market-leading LMS. The PeopleFluent product suite is particularly suited to complex environments where staff and contractors are based across multiple locations, where multiple languages and other localisations are required, and which operate in regulated industries where security, auditability and configurability are important requirements. The combined business enjoys annualised revenues of approximately $85 million and is headquartered in the U.S. As stated at the time of the acquisition, not all of PeopleFluent's products have the same high retention rates that LTG enjoys amongst its other product offerings. Management guided that it had an ambitious goal to arrest the decline during 2019 and build the foundations for net sales growth in 2020. We believe that with our focus on, and substantial investment in product development, and the addition of other LTG products and services, we are on track to achieve this. We are already seeing the power of LTG's combined offering resonate with clients through improved retention rates and new client wins.

Rustici, the acknowledged global leader in SCORM-related solutions, has developed a series of software products that allow LMS providers to manage SCORM effectively and has seen great success with the latest addition to their portfolio, Content Controller. With Rustici being an expert in systems connectivity, they are an integral part of the Group's initiatives to bring learning and other business applications together elegantly, enabling clients to use an open systems architecture to benefit from best practice 'point solutions' rather than rely on broad but shallow 'one-size fits all' solutions. Rustici completed the third and final year of its acquisition-related earn-out during which time revenues grew by a CAGR of 27%.

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 2018 and through its SaaS-based annual licences is achieving retention rates in excess of 80% and grew new sales by 37% during the year. gomo's offering was substantially enhanced during 2018 with the incorporation of KZO (now renamed gomo Video), an advanced video content platform acquired as part of PeopleFluent. gomo Video is a software tool that enables users to collaborate, share comments and auto-translate audio into multiple written languages. The market has reacted positively, and the first cross-sells have already been achieved including Comcast, Slaughter & May and Shell.

During the year, LTG acquired the remaining 73% of Watershed. Watershed, headquartered in Nashville, is an early-stage 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. After more than three years of product development, Watershed now has a robust platform used as part of large-scale global deployments by many large corporates including Caterpillar, Verizon and PwC. Retention rates during 2018 were above 90%. Watershed is targeting to break even in 2019.

Affirmity is the renamed workforce compliance and diversity business, which previously operated under the PeopleFluent brand. Affirmity is a platform and services business enabling U.S. corporates to monitor their compliance with federal affirmative action plans. The business is the leader in the U.S. market, accounting for approximately a quarter of U.S. affirmative action plans produced and, given the increased focus on diversity issues in the workplace such as gender pay gap, LTG is looking to grow this business in the U.S. and internationally.

VectorVMS ('Vector') is the new name for PeopleFluent's vendor management services business, which previously operated under the PeopleFluent brand. Vector's platforms business allows corporates to outsource the recruitment, onboarding and payment of their contractor workforce. We are looking to cross-sell other LTG services through Vector in 2019 and to answer client demand for 'Total Talent' solutions as businesses increasingly move towards a 'gig' economy.

Content & Services

The Content & Services division comprises strategic consulting, content creation, and platform development services and is delivered primarily through the LEO Learning ('LEO'), Eukleia and PRELOADED business units.

Overview and performance

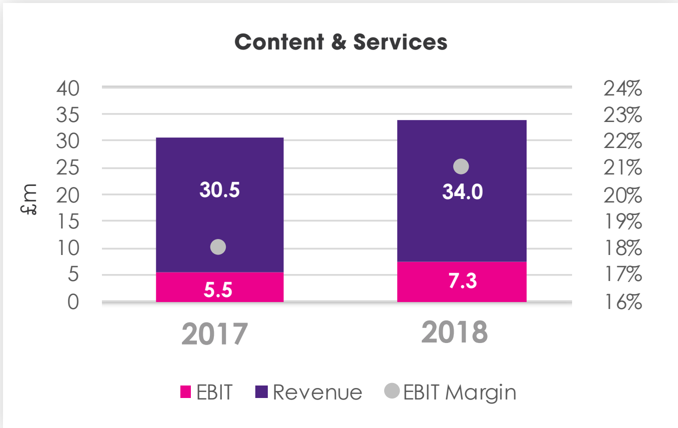
LEO provides the Group's strategic consultancy that works with clients to understand their requirements, build strategic roadmaps and then help them implement the delivery of their learning programmes. LEO is also one of the world's leading Moodle platform developers and hosting and support partners and has offices in London, Brighton and Sheffield in the U.K., New York and Atlanta in the U.S., and through its Brazilian investment, in Rio de Janeiro and São Paulo. Working across a broad range of industries, LEO has developed sector expertise particularly in areas such as automotive, retail and luxury brands and during 2018 has seen particular growth in the oil and gas sector.

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.

PRELOADED, the Group's BAFTA award-winning agency, is at the forefront of immersive learning content, or more particularly 'play with purpose'. 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 and in early 2019, it has partnered with the BBC again to develop an educational Augmented Reality ('AR') experience for Magic Leap, a pioneer in spatial computing via an AR headset. PRELOADED is also working with other LTG clients to develop immersive learning experiences.

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 – and as a result, achieve consistent and industry-leading gross margins.

In 2018, the Content & Services division accounted for £34 million or 36% of Group revenues (2017: £30.5 million; 59%) and 30% on an annualised basis. Excluding the acquisitions of PeopleFluent and Watershed, the Civil Service Learning ('CSL') contract, and adjusting revenues as if all businesses that were part of the Group in 2017 reported on a full-year basis, organic revenue on a constant currency basis declined by 8% from £25.4 million to £23.5 million. Adjusted EBIT margins increased from 18% to 21%.



£0.7 million of the year-on-year revenue decline was accounted for by a reduction in professional services revenue generated from the NetDimensions business. This followed an improvement in working practices that dramatically increased the efficiency and profitability of the department, delivering solutions more quickly, and for less cost to customers. Management believes that the more appropriate delivery times, and improved customer service levels are a key contributor to the enhanced customer retention rates seen in the past year.

STRATEGIC REVIEW (CONTINUED)

For the year ended 31 December 2018

The balance of the year-on-year revenue decline of £1.2 million was accounted for by the LEO, Eukleia, and PRELOADED business units that had generated significant growth in 2017 and therefore faced tough prior year comparatives coming into 2018. Over a two-year period, the Content & Services division has delivered c.6% compound annual growth in revenue. Projects in the Content & Services division tend to be sold and delivered on a relatively short sales cycle and we have seen encouraging sales in Q4 2018 and Q1 2019, which will be delivered in 2019.

As anticipated, there was also a £3.3 million comparative revenue decline accounted for by the cessation of revenue from the UK Civil Service ('CSL') contract in H1 2018. During 2016, LEO, in partnership with KPMG LLP, completed the roll-out of a new core-curriculum to the entire UK Civil Service. 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 and as a result of the revenue sharing structure of the partnership and the accelerated revenue generation during the prior year, the final revenue share contributions were received in H1 2018. The CSL contract runs until the end of 2019 and may be extended by a further year but the Board does not anticipate any material further contributions over this period.

Cross-selling and partnerships

LTG is seeing increased success in delivering to its clients a greater range of LTG's products and services, often as part of a strategic consultancy solution, albeit cross-selling initiatives are at an early stage. Many of these cross-selling opportunities are bi-lateral between LTG's business units but are beginning to become more multi-lateral.

Following the acquisition of PeopleFluent, LTG offers 30 discrete product and service offerings. On average, LTG's clients took 1.2 of these services in 2018 compared with an average of 3.2 across LTG's top ten clients, who together represent approximately 15% of Group revenues.

In 2018, the Group was tasked by Fidelity International, one of the world's leading investment management firms, to develop a training programme for their staff to deliver retirement planning services to their customers; a highly-regulated, high-consequence sector. LTG's LEO business unit developed 'The Retirement Academy', a story-driven solution that incorporated micro-learning, video drama and animation to create an engaging learning experience that was hosted off Fidelity's existing collaboration platform and LMS. The technical solution was augmented by creating and hosting the content in LTG's cloud-based authoring tool, gomo, which being xAPI-enabled, allowed the data to be published to LTG's Watershed analytics platform where the true effectiveness of the learning programme could then be determined.

LTG also works with other partners to deliver learning programmes, often as part of larger strategic initiatives. In 2018 LTG delivered a comprehensive training project for a Middle Eastern energy company that included a strategy, values and Code of Business Ethics programme that was designed, built and delivered to tight deadlines and brought together the expertise of LEO, Eukleia, PeopleFluent and gomo. LTG is also working with another strategic partner to deliver face-to-face training alongside LTG's digital solutions as part of a large scale 'blended' program for a U.K.-based energy organisation.

The Group is seeking to further its cross-selling initiatives in 2019. These encompass introducing a group-wide incentivisation programme to encourage co-operation between businesses, in-house training programmes to inform sales staff and consultants, the appointment of a Group Services Sales Director and multi-lateral marketing initiatives.

Group services

The Board believes that by building a comprehensive offering of scale 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 people in a myriad of languages and through many delivery platforms. The Software & Platforms and Content & Services 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 deliver cost efficiencies.

The integration of PeopleFluent into the Group has enabled LTG to base many of its U.S. central service functions on PeopleFluent's existing infrastructure, particularly in its Raleigh office in North Carolina. CRM, finance and payroll systems are in the process of being integrated into the merged PeopleFluent operations. The Group's marketing department has made significant progress in developing the Group business brand offerings and the Legal department has undertaken a comprehensive GDPR compliance programme for existing and acquired businesses. Facilities have been rationalised where appropriate, including the relocation of LTG's main London operations from Cannon Street to Fetter Lane, to sit alongside PeopleFluent, and the closure of PeopleFluent's New Orleans office.

Acquisitions

A core part of LTG's strategy is the execution of strategic M&A that enhances the Group's offering. During 2018, the Group completed two acquisitions as follows:

PeopleFluent

On 31 May 2018, LTG completed the acquisition of PeopleFluent, the leading independent provider of cloud-based integrated recruiting, talent management, and compensation management solutions. PeopleFluent is headquartered in Waltham, Massachusetts and generates approximately 85% of its revenues in the U.S. The business is a strong strategic fit with LTG, allowing LTG to offer a full suite of talent and learning products and services to its customers and substantially deepen its presence in the high-growth U.S. market.

PeopleFluent was acquired for £107.1 million in cash. The offer was financed by way of a placing of 86.7 million LTG shares issued at 98.0 pence per share and a new debt finance facility, details of which are set out in Note 22. Transaction costs charged to the income statement totalled £2.6 million. Goodwill on acquisition has been calculated at £78.5 million and acquisition-related intangibles of £78.5 million are represented primarily by IP and customer relationships.

There are no deferred consideration obligations. The total consideration and fair value adjustments to the assets and liabilities are set out in Note 12.

Watershed (acquisition of remaining 73% stake not already owned by LTG)

On 15 November 2018, Rustici Software LLC completed the acquisition of the remaining 73% of the issued share capital in Watershed Systems, Inc. ('Watershed') not already held by the Group. Watershed is a leader in the burgeoning corporate learning analytics market and has a proven ability to harness data about learners to analyse and assess the impact of learning and talent on organisational performance. Over the past three years Watershed has successfully developed its SaaS platform and increased the number of recurring customers substantively from a standing start. The company has also worked closely with a number of other LTG businesses selling integrated solutions to customers and has demonstrated the compelling power of Watershed's service for the Group's customers.

The initial consideration comprised a cash payment of £1.9 million to the other shareholders in Watershed. The SPA contains provisions for additional deferred consideration up to a maximum aggregate amount of £5.8 million payable based on stretching incremental revenue targets over the period 2019-2021. In addition, the Company agreed to pay a completion bonus of £0.3 million to certain Watershed staff who held share options in the company and a contingent earn-out bonus equal to approximately 16% of the total deferred consideration payable. The earn-out bonus will be charged to the income statement as it accrues. It has been assumed that £2.3 million in deferred consideration will be payable over the three-year earn-out period.

Transaction costs charged to the income statement totalled £50,000. Goodwill on acquisition has been calculated at £2.4 million and acquisition-related intangibles of £3.3 million are represented primarily by IP related to the SaaS platform.

The total consideration and fair value adjustments to the assets and liabilities are set out in Note 12. The acquired businesses of PeopleFluent and Watershed have been categorised into five separate Cash Generating Units for reporting purposes and further details are provided in Note 13.

On 27 August 2018, LTG agreed along with its joint-venture partner in LEO Brazil, a debt/equity swap that reduced LTG's equity holding from 50% to 38%. The investment in LEO Brazil is held in LTG's books at nil value.

Jonathan Satchell
Chief Executive
18 March 2019

STRATEGIC REVIEW (CONTINUED)

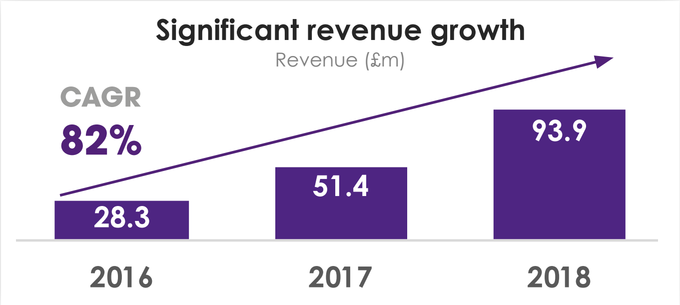
For the year ended 31 December 2018

Chief Financial Officer's review

Financial results

Financial comparatives for prior periods are reported on a restated basis. Further details are provided below.

In the year ended 31 December 2018, the Group generated revenue of £93.9 million (2017: £51.4 million), delivering an 83% year-on-year increase. Excluding the acquisitions of PeopleFluent and Watershed and the impact of the Civil Service Learning ('CSL') project, adjusting revenues as if all businesses that were part of the Group in 2017 reported on a full-year basis, organic revenue growth on a constant currency basis in 2018 was flat. The Software & Platforms division accounted for 64% of Group revenues and grew by 9%, whilst the Content & Services division accounts for the remainder of revenues at 36% and declined by 8% against tough prior year comparatives. Further details on the divisional performance are provided in the Chief Executive's review.



Adjusted EBIT increased by 104% to £27.2 million (2017: £13.3 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, integration costs and costs of acquisition and amortisation of acquired intangibles as well as other specific items. Integration, costs of acquisition, amortisation of acquired intangibles and 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.

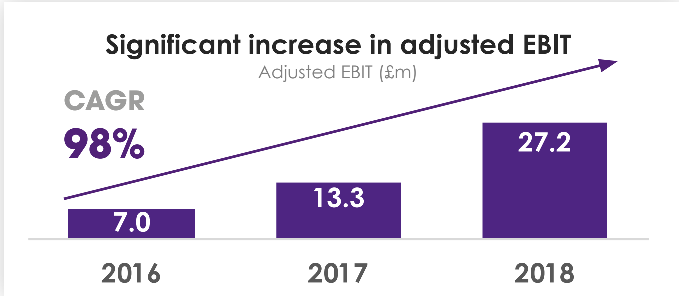
Adjusted EBIT margins increased during the year to 29% (2017: 26%) following the successful integration of PeopleFluent during the summer. As reported at the time of the 2018 Interim results, the integration of PeopleFluent was ahead of expectations and ahead of schedule, resulting in the Board increasing guidance for full-year 2019 EBIT margins for the acquired business from not less than 20% to not less than 25%. This is significantly higher than the approximately 11% pre-acquisition EBIT margins reported at the end of 2017. The Group continues to focus on operational best practice and tight cost control, whilst the increased economies of scale, and a change in the revenue mix of the Group towards higher margin recurring licence sales with a greater opportunity for operational leverage will help underpin our aim of delivering Group margins in the late twenties over the medium to long term.

The amortisation charge for acquisition-related intangible assets was £15.2 million (2017: £7.8 million). A charge of £0.7 million relates to the write-off of the NetDimensions acquired brand intangible following the incorporation of the NetDimensions Talent Suite into the PeopleFluent offering. Further details are set out in Note 13. The amortisation charge for internally generated development costs was £1.1 million (2017: £0.6 million) and relates to the development of the various PeopleFluent talent and learning platforms; 'gomo', the Group's award-winning multi-device authoring, hosting and video SaaS platform; Watershed, a SaaS analytics platform; various software tools used within the Eukleia business including an internally generated library of governance, risk and compliance ('GRC') materials used to service clients; as well as internally developed software in Rustici including SCORM and xAPI tools.

Acquisition-related deferred consideration and earn-out charges of £3.8 million (2017: £1.9 million) relate primarily to the third and final year of the acquisition-related earn-out of Rustici and reflect the strong incremental revenue growth of the business post-acquisition. The charge also includes £0.6 million payable to key management of PeopleFluent in the six months following acquisition and £0.3 million relating to the Watershed acquisition. A £0.2 million credit has crystallised as a result of the end of the PRELOADED earnout. From the beginning of 2019 the only acquisition-related deferred consideration arrangement in place is with Watershed. Further details are provided in Note 12.

The share-based payment charge increased from £0.7 million in 2017 to £1.3 million in 2018 as a result of the increase in option grants following the acquisition of PeopleFluent. The total number of outstanding share options at the end of 2018 was 28.3 million. Further details are provided in Note 25.

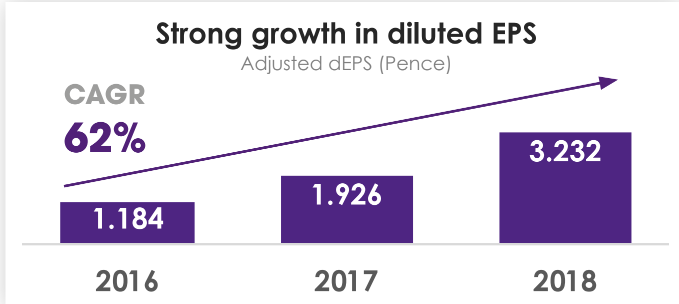
Integration costs of £2.4 million (2017: £1.2 million) relate to various restructuring charges including redundancy costs and onerous contract charges resulting from the integration of PeopleFluent. The Group successfully completed this ambitious programme between May and August as a result of which annualised cost synergies of more than £15.0 million have been realised.



Statutory profit before tax was £3.4 million compared with a loss before tax of £11,000 in the prior year and unadjusted operating profit was £4.0 million compared to an unadjusted operating profit of £1.9 million in 2017. Statutory profit before tax is stated after costs of acquisitions in 2018 of £2.6 million (2017: £0.9 million), a share of losses in associates of £0.1 million (2017: £0.2 million) being LTG's share of the pre-acquisition losses of Watershed, interest charges on the debt facility of £1.5 million (2017: £0.6 million) and a net foreign exchange gain of £3.6 million (2017: loss of £0.2 million) resulting from the exceptional gain made on the movement in the exchange rate between the conversion of £72 million of placing proceeds into USD on 27 April 2018 and completion of the PeopleFluent acquisition on 31 May 2018. Adjusted profit before tax (see Note 10) increased by 102% to £25.6 million in 2018 (2017: £12.7 million).

The income tax credit of £0.7 million in 2018 (2017: £1.1 million) 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 9.

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 68% to 3.232 pence (2017: 1.926 pence). On a statutory basis, basic earnings per share ('EPS') increased from 0.235 pence in 2017 to 0.655 pence in 2018. Further details are provided in Note 10.



The Group has a strong balance sheet with shareholders' equity at 31 December 2018 of £168.8 million, equivalent to 25.3 pence per share (2017: shareholders' equity of £75.4 million, equivalent to 13.2 pence per share). The acquisition of PeopleFluent during the year, a business which generates the majority of its revenues from recurring software licences which tend to be invoiced annually in advance, has resulted in a significant increase in trade receivables and deferred income balances compared to the prior year.

The gross cash position at 31 December 2018 was £26.8 million (2017: £15.7 million). The Group's net debt at 31 December 2018 was £11.5 million (2017: net cash of £1.0 million). Net debt/cash is defined by gross cash less borrowings.

Net cash generated from operating activities was £19.7 million (2017: £10.8 million) equivalent to an adjusted operating cash flow conversion rate of 83% (2017: 101%). Adjusted operating cash flow conversion is defined by net operating cash flows after adjusting for acquisition-related deferred consideration and earn-out payments, transaction and integration costs, interest and tax paid and the movement of deferred upfront investment outflows relating to the CSL project as a proportion of adjusted EBITDA. Operating cash flows in 2018 include receipts from the CSL project whereas the upfront investment outflows were paid in 2016.

Debtor days increased to 97 days (2017: 76 days) reflecting the inclusion of PeopleFluent, whilst combined debtor, WIP and deferred income days reduced to minus 57 days (2017: +17 days), reflecting the greater proportion of Group revenues generated from recurring software licences where payments are received annually in advance.

Net corporation tax receipts were £0.4 million (2017: £0.7 million payment) reflecting repayments made on account. Cash outflows from investing activities were £111.5 million (2017: £47.5 million) and comprised the acquisition of PeopleFluent for £105.9 million net of cash acquired and Watershed for £1.5 million (2017: £45.7 million net of cash acquired), plus capitalised investment in internally generated IP and property, plant and equipment of £4.1 million (2017: £1.8 million).

Cash inflows from financing activities were £102.4 million (2017: £47.6 million). At the time of the acquisition of PeopleFluent, LTG entered into a new debt facility with Silicon Valley Bank ('SVB') and Barclays Bank for $63 million accounting for £21.3 million of net debt finance receipts during the period. The facility comprises a $42 million term loan repayable in quarterly instalments of $2.1 million, and a $21 million multi-currency revolving credit facility, both available for five years. The new SVB debt facility replaced LTG's previous £20 million debt facility. 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. The Company has drawn down

STRATEGIC REVIEW (CONTINUED)

For the year ended 31 December 2018

the finance facility in USD and uses this as a partial internal hedge against movements in the exchange rates between Sterling and the USD. The Group is a net generator of USD. Management regularly reviews the foreign exchange exposure of the Group. Further details are provided in Note 30.

The balance of the cash flows from financing activities include net proceeds from a share placing of £82.8 million (2017: £45.4 million), proceeds from the exercise of employee share options of £0.9 million (2017: £1.7 million), payment of contingent deferred consideration related to the PRELOADED acquisition of £0.2 million (2017: £0.1 million), and dividend payments which increased to £2.4 million from £1.3 million in 2017.

Impact of adoption of new accounting policies and alignment of acquisitions with Group policies

With effect from 1 January 2018, the Group has adopted two new accounting standards: IFRS 15 – Revenue from Contracts with Customers, and IFRS 9 – Financial Instruments. The financial comparatives used for prior periods in this report are restated to reflect the impact on the financial results for the Group as if the new standards had been adopted in the prior year. The impact of adoption of IFRS 15 is that revenues and adjusted EBIT were reduced by £0.7 million in 2017. The impact of adoption of IFRS 9 is immaterial and no adjustment has been made. Further details are provided in Note 4.

The post-acquisition results for PeopleFluent are reported in line with LTG's accounting policies. The main effect on the reported results for PeopleFluent as previously reported under U.S. GAAP are:

- Restatement of professional services revenue in line with IFRS 15; professional fees are recognised as the work is undertaken on a percentage complete basis for fixed-price contracts rather than the accounting policy under U.S. GAAP where they were recognised on completion or delivery of the work to the client, or bundled with the licence subscription and amortised over the licence term. This has resulted in approximately $5.1 million of net revenues being moved to the pre-acquisition period.
- Restatement of sales commissions in line with IFRS 15 and IFRS 3; under IFRS 15 sales commissions on new client wins are amortised over the period of the anticipated client relationship rather than at the point that the sales commission becomes due. Under IFRS 3 the fair value of deferred sales commission at the time of completion is valued at nil.
- Capitalisation of R&D; under U.S. GAAP PeopleFluent did not capitalise R&D. In line with LTG's accounting policy under IAS 38, post-acquisition R&D is capitalised as a long-term asset to the extent that such expenditure is expected to generate future economic benefits. As a result, $1.6 million of PeopleFluent R&D was capitalised in 2018 resulting in an amortisation charge of $0.2 million. It is anticipated that run-rate R&D capitalisation for PeopleFluent in 2019 will be approximately $4.6 million with amortisation occurring over a period of approximately three years.

The table opposite summarises the impact of these accounting adjustments on revenues and adjusted EBIT reported by PeopleFluent over various accounting periods. The phasing of future accounting adjustments is an estimate based on current run-rate assumptions.

A new accounting standard, IFRS 16, will be adopted by LTG with effect from 1 January 2019, replacing IAS 17. IFRS 16 requires lessees to capitalise all leases on the statement of financial position by recognising a 'right of use' asset and corresponding lease liability for the present value of the obligation to make lease payments. There is likely to be significant impact on the accounting treatment of the Group's leases, particularly rented properties, which the Group, as lessee, currently accounts for as operating leases. Further details are given in Note 2.

Key Performance Indicators

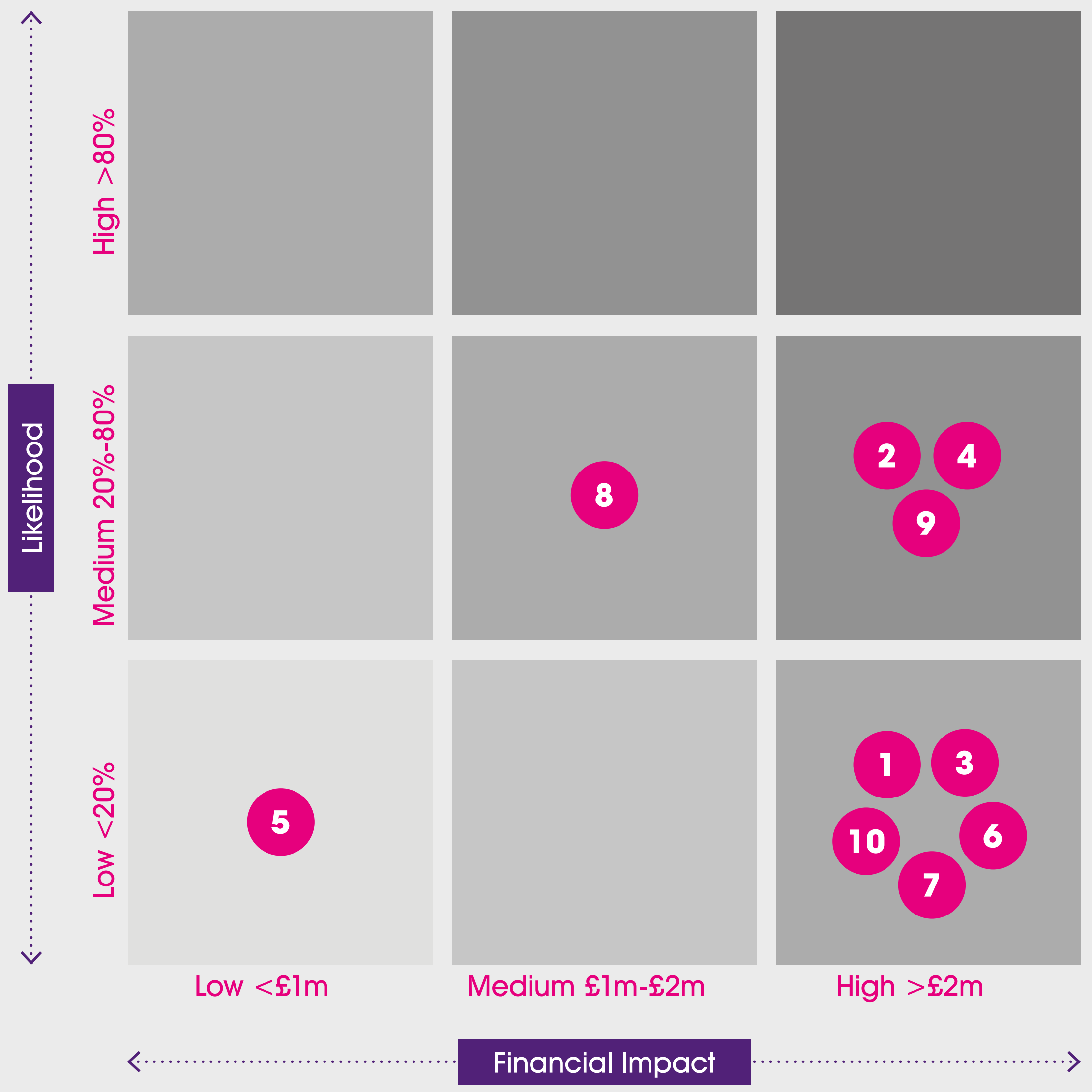
The Key Performance Indicators ('KPIs') are sales, profit and cash flow. The sales of the business are tracked through new wins across both divisions and retention rates and upsells in our Software & Platforms division. The profitability of the business, with its relatively low fixed-cost base, is managed primarily via the review of revenues in both divisions with secondary measures of consultant utilisation and monthly project margin reviews for the Content & Services division. Cash flow is reviewed on a Group basis aided by rolling cash flow forecasts and, linked to this KPI, working capital is reviewed by measures of debtor days and combined debtor, WIP and deferred income days.

Neil Elton
Chief Financial Officer
18 March 2019

	2018 Pre-Acq and prior	2018 Post-Acq	2019	2020
	£'m	£'m	£'m	£'m
Revenue				
IFRS 15	3.9	(1.7)	(1.5)	(0.5)
Total adjustment to Revenue	3.9	(1.7)	(1.5)	(0.5)
EBIT				
Revenue – IFRS 15	3.9	(1.7)	(1.5)	(0.5)
Sales commission – IFRS 3	-	0.8	-	-
Rent expense – IFRS 3	0.8	-	(0.3)	(0.1)
R&D capitalisation		1.2	3.5	3.5
R&D amortisation		(0.1)	(0.9)	(2.1)
Total adjustment to EBIT	4.7	0.2	0.8	0.8

PRINCIPAL RISKS AND UNCERTAINTIES

In addition to the financial risks discussed in Note 30, 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 talent and 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. Client contractual risks ▲
8. Integrating acquisitions ▲
9. Business systems and process integrity ▲
10. Impact of General Data Protection Regulation ▶

Trend: ▲, ▼, or ▶

1. Potential downturn in the market for outsourced talent and learning services

LTG is dependent on the markets for outsourced talent and learning services. An economic downturn or instability may cause customers to delay or cancel talent or 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 talent and learning services and LTG's proven ability to fulfil those objectives. More than 70% of LTG's revenues are generated from recurring software licences and services.

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 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, thus adversely impacting 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 ('Last Twelve Months') 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 talent and learning industries. We benchmark ourselves against our peers regularly and are satisfied 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 we must continue our focus as competition for talented people intensifies within the learning and talent 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 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 expectation, delivery milestones and forecast margins. Extensive work is undertaken in reviewing customer feedback and any complaints are reported to the Board.

7. Client contractual risks

Over the past three years, the Group has become increasingly complex, contracting in various territorial jurisdictions, and offering a wide variety of products and services with different risk profiles, ranging from on-premise and SaaS licences to professional services. The Group contracts with a large number of clients who often operate within their own contractual parameters. LTG seeks to ensure that it enters into contractual arrangements with clients which appropriately balance risks with commercial requirements. LTG operates a centralised legal function which reviews client contracts and maintains a delegated list of authorities who are able to contract on behalf of the Group.

8. Integrating acquisitions

LTG aims to grow its businesses organically but also consolidate the sector by 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.

9. Business systems and process integrity

LTG is a rapidly growing business that operates across many jurisdictions utilising multiple legacy IT systems. In such a dynamic business environment there is a risk that IT systems may be used ineffectively, that systems may be compromised through malware or unpatched operating systems, or that business processes may become inappropriate. The Group operates a central IT function which is responsible for monitoring all IT systems operated across the Group. A thorough review is conducted at the time of all acquisitions and, where appropriate, systems are unified and security protocols enforced. Business processes are reviewed and their effectiveness continually monitored.

10. Impact of General Data Protection Regulation

The General Data Protection Regulation (GDPR), introduced in May 2018, 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). LTG has appointed a GDPR Officer who works to ensure that all existing businesses are compliant and that acquired business operations are reviewed and actions taken to ensure compliance. The Group has made contingency plans for the potential impact of 'Brexit' requiring data to be hosted in the EU.

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
- Technology leadership
- Counterparty risk

STRATEGIC REVIEW (CONTINUED)

For the year ended 31 December 2018

Corporate Social Responsibility

Introduction

At LTG, the Board has overall responsibility for Corporate Social Responsibility ('CSR') with development and initiatives being led by the Chief Executive. During the past year, we have established a CSR Committee that oversees and co-ordinates CSR initiatives and communicates best practice and our achievements across the Group. LTG attempts to combine a sense of common purpose, incorporating core practices and values, whilst encouraging and enabling individual employees, business units and offices to carry out initiatives specific to their local circumstances and priorities. LTG seeks to work to the Ten Principles of the United Nations Global Contract ('UNGC'), guiding principles for corporate sustainability that encompass human rights, labour, environment and anti-corruption.

Business Ethics and Integrity

LTG promotes a culture of honesty, integrity, trust and respect and all members of staff are expected to operate in an ethical manner in all their dealings, whether internal or external. We do not tolerate behaviour which goes against this or which could result in reputational damage to the business.

To achieve this we have in place a number of policies and corporate training that encompasses Anti-bribery and Corruption, Ethics and Anti-Slavery. In 2019, we will bring these and other various company level codes into one LTG Code of Business Conduct and Ethics. A supporting update Business Ethics Training programme has been trialled and will be rolled out in full during the year.

People and engagement

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.

During 2018, we have developed a Mental Health at Work programme, a proactive Wellness Action Plan and a comprehensive Anti-Harassment training course that will be rolled out during 2019.

Communications

We communicate with our staff on a regular basis keeping them informed of business activities, changes in practices and procedures, and business performance. This includes a monthly newsletter ('LTGazette') and a Group-wide resources platform. During the integration programme for PeopleFluent, we circulated weekly updates informing staff of developments across the business.

The Group also undertakes regular staff surveys and feeds back the findings and actions to staff.

Training and development

The Group invests in training and developing its staff through internally arranged knowledge sharing events, external courses and an internal staff portal. LTG has a dedicated team who develop bespoke learning programmes for staff leveraging off LTG's own expertise and learning solutions.

Training programs in the year included a comprehensive General Data Protection Regulation ('GDPR') training programme which included infographics, awareness posters, online resources and e-learning. This achieved a 100% participation rate across the Group.

Incentives

Employees' performance is aligned to the Group's goals through an annual performance review process and via LTG's incentive programmes. All LTG staff are eligible for a commission or annual performance bonus scheme linked with achieving LTG's strategic objectives.

In addition, the Group operates a share option scheme for senior managers that rewards exceptional performance. Options usually vest over a period of four years. The Group runs a Sharesave scheme that allows all U.K. staff to participate in the Group's equity journey. To date, 53% of all UK staff have participated in this scheme. In 2019 LTG will launch its 6th U.K. Sharesave scheme and launch a similar scheme for staff in the U.S.

With effect from 2019, LTG will also make a number of awards to recognise, amongst other things, outstanding achievements in product and service innovation and cross-selling initiatives.

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.

Community and charity

LTG undertakes a number of local charitable initiatives each year, with the Group often matching contributions raised by staff. In 2018, local charitable initiatives included raising funds for The Martlets Hospice in Brighton, Cancer Research UK, the Albert Kennedy Trust, the Rainbow Centre in Sri Lanka, and the Exiles Rugby Team, which supports vulnerable foreign domestic helpers in Hong Kong.

Fundraising events were also held for the Phyllis Tuckwell Hospice, British Lung Foundation, and the Whitechapel Mission in the U.K. and Dress for Success and the Nashville Rescue Mission in the U.S.

LTG continued to sponsor Learn Appeal, a charity providing learning to disadvantaged communities in the U.K. and sub-Saharan Africa as well as providing them with support with their IT systems, and contributed to Great Ormond Street Hospital, including the purchase of an ECMO machine.

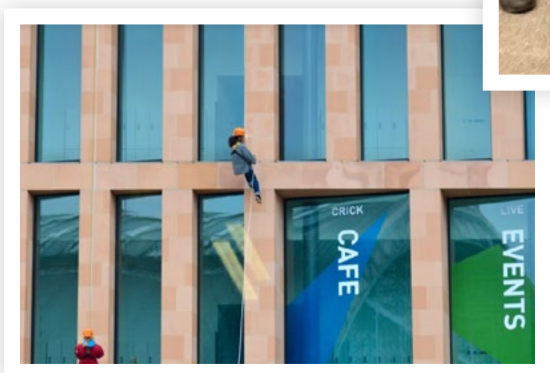
In 2018 the Group supported charitable activities by staff which raised a total of £8,000 (2017: £4,000) and made charitable contributions totalling £57,000 during the year (2017: £24,000).

Environmental

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 such 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 or been investigated for any breach of environmental regulations. A number of initiatives were extended during the year including improvements to recycling availability in UK and US offices.

Health & Safety and accidents

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 and established a group-wide QHSE department in 2018, responsible for implementing Health and Safety and environmental policy, and monitoring our environmental and Health and Safety efforts. The Board Executive Director responsible for health and safety is the Chief Executive.



CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018

Introduction from the Chairman

As a Board, we believe that practising good Corporate Governance is essential for building a successful and sustainable business in the long-term interests of all LTG stakeholders. LTG's shares are listed on the Alternative Investment Market ('AIM') of the London Stock Exchange.

With effect from September 2018 LTG has adopted the QCA Corporate Governance Code. 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.

The following pages outline the structures, processes and procedures by which the Board ensures that high standards of corporate governance are maintained throughout the Group. Further details can be found on the LTG website at www.ltgplc.com/investor-information/corporate-governance/.

Promoting long-term value for shareholders

LTG's strategy and business model is to build a dynamic portfolio of complementary businesses and an international full-service digital learning and talent management business of scale, through a combination of strong organic growth as well as strategic acquisitions that complement the current business. Further details are provided in the Strategic Review on pages 17 to 30.

Relations with shareholders

The Directors seek to build on a mutual understanding of objectives between LTG and its shareholders by meeting to discuss long-term issues and receive feedback, communicating regularly throughout the year.

The primary means of shareholder communications are through our Annual Report and Accounts and Interim Report, trading updates and Capital Market Days, the last one of which was held on 15 November 2018. The Chief Executive and Chief Financial Officer hold regular meetings throughout the year with investors and the Board communicates with private investors through the Annual General Meeting and through our investor email at investorenquiries@ltgplc.com.

Promoting corporate culture based on ethical values and behaviour

The Board recognises that its prime responsibility is to promote the success of the Group for the benefit of its members as a whole. The Board also understands that it has a responsibility towards employees, partners, customers and suppliers. The Group has a strong ethical culture, always challenging itself to improve and always seeking to meet or exceed the expectations of employees, partners, customers, suppliers and shareholders. Further details of some of the Group's initiatives are included in the Corporate Social Responsibility statement on pages 29 to 30.

Board of Directors

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

Director	Role at 31 December 2018	Date of (re-) appointment	Retired	Board Committee	
Andrew Brode	Non-executive Chairman	19/05/2016			
Leslie-Ann Reed	Non-executive Director	24/05/2018		A	R
Aimie Chapple	Non-executive Director	03/09/2018		A	R
Jonathan Satchell	Chief Executive	24/05/2018			
Neil Elton	Chief Financial Officer	24/05/2018			
Piers Lea	Chief Strategy Officer	18/05/2017			
Harry Hill	Non-executive Deputy Chairman	19/05/2016	31/10/2018		
Dale Solomon	Chief Operating Officer	18/05/2017	16/11/2018		

Board Committee abbreviations are as follows:
A = Audit Committee; R = Remuneration Committee

Board of Directors

Andrew Brode

Non-executive Chairman

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 Chairman of AIM quoted GRC International Group. He acquired Epic Group Limited ('Epic') together with Jonathan Satchell in 2008.

Leslie-Ann Reed

Independent Non-executive Director / Audit & Risk Committee Chair / Remuneration Committee

Leslie-Ann Reed is a Chartered Accountant and was formerly CFO of the online auctioneer Go Industry plc. 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 both in the U.K. and internationally at Universal Pictures, Polygram Music, Warner Communications Inc. and EMI Music. Her current Non-executive Directorships include ZEAL Network SE where she serves as Vice Chair and is also Chair of the Audit Committee.

Aimie Chapple

Independent Non-executive Director / Remuneration Committee Chair / Audit & Risk Committee

Aimie Chapple started her career in the talent and learning space in her native U.S. and moved to the U.K. in 1997 where she served on Accenture's UKI Executive board as the Chief Innovation Officer and Head of Management Consulting, and was a Director in the U.K. plc. She has led practices in Human Performance, Health and Innovation, and served as a talent, change management and leadership practitioner in many industries. She was President, Vice President and a board member of the Management Consultancies Association, leading the industry through times of change. She continues to consult in leadership and wellness.

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 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

Chief Financial Officer and Company Secretary

Neil Elton is a Chartered Accountant and was appointed as Chief Financial Officer 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 Finance Director from 2010 to 2014. Before that he was Finance Director 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').

CORPORATE GOVERNANCE REPORT (CONTINUED)

The workings of the Board

Board composition and roles

The role of the Board is to establish the vision and corporate strategy for LTG in order to promote and deliver long-term sustainable shareholder value. The Board comprises the Non-executive Chairman, the Chief Executive, Chief Financial Officer and Chief Strategy Officer, and the two Non-executive Directors and is responsible to shareholders for the proper management of the Group.

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 Chief Financial Officer and the Ops Board of LTG.

Given the rapidly increasing size and complexity of the Group, the Board, assisted by the Ops Board, continually reviews the appropriateness of the management structure and governance framework. Particularly with the acquisition of PeopleFluent and greater proportion of revenues and staff in the U.S. the Company has made a number of changes to the management and governance structures, ensuring that a number of senior roles are based outside the U.K. and reporting lines reviewed. The full Board visited the Raleigh and Nashville sites in October 2018. Following the departure of the Company's Deputy Chairman on 31 October 2018, the Board has initiated a search for a fourth Non-executive Director to complement the Board. The biographies of all the Directors appear on page 32.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. 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 Ops Board and Managing Directors within the framework approved in the annual financial plan and within a framework of Board-approved authorisation levels.

The Board meets at least 10 times a year and met 12 times during 2018 (2017: 12).

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.

Appointments

Vacancies on the Board are filled following rigorous evaluation of suitable candidates possessing an appropriate balance of skills, knowledge and experience. The use of recruitment consultants is considered on a case-by-case basis. New Directors receive formal guidance about the workings of the Board and its Committees. In addition, shortly after their appointment, they meet with the senior management of the Group and receive detailed information and presentations on Group strategy, products and services.

With effect from the 2019 AGM, all Directors are subject to annual re-election by shareholders.

The service agreements for each of the Directors are available for inspection at LTG's registered office in London.

Directors' & Officers' insurance

The Group holds appropriate insurance to cover Directors and Officers against the costs of defending themselves in civil proceedings taken against them in their capacity as a Director or Officer of the Company.

Conflicts of interest

Directors and Officers are encouraged to make the relevant disclosures at each Board meeting on any conflicts of interest they may have with the Group. During the period ended 31 December 2018, no Director or Officer had a material interest in any contract with the Group other than their Service Contract and as set out in Note 28 on related party transactions. LTG entered into a three-year contract with RWS Group Limited in November 2016 following a tender exercise supervised by an independent Non-executive Director of the Board.

Director independence and training

The Chairman of the Board and his fellow Non-executive Directors bring a range of experience and judgement to bear on issues of strategy, performance, resources and standards of conduct, which are vital to the success of the Group. It is the Board's opinion that the Non-executive Directors, excluding the Chairman, are independent in character and judgement and comply with provision B.1.1. of the Code.

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. They also have access to management and to the advice of the Company Secretary. Furthermore, all Directors are entitled to seek independent professional advice concerning the affairs of the Group at its expense, although no such advice was sought during the year. The Board members have many years of relevant experience and each is responsible for ensuring their continuing professional development to maintain their effective skills and knowledge.

To enable the Board to discharge its responsibilities effectively, all Directors are able to allocate sufficient time to the Group. The Committees of the Board have terms of reference for the conduct of their respective responsibilities. A summary of the terms of reference is detailed further in this report, in addition to being noted on LTG's website. Copies of the terms of reference are also available upon request. The Board considers that there is a strong, independent Non-executive element on the Board.

Board evaluation

With effect from the end of 2018, LTG has run a formal Board Evaluation review. The review involved all members of the Executive and Non-executive Board, the Ops Board and senior managers, including business unit MDs and senior central department heads. The review comprised an online questionnaire and then one-to-one interviews with each of the review participants.

The key findings of the review will be considered by the Board and appropriate actions taken. We will update shareholders as part of the next Corporate Governance Report.

Board committees

The Board maintains two standing committees, being the Audit & Risk and Remuneration Committees. Matters normally reserved for a Nominations Committee are considered by the full Board.

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 & Risk Committee

The Audit & Risk Committee is chaired by Leslie-Ann Reed and currently comprises Leslie-Ann Reed and Aimie Chapple. The Audit & Risk Committee met three times during 2018 (2017: three). Further details on the Audit & Risk Committee are provided in the Report of the Audit & Risk Committee.

Remuneration Committee

The Remuneration Committee has been chaired by Aimie Chapple since October 2018 and also comprises Leslie-Ann Reed. The Remuneration Committee met once during 2018 (2017: once). Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee.

Meetings of the Board and sub-committees during 2018 were as follows:

	Board meeting	Audit and Risk committee	Remuneration committee
Number of meetings held in 2018	12	3	1
Andrew Brode	11/12	3/3*	1/1
Harry Hill	8/10	-	1/1
Leslie-Ann Reed	12/12	3/3	-
Aimie Chapple	3/4	1/1	-
Jonathan Satchell	12/12	-	1/1*
Neil Elton	11/12	3/3*	-
Piers Lea	11/12	-	-
Dale Solomon	9/10	-	-

*Attendance by invitation

REPORT OF THE AUDIT & RISK COMMITTEE

Composition

The Audit & Risk Committee comprises Leslie-Ann Reed (Chair) and Aimie Chapple. Andrew Brode stepped down from the Committee on 31 October 2018. The Committee meets at least twice a year and these meetings are attended by the Group's external auditor and, through invitation, the Executive Directors.

The Committee oversees LTG's financial reporting process on behalf of the Board. LTG's management has the primary responsibility for the financial statements and for maintaining effective internal control over financial reporting. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited consolidated financial statements in the Annual Report with the external auditor and management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, the clarity of disclosures in the financial statements and for assessing the effectiveness of internal control over financial reporting.

The Board is confident that there is sufficient recent and relevant financial experience on the Committee and that as a whole, we have competence relevant to the sector in which the Company operates. We have access to the financial expertise of the Group and its auditor and can seek professional advice at the Company's expense if required. In addition, we also carry out rigorous enquiries and challenge the executive management and auditor as to internal control and risk management systems, the processes followed for the implementation and enactment of policies and best practice, providing additional detail and explanation to the Committee of each area of the audit report, and about how developments in audit practice and international accounting standards could potentially impact LTG and the effectiveness of the planning processes for such developments.

Fair, balanced and understandable accounts

In fulfilling our responsibility of monitoring the integrity of financial reports to shareholders, we consider and review the accounting principles, policies and practices adopted in the preparation of public financial information and examine documentation relating to the Annual Report, Interim Report, preliminary announcements and other related reports. We have given due consideration as to whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy and can confirm that this is the case.

External audit

We approve the external auditor's terms of engagement, scope of work, the process for the interim review and the annual audit. We also meet with the auditor to review the written reports submitted and the findings of their work. We have primary responsibility for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor.

Outside of the formal Committee meetings, members also meet with the external auditor and with individual members of the Group's executive management, principally to discuss the risks and challenges faced by the business and, most importantly, how these are being addressed.

The Committee, at least annually, assesses the independence, tenure and quality of the external auditor.

Internal audit

The Board as a whole has considered whether the Group's internal controls processes would be significantly enhanced by an internal audit function and has taken the view that given the size of the Group, the internal controls in place and significant executive involvement in the Group's day-to-day business, that an internal audit function is not required. However, the Committee and the Board will keep this under review.

Report on the work of the committee

We review the independence and objectivity of the external auditor prior to the proposal of a resolution to shareholders at the Annual General Meeting concerning the appointment and remuneration of the auditor. This process includes the review of audit fee proposals, investigation and approval for non-audit services' fees, tenure and audit partner rotation (based on best practice and professional standards within the United Kingdom). The Group's auditor, Crowe UK LLP, similarly considers whether there are any relationships between themselves and the Group that could have a bearing upon their independence and have confirmed their independence to us. Each year we obtain written confirmation from the auditor that it is independent.

Following careful review, we reached a recommendation to reappoint Crowe UK LLP as auditor following an assessment of the quality of service provided, the expertise and resources made available to the Group and the effectiveness of the audit process.

During the year the auditor undertook certain specific pieces of non-audit work (including work in relation to tax compliance and financial due diligence). In order to maintain Crowe UK LLP's independence and objectivity, they undertook their standard independence procedures in relation to those engagements. Further details of the non-audit fees are included in Note 6 to the financial statements. We will continue to assess the effectiveness and independence of the external auditor.

Internal controls and risk management

The Group's corporate objective is to maximise long-term shareholder value. In doing so, the Directors recognise that creating value is the reward for taking business risks. The Board's policy on risk management encompasses all significant business risks to the Group, including financial, operational and compliance risks, which could undermine the achievement of business objectives. Regular monitoring of risk and control processes, across headline risk areas and other business-specific risk areas, provides the basis for regular and exception reporting to management and the Board. The risk assessment and reporting criteria is designed to provide the Board with a consistent, group-wide perspective of the key risks. The reports to the Board, which are submitted at least every 12 months, include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness.

The Board has overall responsibility for the Group's approach to assessing risk and systems of internal control, and for monitoring their effectiveness. Due to the limitations that are inherent in any system of internal control such a system is designed to manage rather than eliminate the risks of failure to achieve business objectives and provides only reasonable and not absolute assurance against material misstatement or loss. The Board considers risk assessment and control to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile and confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and the effectiveness of related controls.

The key features of the internal control system are described here:

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 plan. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions 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 & Risk Committee, has reviewed the systems and processes in place in meetings with the Chief Financial Officer and external auditors during 2018.

REPORT OF THE REMUNERATION COMMITTEE

Summary statement

The members of the Remuneration Committee are Aimie Chapple (Chair) and Leslie-Ann Reed, both Independent Non-executive Directors. Andrew Brode and Harry Hill stepped down from the Committee on 31 October 2018.

The Remuneration Committee monitors the remuneration policies of LTG to ensure that they are aligned with LTG's business objectives. Its terms of reference include the recommendation and execution of policy on Executive Director remuneration. The remuneration of the Non-executive Directors is a matter for the Board, excluding the Non-executive Directors. The remuneration of the Chairman is a matter for the Remuneration Committee, although Andrew Brode has waived all remuneration. Other Non-executive Directors receive a base salary only.

Service contracts

The service contracts and letters of appointment of the Directors include the following terms:

	Date of Contract	Notice Period (months)
Executive Directors		
Jonathan Satchell	8 November 2013	6
Neil Elton	3 November 2014	6
Piers Lea	25 June 2014	6
Non-executive Directors		
Andrew Brode	8 November 2013	1
Leslie-Ann Reed	25 June 2014	1
Aimie Chapple	3 September 2018	1

There are no additional financial provisions for termination. All are rolling contracts. The Executive Directors are employed on a full-time basis and the Non-executive Directors are required to provide sufficient time to fulfil their duties including time to prepare for and attend Board and Committee meetings and to meet with shareholders and other stakeholders. With effect from the 2019 AGM, all Directors will put themselves up for re-election on an annual basis.

During the year, the Remuneration Committee has reviewed the LTG Directors' Remuneration Policy. The resulting revised policy is set out below.

As part of this review the Committee has considered the remuneration of the Executive Directors in the context of the increased scale and complexity of the Group and against peers in the market, particularly within the AIM 50.

As a result of this review it was noted that the remuneration of the Executive Directors had fallen materially behind the levels that would be expected for a business of LTG's scale, international reach and complexity. As a result of this review the Remuneration Committee has made a number of changes as set out in the Annual Report on Remuneration below.

The Committee has run an annual formal Board Effectiveness Review to ensure that the Board continues to function as a well-functioning, balanced team led by the Chairman. Evaluation criteria included a review of the Group's strategy, its relationship with shareholders and other key stakeholders, the performance of the Board and the standing committees, executive remuneration and incentives, governance, and performance and succession. The results of this review have been discussed by the full Board. The Board seeks to nurture and promote talent within the business supplementing it, where appropriate, with external talent. The Board is in the process of recruiting a fourth Non-executive Director to improve the balance of the Board and the Company will make an announcement in due course.

The Committee met once in 2018 (2017: 1).

Annual Report on Remuneration

This Annual Report on Remuneration sets out the information about the remuneration of the Directors of the Company, for the year ended 31 December 2018 and arrangements for the year ended 31 December 2019. The Directors of the Company are considered to be the Key Management personnel of the Group.

Directors' emoluments and benefits include: (audited)

Year ended 31 December 2018	Salary or fees	Bonuses	Pension contribution	Compensation for loss of office	Gain on exercise of share options	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Andrew Brode	-	-	-	-	-	-
Harry Hill	38	-	-	-	-	38
Jonathan Satchell	252	228	8	-	-	488
Neil Elton	178	161	5	-	87	431
Piers Lea	179	161	5	-	-	345
Dale Solomon	157	161	5	58	1,012	1,393
Leslie-Ann Reed	40	-	-	-	-	40
Aimie Chapple	13	-	-	-	-	13
	857	711	23	58	1,099	2,748

Year ended 31 December 2017	Salary or fees	Bonuses	Pension contribution	Compensation for loss of office	Gain on exercise of share options	Total
	£'000	£'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
Aimie Chapple	8	-	-	-	-	8
	825	411	20	-	7,153	8,409

Key management remuneration	2018	2017
	£'000	£'000
Short-term employee benefits	1,649	1,256
Share-based payments	32	184
Total key management remuneration	**1,681**	**1,440**

REPORT OF THE REMUNERATION COMMITTEE (CONTINUED)

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 were £170,000 (2017: £128,000). These are excluded from the table above.

The CEO's salary in 2018 represented 4.3 times the median salary of all employees in LTG (2017: 6.0 times).

Aimie Chapple was appointed as a Non-executive Director on 3 September 2018. Harry Hill resigned as a Non-executive Director on 31 October 2018 and Dale Solomon resigned as Chief Operating Officer on 16 November 2018. Dale Solomon received £58,000 in lieu of adoptive paternity leave and other benefits.

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 2018 or 31 December 2017.

As a result of the Remuneration Policy review undertaken during the year, Directors' base salaries have been increased as follows with effect from 1 January 2019:

	Base Salary in 2018	Base Salary in 2019
	£'000	£'000
Executive Directors		
Jonathan Satchell	252	300
Neil Elton	178	240
Piers Lea	178	200
Non-executive Directors		
Andrew Brode	-	-
Leslie-Ann Reed	40	50
Aimie Chapple	40	50

The details of the Executive Bonus Scheme 2018 are set out below and include details of the maximum and actual bonus levels achieved. Bonuses in the year were awarded based on achievement of Adjusted EBIT ('EBIT') targets for the Group, based on budget assumptions at the beginning of the year (the 'original target'). These targets are equivalent to annual bonus targets set for other LTG staff who are incentivised based on the results of the Group rather than a specific business unit. Annual bonuses were awarded as a proportion of base salary with an on-target EBIT achievement resulting in a 30% bonus payment and a 30% overachievement of that original target resulting in a capped payment equivalent to 150% of salary; bonus awards increase on a straight-line basis up to the cap. No annual bonus would be payable if actual EBIT was less than target EBIT. The EBIT targets are adjusted at the reasonable discretion of the Remuneration Committee to account for events such as acquisitions or disposals. In 2018, the 'original target' was increased materially to account for the budgeted post-acquisition contribution of PeopleFluent. The specific targets are not given in this report as that information is deemed commercially sensitive.

	Maximum				Achieved			
	CEO	CFO	COO	CSO	CEO	CFO	COO	CSO
Adjusted EBIT	150%	150%	150%	150%	89%	89%	89%	89%
Total as a % of Base Salary	**150%**	**150%**	**150%**	**150%**	**89%**	**89%**	**89%**	**89%**

As a result of the Remuneration Policy review undertaken during the year, the Executive Bonus Scheme 2019 has been evolved to allow for recognition of the achievement not only of EBIT targets, but also organic revenue growth and personal targets.

Most of the LTG staff bonus plans have also been amended in 2019 to reward revenue growth and EBIT achievements.

Directors' interests in the shares of the Company at 31 December 2018 and 31 December 2017 are as follows:

LTG Ordinary shares of £0.00375 each	Options				Shares	
	2018	2017	2018	2017	2018	2017
	Weighted Average Exercise Price (pence)		Number		Number	
Andrew Brode	-	-	-	-	116,920,080	115,881,671
Jonathan Satchell	68.400	-	26,315	-	75,139,995	103,139,995
Leslie-Ann Reed	-	-	-	-	6,168,730	4,857,074
Neil Elton	31.656	30.946	3,026,315	3,095,744	439,562	206,666
Piers Lea	-	-	-	-	8,714,030	16,023,383
	31.972	30.946	3,052,630	3,095,744	207,382,397	240,108,789

Senior managers in LTG are granted share options in the Company. Share options are generally granted over a period of four years and only vest based on challenging performance criteria. The exercise price is set at the prevailing market price at the time the options are granted.

Neil Elton was granted 1,000,000 options in January 2015 and 2,000,000 share options in April 2017 subject to vesting criteria based on a minimum share price being sustained for 30 consecutive days as set out below. All the options have vested.

Date	Type	No	Minimum share price vesting requirement (pence)	Exercise Price (pence)
16 January 2015	EMI	500,000	24.000	19.000
16 January 2015	EMI	250,000	28.000	19.000
16 January 2015	EMI	250,000	32.000	19.000
5 April 2017	Unapproved	1,000,000	55.000	37.500
5 April 2017	Unapproved	1,000,000	70.000	37.500
		3,000,000		31.333

The balance of interest in share options for Jonathan Satchell and Neil Elton is in relation to their participation in the contributory LTG Sharesave scheme.

On 1 June 2018, Neil Elton exercised 95,744 share options under the LTG 2015 Sharesave scheme.

On 8 June 2018, Dale Solomon exercised and sold 1,006,491 share options granted in November 2013.

See Note 25 for further details on share option plans.

Dividends paid to Directors during the year were as follows:

	2018	2017
	£'000	£'000
Total	837	556

See Note 29 for further details on dividends.

Remuneration Policy

As part of the adoption of the QCA Guidelines, the Remuneration Committee has reviewed the LTG Directors' Remuneration Policy. The resulting policy is set out below.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	The role of the base salary is to support the recruitment and retention of Executive Directors of the calibre required to deliver and develop strategy. Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience.	The Committee sets base salary taking into account the individual's skills and experience and their performance, salary levels at equivalent peers on AIM, and pay and conditions elsewhere in the Group. Base salary is normally reviewed annually with changes effective from 1 January but may be reviewed more frequently if the Committee determines this is appropriate.	While there is no maximum salary, increases will normally be in line with the typical level of increase awarded to other colleagues in the Group. However, increases may be above this level in certain circumstances such as where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role. Larger increases may be awarded to move salary positioning closer to typical market level as the Executive Director gains experience.	n/a
Pension	To provide an appropriate level of retirement benefit as part of a holistic benefit package.	Executive Directors are entitled to receive up to a 3% matched company contribution to their personal pension plan. This is in line with all other LTG U.K. employees and minimum legislated requirement.	3% of salary.	n/a
Benefits	To provide a market-competitive level of benefits for the Executive Directors.	In line with other LTG U.K. employees including 26 days annual holiday in addition to public holidays.	n/a	n/a
Annual bonus	The role of the annual bonus is to reward Executive Directors for the delivery of our annual financial, operational and strategic goals. The performance measures have been selected as they are considered to be key to delivering long-term shareholder value creation.	The annual bonus is normally payable in cash following completion of the audit of the Annual Report and Accounts. Performance is assessed over a financial year. The Committee determines the level of bonus, taking into account performance against targets and the underlying performance of the business.	Maximum annual bonus opportunity of 150% of base salary. For details of award levels for prior years see the Annual Report on Remuneration.	The annual bonus may be based on a mix of financial, operational, strategic and individual performance measures. At least 70% of the bonus will be based on financial performance. The Committee determines the exact metrics each year depending on the key goals for the forthcoming year. Normally around 30% of the bonus is paid for threshold performance with the full bonus being paid for delivering stretching levels of performance. These vesting levels may vary each year depending on the stretch of targets set. The Committee sets bonus targets each year to ensure that they are appropriately stretching in the context of the business plan.
LTIPs	The role of the LTIPs is to reward Executive Directors for achieving LTG's long-term strategy and creating sustainable shareholder value, to align the economic interests of Executive Directors and shareholders, and to act as a retention tool.	Awards normally vest based on performance over a period of not less than four years (unless the Committee determines otherwise). The Committee has the discretion to amend the final vesting level if it does not consider that it reflects the underlying performance of the Company. LTIP awards are normally awarded in the form of options over shares but may be awarded in other forms. Vested options may normally be exercised until the tenth anniversary of the date at grant.	The maximum initial award is 3 million share options. Further options may be granted once the initial vesting period has elapsed.	The Committee sets targets at the time of each award so that targets are stretching and represent value creation for shareholders while remaining motivational for management.

It is the intention of the Committee to consult with shareholders about the Directors' Remuneration policy over the coming year and invite shareholders to vote on the policy at the 2020 AGM.

The Directors present their report on the Group, together with the audited Consolidated Financial Statements for the year ended 31 December 2018.

DIRECTORS' REPORT

For the year ended 31 December 2018

Principal activities

The principal activity of the Group is the provision of talent and learning solutions; content, services and digital platforms, to the corporate market. 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 Review has been prepared solely to provide additional information to shareholders to assess the Group's strategy and the potential for this strategy 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 50.

At the time of LTG's admission to AIM in November 2013, the Board stated that they would pursue a progressive dividend policy. On 2 November 2018, the Company paid an interim dividend of 0.15 pence per share (2017: 0.09 pence per share). The Directors propose to pay a final dividend of 0.35 pence per share for the year ended 31 December 2018, equating to a total payout in respect of the year of 0.50 pence per share (2017: 0.30 pence per share), representing a 67% annual increase.

Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 28 June 2019 to all shareholders on the register at 7 June 2019.

Business review and future developments

Details of the business activities and acquisitions made during the year can be found in the Strategic Review on pages 17 to 30 and in Note 12 of the Consolidated Financial Statements respectively.

Political donations

The Group made no political donations during the year (2017: nil).

Financial instruments and risk management

Disclosures regarding financial instruments are provided within the Strategic Review and Note 30 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 24 to the Financial Statements. The Company has one class of ordinary share which carries no right to fixed income.

Research and development

The main areas of research and development for the Group has been the continuing development of the PeopleFluent, gomo and Watershed software platforms, Rustici's interoperability software and xAPI-enabled analytical software tools, a new Learning Experience Platform ('LXP') to be launched later in 2019, as well as various virtual and augmented reality applications, as covered in the Strategic Review on pages 17 to 30.

Post-balance sheet events

Details of post-balance sheet events can be found in Note 32 to the Consolidated Financial Statements.

Workforce policies and employment engagement

We are committed to the investment in our staff at all levels to ensure a culture of continuous improvement. In order to attract and retain a high calibre of employees, we provide various employee benefit packages including performance-related bonuses and Sharesave plans in order to align employee interests with the long-term strategic objectives of the Group. We are committed to our equality and diversity polices and seek regular feedback and engagement from our workforce. Further information regarding our work policies and engagement can be found on page 29.

Directors' interests in shares and contracts

Directors' interests in the shares of LTG at 31 December 2018 and 31 December 2017 are disclosed in the Report of the Remuneration Committee on page 37. Directors' interests in contracts of significance to which LTG was a party during the financial year are disclosed in Note 28.

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	116,902,080	17.53
Jonathan Satchell	75,139,995	11.27
Merian Global Investors	56,459,730	8.47
Liontrust Asset Management	34,282,438	5.14
Canaccord Genuity Wealth Management	32,552,000	4.88
Janus Henderson Investors	27,000,974	4 05
JPMorgan Asset Management	22,906,868	3.44
BlackRock	22,524,344	3.38

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 11am on 5 June 2019 at DWF LLP, 20 Fenchurch Street, London, EC3M 3AG. 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 UK 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
Chief Financial Officer
18 March 2019

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 2018, which comprise:

- the Consolidated statement of comprehensive income for the year ended 31 December 2018;
- the Consolidated and Company statements of financial position as at 31 December 2018;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated and 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 financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is 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 Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 (U.K.) (ISAs (U.K.)) 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 U.K., 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 (U.K.) 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 12 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 £700,000, based on approximately 2.5% of adjusted EBIT, the key performance measure used by the Group.

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 £15,000. 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 U.K. 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 Raleigh (USA) being the PeopleFluent business acquired in the year. The accounting for NetDimensions (Holdings) Limited, previously accounted for out of Hong Kong was also migrated to Raleigh during the year. A member of the Crowe Global international network was engaged to perform procedures locally under our direction and review. 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. Part of the Group audit team performed a site visit to the U.S. to meet with local management and review component auditor working papers.

The Group audit team had adequate communication with all component auditors throughout the planning, fieldwork and concluding stages of local audits.

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 on a percentage complete basis where certain conditions are met. The transition to IFRS 15 and the application of the new accounting policies was considered to be a significant audit risk.	Our procedures included reviewing the Group's assessment of the impact of IFRS 15 on the revenue streams in the business and their modified accounting policies. We agreed the performance obligations identified by management to a sample of contracts to ensure the adopted accounting policy was appropriate. This was considered at the transition date and was also included in our year-end fieldwork. 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 Accounting	
During the year the Group made a significant acquisition of PeopleFluent Holdings Corp for total consideration of £107m. 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. There is a risk that inappropriate assumptions could result in material errors in the acquisition accounting.	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.
Impairment assessment of Goodwill and other intangible assets	
The Group has a significant amount of intangible assets at 31 December 2018 and there is a risk that they could be impaired.	We obtained management's discounted cashflow model supporting the intangible asset valuation. We challenged the key assumptions into the model, including the forecast EBITDA, discount rates and growth rates. Sensitivity analysis was prepared on the model to ensure no reasonable movement in the assumptions would cause an impairment.

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 Review and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Review and directors' 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 Review 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 45, 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 (U.K.) 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.

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

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 U.K. LLP

Statutory Auditor

London

18 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Year ended 31 Dec 2018	Year ended 31 Dec 2017 (restated)
		£'000	£'000
Revenue	5	93,891	51,353
Operating expenses (excluding acquisition-related deferred consideration and earn-outs)		(86,171)	(47,605)
Operating profit (before acquisition-related deferred consideration and earn-outs)		7,720	3,748
Acquisition-related deferred consideration and earn-outs		(3,761)	(1,853)
Operating profit/(loss)		3,959	1,895
Adjusted EBIT		27,245	13,344
Amortisation of acquired intangibles	13	(15,193)	(7,756)
Acquired intangibles written down		(681)	-
Share-based payment costs	25	(1,254)	(675)
Integration costs		(2,397)	(1,165)
Acquisition-related deferred consideration and earn-outs	6	(3,761)	(1,853)
Operating profit/(loss)		3,959	1,895
Fair value movement on contingent consideration	6	183	52
Costs of acquisition	12	(2,621)	(920)
Share of losses on associates/joint ventures	14	(132)	(201)
Profit/(loss) on disposal of fixed assets		-	(36)
Finance expense:			
Charge on contingent consideration	6	(54)	(41)
Unwinding onerous lease	6	-	(11)
Interest on borrowings	6	(1,512)	(605)
Net foreign exchange difference on borrowings		3,608	(151)
Interest receivable	6	10	7
Profit/(loss) before taxation	6	3,441	(11)
Income tax credit	9	730	1,108
Profit for the year		4,171	1,097
Profit/(loss) attributable to owners of the Parent		4,171	1,247
Profit/(loss) for the year attributable to non-controlling interests		-	(150)
		4,171	**1,097**
Earnings per share attributable to owners of the Parent:			
Basic (pence)	10	0.655	0.235
Diluted (pence)	10	0.641	0.225
Adjusted earnings per share:			
Basic (pence)	10	3.300	2.011
Diluted (pence)	10	3.232	1.926
Profit for the year		**4,171**	**1,097**
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations		6,231	(3,564)
Total comprehensive (loss)/income for the year attributable to owners of the Parent Company		**10,402**	**(2,467)**
Attributable to:			
The owners of the Parent		10,402	(2,276)
Non-controlling interest		-	(191)
		10,402	**(2,467)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

	Note	31 Dec 2018	31 Dec 2017 (restated)
		£'000	£'000
Non-current assets			
Property, plant and equipment	11	2,144	842
Intangible assets	13	242,458	83,409
Deferred tax assets	19	2,858	2,205
Investments accounted for under the equity method	14	-	1,689
Other receivables, deposits and prepayments	16	161	-
Amounts recoverable on contracts	17	421	-
		248,042	**88,145**
Current assets			
Trade receivables	15	34,314	12,067
Other receivables, deposits and prepayments	16	3,897	2,363
Amounts recoverable on contracts	17	3,397	4,242
Amount owing from related parties	28	7	-
Cash and bank balances	18	26,794	15,662
Restricted cash balances		336	-
		68,745	**34,334**
Total assets		316,787	122,479
Current liabilities			
Trade and other payables	20	72,470	24,806
Borrowings	22	6,602	1,849
Corporation tax		1,631	50
Amount owing to related parties	28	-	20
		80,703	**26,725**
Non-current liabilities			
Deferred tax liabilities	19	26,299	6,477
Other long-term liabilities	21	9,008	830
Borrowings	22	31,657	12,765
Provisions	23	301	257
		67,265	**20,329**
Total liabilities		147,968	47,054
Net assets		168,819	75,425
Shareholders' equity			
Share capital	24	2,501	2,145
Share premium account	27	147,560	64,208
Merger reserve	27	31,983	31,983
Reverse acquisition reserve	27	(22,933)	(22,933)
Share-based payment reserve	27	1,608	1,092
Foreign exchange translation reserve	27	3,941	(2,290)
Accumulated profits		4,159	1,220
Total equity attributable to the owners of the parent		168,819	75,425

The Notes on pages 54 to 92 form an integral part of these Consolidated Financial Statements

The Financial Statements on pages 50 to 92 were approved and authorised for issue by the Board of Directors on 18 March 2019 and signed on its behalf by

Neil Elton
Chief Financial Officer
18 March 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 2017		**1,580**	**17,044**	**31,983**	**(22,933)**	**3,245**	**1,233**	**(1,442)**	**-**	**30,710**
Restatement due to IFRS 15		**-**	**-**	**-**	**-**	**-**	**-**	**(650)**	**-**	**(650)**
Profit for the period		-	-	-	-	-	-	1,247	(150)	1,097
Exchange differences on translating foreign operations		-	-	-	-	-	(3,523)	-	(41)	(3,564)
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**(3,523)**	**1,247**	**(191)**	**(2,467)**
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	12	-	-	-	-	-	-	-	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 (restated)		**2,145**	**64,208**	**31,983**	**(22,933)**	**1,092**	**(2,290)**	**1,220**	**-**	**75,425**
Profit for the period		-	-	-	-	-	-	4,171	-	4,171
Exchange differences on translating foreign operations		-	-	-	-	-	6,231	-	-	6,231
Total comprehensive profit for the period		**-**	**-**	**-**	**-**	**-**	**6,231**	**4,171**	**-**	**10,402**
Issue of shares		356	85,521	-	-	-	-	-	-	85,877
Costs of issuing shares		-	(2,169)	-	-	-	-	-	-	(2,169)
Share-based payment charge credited to equity		-	-	-	-	1,254	-	-	-	1,254
Tax credit on share options		-	-	-	-	-	-	425	-	425
Transfer on exercise and lapse of options		-	-	-	-	(738)	-	738	-	-
Dividends paid		-	-	-	-	-	-	(2,395)	-	(2,395)
Transactions with owners		**356**	**83,352**	**-**	**-**	**516**	**-**	**(1,232)**	**-**	**82,992**
Balance at 31 December 2018		**2,501**	**147,560**	**31,983**	**(22,933)**	**1,608**	**3,941**	**4,159**	**-**	**168,819**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	Year ended 31 Dec 2018	Year ended 31 Dec 2017 (restated)
		£'000	£'000
Cash flows from operating activities			
Profit/(loss) before taxation		3,441	(11)
Adjustments for:			
Share-based payment charge		1,254	675
Amortisation of intangible assets		16,300	8,404
Depreciation of plant and equipment		1,000	422
Share of loss of joint venture/investment		132	201
Finance expense		54	52
Interest on borrowings		1,512	605
Net foreign exchange difference on borrowings		-	151
Fair value movement on contingent consideration		(183)	(52)
Acquisition-related deferred consideration and earn-outs		3,761	1,853
Payment of acquisition-related deferred consideration and earn-outs		(3,166)	(2,211)
Impairment of acquired intangibles		681	-
Interest income		(10)	(7)
Operating cash flows before working capital changes		**24,776**	**10,082**
(Increase)/decrease in trade and other receivables		(9,740)	2,189
(Increase)/decrease in amount recoverable on contracts		424	(1,391)
Increase in payables		5,064	1,124
		20,524	**12,004**
Interest paid		(1,224)	(474)
Interest received		10	7
Income tax received/(paid)		422	(743)
Net cash flows from operating activities		**19,732**	**10,794**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(778)	(449)
Sales proceeds from disposal of property, plant and equipment		-	16
Development of intangible assets		(3,304)	(1,384)
Acquisition of subsidiaries, net of cash acquired		(107,436)	(45,704)
Net cash flows used in investing activities		**(111,518)**	**(47,521)**
Cash flows from financing activities			
Dividends paid		(2,395)	(1,279)
Proceeds from borrowings		47,110	18,000
Issue of ordinary share capital net of share issue costs		83,708	47,101
Repayment of bank loans		(25,803)	(16,193)
Contingent consideration payments in the period		(193)	(59)
Net cash flows from financing activities		**102,427**	**47,570**
Net increase in cash and cash equivalents		10,641	10,843
Cash and cash equivalents at beginning of the year		15,662	5,348
Exchange (losses)/gains on cash		491	(529)
Cash and cash equivalents at end of the year	**18**	**26,794**	**15,662**

The notes on pages 54 to 92 form an integrated part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. General information

Learning Technologies Group plc ('the Company') and its subsidiaries (together, 'the Group') provide a range of talent and learning solutions; content, services and digital platforms, 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 15 Fetter Lane, London, EC4A 1BW. 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 2018 the Group had £26.8 million of cash and strong cash generation. 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

The Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. See more detail in Note 4.

IFRS 9 Financial Instruments

IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement with new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

IFRS 9 introduces a new forward-looking impairment model based on expected credit losses to replace the incurred loss model in IAS 39. This determines the recognition of impairment provisions as well as interest revenue.

The Group adopted IFRS 9 from 1 January 2018 with retrospective effect in accordance with the transitional provisions.

The Group's principal financial assets are cash and cash equivalents and receivables.

The Group has assessed the impact of IFRS 9 on the impairment of its financial assets, including the trade receivables balance. The Group revised its impairment methodology to the simplified approach of the expected credit loss model and grouped the trade receivables based on shared characteristics, including line of business, and days past due. After identifying the impairment loss under this revised method, management has concluded that the change in the impairment is immaterial, so the prior year financial statements have not been restated.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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 16 Leases

IFRS 16 supersedes IAS 17 Leases and introduces a new single lessee accounting model which eliminates the current distinction between operating and finance leases for lessees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

On initial adoption of this standard, there is likely to be a potentially significant impact on the accounting treatment for the Group's leases, particularly rented properties, which the Group, as lessee, currently accounts for as operating leases. On initial adoption of IFRS 16, the Group will be required to capitalise its rented properties at the lease commencement date in the statement of financial position by recognising them as right-of-use assets and their corresponding lease liabilities. The right-of use asset will be depreciated over the term of each lease and a finance charge will be made by reference to the lease liability and discount rate. The liability is initially to be measured at the present value of future minimum lease payments. The discount rate is the rate implicit in the lease, if readily determinable. If not, the Company's incremental borrowing rate is used which the Company has assessed to be 4.3%. Short-term leases and leases of low-value assets can be excluded.

The Group will adopt the standard in the financial year beginning on 1 January 2019.

As at 31 December 2018, the Group had entered into 15 property leases which had commenced prior to the year-end (2017: 7 leases).

The tables below summarise the balance sheet and profit and loss account treatment as at and for the years ended 31 December 2017 and 31 December 2018 for these leases:

	As at 31 December 2018	As at 31 December 2017
	£'000	£'000
Right-of-use asset	**12,555**	**3,445**
Lease liability:		
Current liability	2,281	809
Non-current liability	11,917	2,990
Total lease liability	**14,198**	**3,799**

	As at 31 December 2018	As at 31 December 2017
	£'000	£'000
Rental lease expense in profit and loss	**2,290**	**1,277**
Replaced by:		
Depreciation of right-of-use asset	1,644	735
Finance charges on lease liability	412	169
Total expense to profit and loss	**2,056**	**904**
Net reduction in expense	**234**	**373**

Other than IFRS 16, the Directors do not expect that the adoption of new standards will have a material impact on the financial statements of the company in future periods.

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.

Business combinations other than the share for share acquisition of Epic Group Limited by In-Deed Online plc in 2013 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. Intra-group losses may indicate an impairment which may require recognition in the consolidated financial statements. 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 and they are, along with the Group's associates, accounted for using the equity method.

Interests in joint ventures and associates are recognised at cost adjusted by 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	2-10 years
Customer contracts and relationships	2-8 years
Intellectual Property	2-10 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 2018

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 assets 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 shorter of the remaining useful life and 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) 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.

The Group has adopted the simplified expected credit loss model for its trade receivables and contract assets, as required by IFRS 9 to assess impairment, for further information see Note 30.

(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 2018

i) 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 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.

j) 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.

k) 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.

l) 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.

m) Revenue from contracts with customers 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.

(i) Content & Services

Revenue within the Group's Content & Services division comprises content, consulting, platform development and the provision of training which are provided under fixed-price and time and materials contracts. Fixed-price contracts are 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. This is because either the Group is creating an asset with no alternative use to it and the contract contains the right to payment for work completed to date, or the customer is simultaneously receiving and consuming the benefits of the Group's services as it performs. 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 cost-based method is used to determine the percentage of completion because as management have significant expertise in this approach, they are able to assess the stage of completion and margin of a project on an accurate and consistent basis.

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.

For fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, an amount recoverable on contracts asset is recognised. Conversely, if the payments exceed the services rendered, a liability is recognised. If the contract is time and materials-based and includes an hourly fee, revenue is recognised in the amount to which the Group has the right to invoice.

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.

(ii) Software & Platforms

Revenue from subscriptions such as SaaS, "right to access" licences, hosting and support and maintenance is amortised over the contractual period of the licence as the customer simultaneously receives and consumes the benefits of the Group's services.

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 at the point in time when the software has been delivered to the customer as these meet the definition of "right to use" licences.

Some contracts include multiple deliverables, such as professional service fees with the delivery of a licence. However, the professional services do not significantly customise the software and the promises in the contract are not highly interdependent, so these are recognised as separate performance obligations. Contracts may also include an on-premise software licence with support and maintenance services. The customer can benefit from both services on their own or with other readily-available resources and the software is functional upon transfer of the licence key, so these are recognised as separate performance obligations. Where multiple deliverables are concluded not to be distinct, they are combined with another deliverable until the distinct performance obligation definition is met. Where a contract includes multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices where available. Where these are not directly observable, they are estimated based on expected cost plus margin.

Incremental contract costs are capitalised and amortised on a consistent basis with the pattern of transfer of the service to which the asset relates.

Critical accounting estimates and judgements

For services revenue, 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 and external costs spent on each project which is regularly reviewed against budget.

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 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

Where the stand-alone selling price of support and maintenance services bundled in an on-premise licence contract are not observable, management allocates the transaction price to the distinct performance obligations based on expected cost plus margin, the basis of this calculation is derived from historic experience and data.

n) Operating segments

The Group operates as three reportable segments, the Software & Platforms division, the Content & Services division and the Other segment which includes rental income. 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.

o) 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.

p) 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.

(i) Judgements

Revenue recognition

See Note 2 (m).

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 2018, the Group acquired PeopleFluent Holdings Corp. ('PeopleFluent'), see Note 12. On acquisition the Group recognised intangible assets of £78,488,000, the most significant of which related to the customer contracts and relationships. Management used a model that present valued the expected cashflows arising from the customer relationships over a five-year period. The significant assumptions used in this model were as follows:

Discount rate – 10-14%

Margins – various %

Attrition – 10-20%

If the discount rate was adjusted by one percentage point then the impact on the value of the asset would be plus or minus £2 million. If the margin was adjusted by five percentage points then the impact on the value of the asset would be plus or minus £13 million. If the customer attrition factors were adjusted by five percentage points then the impact on the value of the asset would be plus £10 million or minus £13 million.

The Group also increased its holding in Watershed LLC from 27.27% to 100% (see Note 12). On acquisition the Group recognised intangible assets of £3,283,000, the most significant of which related to the intellectual property. Management used a replacement cost model to establish the fair value. The significant assumptions used in this model were the time needed to rebuild the asset in the state it was acquired and the average employee salaries and other costs incurred in the rebuild.

If the time needed to rebuild the asset was adjusted by 10% then the impact on the value of the asset would be plus or minus £0.02 million. If the average employee salaries were adjusted by 20% then the impact on the value of the asset would be plus or minus £0.4 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 13 for details of how these estimates and judgements have been applied.

(ii) Estimates

Useful Economic Lives of Acquired Intangibles

On acquisition the useful economic lives of acquired intangibles are assessed by management which is a key estimate. The PeopleFluent acquisition during the year gave rise to the following acquired intangible assets with their associated estimated useful economic lives.

Customer Relationships	8 years
Intellectual Property	2-10 years
Brand	10 years

The useful economic life of the customer relationships was based on the historical length of relationships with top customers as well as observed attrition rates. The net present value of economic benefits to be derived from the asset beyond this period appeared to be immaterial.

In assessing the useful economic lives of the intellectual property, management took factors into account such as how often the software is changing and developing and the historical change in the software code as well as external factors such as how the development framework is supported by third parties.

The brand's useful economic life was based on how long management expects to derive economic benefits from the asset, and the net present value of economic benefits beyond this life appear to be immaterial.

All useful economic lives were benchmarked against other guideline companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

4. Changes in accounting policies

As noted above, the Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018.

The impact on the prior year financial statements is presented in the table below. Management have assessed that the impact of IFRS 9 was immaterial on the 2017 results so the prior year comparatives have not been restated for this new accounting policy.

Consolidated statement of financial position

Asset	1 Jan 2017 (originally presented)	IFRS 15	1 Jan 2017 (restated)	31 Dec 2017 (originally presented)	IFRS 15	31 Dec 2017 (restated)
	£'000	£'000	£'000	£'000	£'000	£'000
Non-current Assets					638	
Property, plant and equipment	708	-	708	842	-	842
Intangible assets	39,950	-	39,950	83,409	-	83,409
Deferred tax assets	1,717	335	2,052	1,933	272	2,205
Investments accounted for under the equity method	1,890	-	1,890	1,689	-	1,689
Other receivables, deposits and prepayments	1,293	-	1,293	-	-	-
	45,558	**335**	**45,893**	**87,873**	**272**	**88,145**
Current Assets	14,214	-	14,214	34,334	-	34,334
Total Assets	**59,772**	**335**	**60,107**	**122,207**	**272**	**122,479**
Current Liabilities						
Trade and other payables	9,215	703	9,918	23,756	1,050	24,806
Borrowings	3,252	-	3,252	1,849	-	1,849
Corporation tax	546	-	546	50	-	50
Amounts owing to related parties	45	-	45	20	-	20
	13,058	**703**	**13,761**	**25,675**	**1,050**	**26,725**
Non-current Liabilities						
Deferred tax liabilities	3,897	-	3,897	6,477	-	6,477
Other long-term liabilities	1,426	282	1,708	192	638	830
Borrowings	10,582	-	10,582	12,765	-	12,765
Provisions	99	-	99	257	-	257
	16,004	**282**	**16,286**	**19,691**	**638**	**20,329**
Total Liabilities	29,062	985	30,047	45,366	1,688	47,054
Net Assets	**30,710**	**(650)**	**30,060**	**76,841**	**(1,416)**	**75,425**
Equity						
Share capital	1,580	-	1,580	2,145	-	2,145
Share premium account	17,044	-	17,044	64,208	-	64,208
Merger relief reserve	31,983	-	31,983	31,983	-	31,983
Reverse acquisition reserve	(22,933)	-	(22,933)	(22,933)	-	(22,933)
Share-based payment reserve	3,245	-	3,245	1,092	-	1,092
Foreign exchange translation reserve	1,233	-	1,233	(2,290)	-	(2,290)
Accumulated retained earnings/(losses)	(1,442)	(650)	(2,092)	2,636	(1,416)	1,220
Total Equity	**30,710**	**(650)**	**30,060**	**76,841**	**(1,416)**	**75,425**

There was no change to contract assets on the transition to IFRS 15.

Consolidated statement of comprehensive income	As originally presented Year to 31 Dec 2017	IFRS 15	Restated Year to 31 Dec 2017
	£'000	£'000	£'000
Revenue	52,056	(703)	51,353
Operating expenses (excluding acquisition-related deferred consideration and earn-outs)	(47,605)	-	(47,605)
Operating profit (before acquisition-related deferred consideration and earn-outs)	4,451	(703)	3,748
Acquisition-related deferred consideration and earn-outs	(1,853)	-	(1,853)
Operating profit	2,598	(703)	1,895
Adjusted EBIT	14,047	(703)	13,344
Amortisation of acquired intangibles	(7,756)	-	(7,756)
Acquisition-related deferred consideration and earn-outs	(675)	-	(675)
Share based payment costs	(1,165)	-	(1,165)
Integration costs	(1,853)	-	(1,853)
Operating profit	2,598	(703)	1,895
Fair value movement on contingent consideration	52	-	52
Costs of acquisition	(920)	-	(920)
Share of losses of associates/joint ventures	(201)	-	(201)
Profit/(loss) on disposal of fixed assets	(36)	-	(36)
Finance expenses:			
Charge on contingent consideration	(41)	-	(41)
Unwinding onerous lease	(11)	-	(11)
Interest on borrowings	(605)	-	(605)
Net foreign exchange differences on financing activities	(151)	-	(151)
Interest receivable	7	-	7
Profit / (loss) before taxation	692	(703)	(11)
Income tax credit/(expense)	1,171	(63)	1,108
Profit after taxation	1,863	(766)	1,097
Profit for the period/year attributable to the owners of the Parent	2,013	(766)	1,247
(Loss) for the period/year attributable to non-controlling interests	(150)	-	(150)
Earnings per share attributable to owners of the Parent:			
Basic, (pence)	0.379	(0.144)	0.235
Diluted, (pence)	0.363	(0.138)	0.225
Other comprehensive income:			
Exchange differences on translating foreign operations	(3,564)	-	(3,564)
Total comprehensive (loss) for the period	**(1,701)**	**(766)**	**(2,467)**
Attributable to:			
The owners of the Parent	(1,510)	(766)	(2,276)
Non-controlling interests	(191)	-	(191)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

The impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017 is as follows:

	Note	2018	2017
		£'000	£'000
Opening retained earnings		**2,636**	**(1,442)**
Adjustment to recognition of initial licence fees	(i)	(1,295)	(985)
Adjustment to recognition of bundled support and maintenance fees	(ii)	(393)	-
Deferred tax impact		272	335
Restated opening retained earnings		1,220	(2,092)

Income streams adjusted by the adoption of IFRS 15:

(i) Accounting for initial licence fees

The Group's initial licence fees do not meet the definition of a distinct performance obligation, so therefore will be combined with the term licence fee and amortised over the full licence contract. This is a change in policy as under IAS 18 this revenue was recognised in full at contract inception.

(ii) Accounting for bundled support and maintenance fees

The Group has concluded that the support and maintenance service included within on-premise licence contracts constitutes a separate performance obligation which should be recognised over time. This is a change in policy as under IAS 18 this revenue was included within the on-premise licence revenue which is recognised on delivery of the software licence to the customer.

5. 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), in order to allocate resources to the segment and to assess its performance.

The Directors of the Company consider there to be three reportable segments, being the Software & Platforms division, the Content & Services division, and an Other segment which includes rental income. A majority of sales were generated by the operations in the United States in the year ended 31 December 2018 and the United Kingdom in the year ended 31 December 2017.

Income and expenses relating to the Group's administrative functions have been apportioned to the operating segments identified.

Geographical information

The Group's revenue from external customers and non-current assets by geographical location are detailed below.

	U.K.	Mainland Europe	United States	Canada	Asia Pacific	Rest of the world	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 Dec 2018							
Revenue	24,859	7,263	52,912	3,766	2,253	2,838	93,891
Non-current assets	28,412	-	197,969	68	18,735	-	245,184
31 Dec 2017							
Revenue	27,928	4,704	15,372	1,367	1,574	408	51,353
Non-current assets	31,244	-	34,507	-	20,189	-	85,940

Revenue by nature

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

	Software & Platforms				Content & Services				Other	Total
	On-premise Software Licences	Hosting and SaaS	Support and Mainte-nance	Total	Content	Platform development	Consulting & Other	Total	Rental Income	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 Dec 2018										
Recurring	12,572	41,328	4,088	57,988	-	1,071	4,963	6,034	58	64,080
Non-Recurring	1,166	4	676	1,846	19,262	5,765	2,938	27,965	-	29,811
	13,738	**41,332**	**4,764**	**59,834**	**19,262**	**6,836**	**7,901**	**33,999**	**58**	**93,891**
Depreciation & amortisation				(1,746)				(361)	-	(2,107)
EBIT				**19,914**				**7,273**	**58**	**27,245**
Amortisation of acquired intangibles				(11,873)				(3,320)	-	(15,193)
Share of losses of associates				(132)				-	-	(132)
Profit / (Loss) before tax				**(274)**				**3,657**	**58**	**3,441**
Additions to intangible assets				162,071				3,972	-	166,043
Total Assets				**279,928**				**36,859**	**-**	**316,787**
31 Dec 2017										
Recurring	9,067	10,173	441	19,681	-	-	-	-	-	19,681
Non-recurring	696	8	510	1,214	23,403	3,703	3,352	30,458	-	31,672
	9,763	**10,181**	**951**	**20,895**	**23,403**	**3,703**	**3,352**	**30,458**	**-**	**51,353**
Depreciation & amortisation				(821)				(249)	-	(1,070)
EBIT				**7,798**				**5,546**	**-**	**13,344**
Amortisation of acquired intangibles				(6,314)				(1,442)	-	(7,756)
Share of losses of associates				(201)				-	-	(201)
Profit / (Loss) before tax				**(4,310)**				**4,299**	**-**	**(11)**
Investments accounted for under the equity method				1,689				-	-	1,689
Additions to intangible assets				47,055				10,556	-	57,611
Total Assets				**78,460**				**44,019**	**-**	**122,479**

Information about major customers

In the year ended 31 December 2018, no customer accounted for more than 10% of reported revenues. For the year ended 31 December 2017, one customer accounted for 13.5% of reported revenues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

6. Profit/(loss) before taxation

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

	Note	31 Dec 2018	31 Dec 2017
		£'000	£'000
Costs of acquisition	12	2,621	920
Integration costs		2,397	1,165
Amortisation of acquired intangible assets	13	15,193	7,756
Amortisation of software development costs	13	1,107	648
Fees repayable to the company's auditor and its associates for the audit of the Group's annual accounts		203	113
Other fees payable to auditors:			
- Corporate finance services		182	67
- Taxation		19	27
Depreciation	11	1,000	422
Directors' fees (including compensation for loss of office)	8	915	825
Directors' pension contributions	8	23	20
Staff costs (including Directors):			
- Salaries, allowances and bonuses	7	38,330	21,409
- Social security costs	7	3,073	1,820
- Defined contribution pension plan costs	7	764	486
Rental of offices		2,290	1,277
Finance charges on contingent consideration		54	41
Finance charges on unwinding provision		-	11
Finance charges on borrowings		1,512	605
Fair value movement on contingent consideration		(183)	(52)
Acquisition-related deferred consideration and earn-outs		3,761	1,853
Interest income		(10)	(7)

7. Staff costs

	Year ended 31 December 2018	Year ended 31 December 2017
The average monthly number of employees was:	No.	No.
Production	519	328
Administration	97	77
Management	7	6
	623	**411**
Aggregate remuneration (including Directors):	£'000	£'000
Wages and salaries (including bonuses)	38,330	21,409
Social security costs	3,073	1,820
Share-based payments	1,254	675
Pension costs	764	486
	43,421	**24,390**

8. Directors' remuneration, interests and transactions

Directors' remuneration, interests and transactions are disclosed in the Report of the Remuneration Committee.

9. Income tax

	31 Dec 2018	31 Dec 2017 (restated)
	£'000	£'000
Current tax expense:		
- UK Current Tax on profits for the year	1,179	1,498
- Adjustments in respect to prior years	(416)	(253)
- Foreign Current Tax on profits for the year	1,682	421
Total current tax	2,445	1,666
Deferred tax (Note 19)		
- Origination and reversal of temporary differences	(2,395)	(1,969)
- Adjustments in respect to prior years	(780)	-
- Change in deferred tax rate	-	(805)
Total deferred tax	(3,175)	(2,774)
Income tax (credit)/expense	**(730)**	**(1,108)**

The change in deferred tax rate of £805,000 credited to the income statement relates wholly to the U.S. 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 2018	31 Dec 2017 (restated)
	£'000	£'000
Profit / (loss) before taxation	3,441	(11)
Tax calculated at the domestic tax rate of 19% (2017: 19.25%):	654	(2)
Tax effects of:		
Income not subject to tax	(184)	(288)
Expenses not deductible for tax purposes	1,325	521
Joint venture/associate results reported net of tax	25	39
Tax deductions not recognised as an expense	(232)	(350)
Utilisation of previously unrecognised or acquired tax losses	(1,475)	(486)
Tax losses in the year for which no deferred tax is recognised	125	496
Difference between deferred rate and current tax rate	-	(978)
Adjustments in respect to prior years	(1,196)	(252)
Effect of different international tax rates	228	192
Income tax (credit)/expense	**(730)**	**(1,108)**

The aggregate current and deferred tax directly credited to equity amounted to £425,000 (2017: £1,331,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

10. Earnings per share

	31 Dec 2018	31 Dec 2017 (restated)
	Pence	Pence
Basic profit/(loss) per share	0.655	0.235
Diluted profit/(loss) per share	0.641	0.225
Adjusted basic earnings per share	3.300	2.011
Adjusted diluted earnings per share	3.232	1.926

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	2018 Weighted average number of shares	Pence per share	Profit after tax (restated)	2017 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	**4,171**	**637,326**	**0.655**	**1,247**	**530,444**	**0.235**
Effect of adjustments:						
Amortisation of acquired intangibles	15,193			7,756		
Acquired intangibles written down	681					
Share-based payment costs	1,254			675		
Integration costs	2,397			1,165		
Cost of acquisitions	2,621			920		
Fair value movement on contingent consideration	(183)			(52)		
Deferred consideration and earn-outs from acquisitions	3,761			1,853		
Net foreign exchange differences on financing activities	(3,608)			151		
Interest receivable	(10)			(7)		
Finance expense	54			52		
Income tax expense	(730)			(1,108)		
Effect of adjustments	21,430	-	3.362	11,405	-	2.137
Adjusted profit before tax	**25,601**	**-**	**-**	**12,652**	**-**	**-**
Tax impact after adjustments	(4,572)	-	(0.717)	(1,984)	-	(0.361)
Adjusted basic earnings per ordinary share	**21,029**	**637,326**	**3.300**	**10,668**	**530,444**	**2.011**
Effect of dilutive potential ordinary shares:						
Share options	-	13,267	(0.068)	-	21,789	(0.079)
Deferred consideration payable (conditions met)	-	-	-	-	888	(0.003)
Deferred consideration payable (contingent)	-	-	-	-	818	(0.003)
Adjusted diluted earnings per ordinary share	21,029	650,593	3.232	10,668	553,939	1.926
Diluted earnings per ordinary share attributable to the owners of the Parent	**4,171**	**650,593**	**0.641**	**1,247**	**553,939**	**0.225**

11. Property, plant and equipment

	Computer equipment	Fixtures and fittings	Motor vehicles	Leasehold improvements	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2017	**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**
Additions on acquisitions	1,417	74	-	59	1,550
Additions	216	384	-	178	778
Foreign exchange differences	51	25	-	4	80
Disposals	(129)	(116)	(8)	(136)	(389)
At 31 December 2018	**3,552**	**978**	**-**	**366**	**4,896**
Accumulated depreciation					
At 1 January 2017	**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**
Charge for the year	844	99	-	57	1,000
Disposals	(58)	(81)	(8)	(136)	(283)
At 31 December 2018	**2,145**	**478**	**-**	**129**	**2,752**
Net book value					
At 31 December 2017	**638**	**151**	**-**	**53**	**842**
At 31 December 2018	**1,407**	**500**	**-**	**237**	**2,144**

12. Acquisitions

PeopleFluent Holdings Corp

On 24 April 2018, LTG announced that the Company had entered into a conditional agreement to acquire the entire issued and outstanding shares of capital stock of PeopleFluent Holdings Corp. ('PeopleFluent') for cash consideration of $143 million, (on a cash-free, debt-free basis), plus transaction costs. The acquisition triggered a contractual bonus to be paid to key employees of approximately $0.7 million. This was dependent on the continued employment for a period of six months post-acquisition so has been recognised as a remuneration expense in the Statement of Comprehensive Income.

PeopleFluent is a leading independent provider of cloud-based integrated recruiting, talent management and compensation management solutions.

On 24 April 2018, LTG also undertook a Placing of 86,734,694 new ordinary shares to part-fund the acquisition.

On 31 May 2018, LTG announced that all conditions relating to the acquisition of PeopleFluent were satisfied and so the transaction completed on the same date.

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 2018

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

	Fair value
Consideration	£'000
Cash paid to PeopleFluent shareholders	107,062
Total consideration	**107,062**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	1,202
Restricted cash, receivables and payables	596
Property, plant and equipment	1,505
Trade and other receivables	13,238
Trade and other payables	(46,099)
Deferred tax liabilities on acquisition	(20,407)
Intangible assets identified on acquisition	78,488
Total identifiable net assets	**28,523**
Goodwill	**78,539**
Total	**107,062**

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 between the PeopleFluent, Affirmity, VectorVMS and gomo CGUs. 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 £43.3 million relate to the valuation of the customer relationships which are amortised over a period of eight years, £1.7 million relates to the value of the PeopleFluent brand which is amortised over ten years, and £33.5 million relates to the value of the acquired intellectual property and software development which is amortised over periods between two and ten years.

Acquisition costs of £2.6 million have been charged to the statement of comprehensive income in the year relating to the acquisition of PeopleFluent.

A deferred tax liability of £20.4 million in respect of the acquisition-related intangible assets was established on acquisition (refer to Note 19).

PeopleFluent contributed £41.8 million of revenue for the period between the date of acquisition and the balance sheet date and £11.4 million of statutory profit before tax. This excludes the effect on the Group profit before tax of increased amortisation of acquired intangibles. If the acquisition of PeopleFluent had been completed on the first day of the financial year, Group revenues would have been £33.1 million higher and Group profit attributable to equity holders of the Parent would have been £2.8 million lower, including adjustments to include a full year of amortisation on acquired intangibles.

Watershed Systems, Inc.

On 15 November 2018, Rustici Software LLC completed the acquisition of the remaining 72.73% of the issued share capital In Watershed Systems, Inc. ('Watershed') not already held by the Group.

The Initial Consideration comprised a cash payment of £1.9 million ($2.5 million). The SPA contains provisions for additional deferred contingent consideration up to a maximum aggregate amount $7,527,273 (approximately £5.8 million) based on ambitious monthly recurring revenue targets in each of the years ending 31 December 2019, 31 December 2020 and 31 December 2021. This deferred contingent consideration is payable to the sellers who have no ongoing obligations to the company. Financial forecasts have been used to determine the fair value of these payments included within total consideration. In addition, the Company agreed to pay completion bonuses of $400,000 to certain Watershed staff and Earn Out Bonuses equal to 15.94% of the total deferred consideration payable over the three years to 31 December 2021. These are both being recognised as a remuneration expense within the Statement of Comprehensive Income over the service period.

Watershed is the global market leader in corporate learning analytics and has a proven ability to harness data about learners to analyse and assess the impact of learning on organisational performance.

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

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

	Fair value
Consideration	£'000
Cash paid to Watershed shareholders	1,932
Additional deferred contingent consideration	2,296
Fair value of previously held interest	1,557
Total consideration	**5,785**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	356
Property, plant and equipment	45
Trade and other receivables	1,371
Trade and other payables	(855)
Deferred tax liabilities on acquisition	(844)
Intangible assets identified on acquisition	3,283
Total identifiable net assets	**3,356**
Goodwill	**2,429**
Total	**5,785**

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 Watershed 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 £1.4 million relate to the valuation of the customer relationships which are amortised over a period of five years and £1.9 million which relates to the value of the acquired intellectual property and software development which is amortised over three years.

Acquisition costs of £0.05 million have been charged to the statement of comprehensive income in the year relating to the acquisition of Watershed.

A deferred tax liability of £0.8 million in respect of the acquisition-related intangible assets was established on acquisition (refer to Note 19).

Watershed contributed £0.2 million of revenue for the period between the date of acquisition and the balance sheet date and £0.1 million of loss before tax. If the acquisition of Watershed had been completed on the first day of the financial year, Group revenues would have been £1.4 million higher and Group profit attributable to equity holders of the Parent would have been £0.5 million lower.

Details regarding the strategic decisions to acquire PeopleFluent and Watershed can be found in the Chairman's statement and Strategic review on pages 1 and 17 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

13. Intangible assets

	Goodwil	Customer contracts & relationships	Branding	Acquired IP	Internal Software Development	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2017	**26,608**	**16,192**	**809**	**-**	**2,241**	**45,850**
Additions on acquisitions	21,915	31,811	1,069	1,432	-	56,227
Additions	-	-	-	-	1,384	1,384
Foreign exchange differences	(2,473)	(2,983)	(90)	13	(215)	(5,748)
At 31 December 2017	**46,050**	**45,020**	**1,788**	**1,445**	**3,410**	**97,713**
Additions on acquisition	80,968	44,635	1,723	35,413	-	162,739
Additions	-	-	-	-	3,304	3,304
Disposals/impairment	-	-	(1,048)	-	(178)	(1,226)
Foreign exchange differences	5,240	3,084	114	1,574	153	10,165
At 31 December 2018	**132,258**	**92,739**	**2,577**	**38,432**	**6,689**	**272,695**
Accumulated amortisation						
At 1 January 2017	**-**	**4,669**	**304**	**-**	**927**	**5,900**
Amortisation charged in year		7,144	286	464	510	8,404
At 31 December 2017	**-**	**11,813**	**590**	**464**	**1,437**	**14,304**
Amortisation charged in year	-	11,956	447	2,790	1,107	16,300
Disposals/impairment	-	-	(367)	-	-	(367)
At 31 December 2018	**-**	**23,769**	**670**	**3,254**	**2,544**	**30,237**
Carrying amount						
At 31 December 2017	**46,050**	**33,207**	**1,198**	**981**	**1,973**	**83,409**
At 31 December 2018	**132,258**	**68,970**	**1,907**	**35,178**	**4,143**	**242,458**

Following the incorporation of the NetDimensions product suite into the PeopleFluent suite, the NetDimensions brand has been impaired and is shown as a disposal in the table above.

Goodwill and acquisition-related intangible assets recognised have arisen from acquisitions. Refer to Note 12 for further details of acquisitions undertaken during the year. Internal software development reflects the recognition of development work undertaken in-house.

The amortisation charge for the year of £16.3 million includes £15.2 million relating to acquired intangibles.

Amortisation is included within operating expenses in the Statement of Comprehensive Income.

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 nine 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 acquisition of PeopleFluent in 2018 gave rise to four separate CGU's, PeopleFluent, Affirmity, VectorVMS and gomo; the latter being where a part of the acquired PeopleFluent business was merged with LTG's existing gomo business. The acquisition of Watershed gave rise to one new CGU. The carrying amount of goodwill has been allocated as follows:

CGU	Goodwill		Growth rate		Pre-tax discount rate	
	2018	2017	2018	2017	2018	2017
	£'000	£'000	%	%	%	%
LEO	7,435	7,435	4%	8%	11.0%	11.0%
PRELOADED	2,180	2,180	4%	9%	12.5%	12.5%
Eukleia	2,764	2,764	4%	9%	12.5%	12.5%
Rustici	13,726	12,911	9%	9%	12.5%	12.5%
NetDimensions	-*	20,760	-	9%	-	12.5%
PeopleFluent	43,875	-	7%	-	11.5%	-
Affirmity	19,496	-	4%	-	11.0%	-
VectorVMS	38,552	-	4%	-	10.0%	-
gomo	1,746	-	7%	-	14.0%	-
Watershed	2,484	-	-	-	-	-
	132,258	**46,050**				

*The NetDimensions business was combined with that of PeopleFluent and they now operate as one CGU, hence the goodwill has been combined in the table above.

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 4% and 9% for the first five years. The terminal rate used for the value in use calculation thereafter is 2.5%.

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.

Formal impairment testing of the Watershed CGU was not undertaken at year-end as completion was so near to the year-end and there were no indicators of impairment.

Customer contracts, relationships, branding and acquired IP

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 ten years.

Internal software development

Internal 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 two and ten years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

14. Investments accounted for using the equity method

Joint ventures

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 2017 and 31 December 2018 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	38%

On 27 August 2018, the Group entered into a debt for equity swap agreement whereby Epic Group Limited and the other 50% investor agreed to convert debts due from Leo Brasil Tecnologia Educacional Ltda ('LEO Brazil') to equity in the proportion to amounts owed at that date. Epic Group Limited had a total of $268,000 (equivalent to approximately £200,000) converted to equity and, following such conversion, its shareholding was reduced from 50% to 38%. As all amounts receivable from the investee had been written off by the Group, there was no financial impact, either on the carrying value of the investment or the results for the year.

LEO Brazil is a private company and there is no quoted market price available for its shares.

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

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

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

No further disclosures are provided on the grounds of materiality.

The movements in joint venture investments is as follows:

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Balance at beginning of year	1,689	1,890
Share of losses for the year	(132)	(201)
Disposal during the year	(1,557)	-
	-	**1,689**

The Group acquired a 27.27% interest in Watershed on 28 January 2016, for a total consideration of $3 million (approximately £2.1 million). As described in Note 12 above, the Group increased its holding to 100% in November 2018 and since this date Watershed has been accounted for as a subsidiary rather than an associate.

15. Trade receivables

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Trade receivables	35,646	12,253
Allowance for impairment losses	(1,332)	(186)
	34,314	**12,067**
Impairment losses:		
At 1 January	186	57
Additions on acquisition	570	111
Additions	545	18
Amounts written-back	31	-
At 31 December	**1,332**	**186**

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

On the acquisition of PeopleFluent the Group acquired £9.72 million of gross trade receivables with a provision for doubtful debts of £0.57 million. The net fair value of £9.15 million is included in the acquired balance sheet disclosed in Note 12.

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.

16. Other receivables, deposits and prepayments

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Current assets		
Sundry receivables	1,118	577
Prepayments	2,779	1,786
	3,897	**2,363**
Non-current assets		
Sundry receivables	161	-
	161	**-**

Sundry receivables includes rent deposits and other sundry receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

17. Amount recoverable on contracts

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Current assets		
Amount recoverable on contracts	3,397	4,242
	3,397	**4,242**
Non-current assets		
Amounts recoverable on contracts	421	-
	421	**-**

18. Cash and cash equivalents

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

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Cash and bank balances	26,794	15,662

19. Deferred tax assets/(liabilities)

Deferred tax assets	Share options	Tax losses	Short-term timing differences	Total
	£'000	£'000	£'000	£'000
At 1 January 2017	1,715	-	337	2,052
Acquisition of subsidiaries	-	-	-	-
Deferred tax charge directly to the income statement	(143)	521	(57)	321
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**	**280**	**2,205**
Acquisition of subsidiaries	-	778	-	778
Deferred tax charged/(credited) directly to the income statement	(15)	337	61	383
Deferred tax charged directly to equity	425	-	-	425
Exercise of share options	(1,084)	-	-	(1,084)
Exchange rate differences	-	67	84	151
At 31 December 2018	**730**	**1,703**	**425**	**2,858**

Deferred tax liabilities	Intangibles	Accelerated tax depreciation	Short-term timing differences	Total
	£'000	£'000	£'000	£'000
At 1 January 2017	(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)**
Deferred tax on acquired intangibles and via acquisition	(21,251)	(124)	(236)	(21,611)
Deferred tax charge directly to the income statement	3,250	(694)	236	2,792
Exchange rate differences	(1,177)	174	-	(1,003)
At 31 December 2018	**(25,451)**	**(848)**	**-**	**(26,299)**

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 £266,000 (2017: £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 2018

20. Trade and other payables

	31 Dec 2018	31 Dec 2017 (restated)
	£'000	£'000
Trade payables	924	946
Deferred income	56,417	14,980
Tax and social security	2,109	1,673
Contingent consideration	8	168
Acquisition-related deferred consideration and earn-outs	3,205	2,641
Accruals	9,807	4,398
	72,470	**24,806**

The contingent consideration at 31 December 2018 relates wholly to the acquisition of PRELOADED Limited and is repayable in 2019, a financial instrument held at fair value within the scope of IFRS 9. In 2017, the contingent consideration also related to the acquisition of PRELOADED Limited.

The acquisition-related deferred consideration and earn-outs balance in 2018 relates partly to the acquisition of Rustici Software LLC and partly to the acquisition of Watershed Systems Inc. The balance in 2017 relates wholly to the acquisition of Rustici Software LLC. This is treated as post-combination remuneration and is accrued over the service period.

The deferred income balance relates mainly to the Group's right to access licences, support and maintenance and hosting contracts which are recognised over the contract term as the customer receives and consumes the benefits of the service. All of the current liability deferred income balance at 31 December 2017 was recognised as revenue in 2018 and the currently liability deferred income balance at 31 December 2018 is expected to be recognised as revenue in 2019.

21. Other long-term liabilities

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Acquisition-related deferred consideration and earn-outs	20	-
Contingent consideration	2,378	192
Deferred income	6,603	638
Other long-term liabilities	7	-
	9,008	**830**

The contingent consideration relates wholly to the acquisition of Watershed Systems, Inc and is a financial instrument held at fair value within the scope of IFRS 9 repayable during 2020, 2021 and 2022.

The acquisition-related deferred consideration and earn-outs balance in 2018 relates wholly to the acquisition of Watershed Systems, Inc. This is treated as post-combination remuneration and is accrued over the service period.

The deferred income balance relates mainly to the Group's right to access licences, support and maintenance and hosting contracts which are recognised over the contract term as the customer receives and consumes the benefits of the service. The non-current deferred income balance at 31 December 2018 is expected to be recognised during 2020 and 2021.

22. Borrowings

On the acquisition of PeopleFluent Holdings Corp. (see Note 12) the existing debt facility with Silicon Valley Bank was repaid and a new debt facility with Silicon Valley Bank was entered into for a total of $63 million.

This is made up of a $42 million term loan and a $21 million multicurrency revolving credit facility, both available to the Group for five years. The facility attracts variable interest based on LIBOR for the currency of the loan plus a margin of between 1.6% and 2.1%, based on the Group's leverage.

The term loan is repayable with quarterly instalments of $2.1 million with the balance repayable on the expiry of the loan in April 2023.

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 2018	31 Dec 2017
	£'000	£'000
Current interest-bearing loans and borrowings	6,602	1,849
Non-current interest-bearing loans and borrowings	31,657	12,765
	38,259	**14,614**

23. Provisions

	31 Dec 2018	31 Dec 2017
Property Costs	£'000	£'000
At 1 January – brought forward	257	99
Paid in the year	-	-
Addition	44	158
	301	**257**

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

24. 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 2018	572,000,505	2,145	64,208	31,983	98,336
Placing of shares on payment of PeopleFluent consideration	86,734,694	325	84,675	-	85,000
Cost of issuing shares	-	-	(2,169)	-	(2,169)
Shares issued on the exercise of options	8,157,150	31	846	-	877
At 31 December 2018	**666,892,349**	**2,501**	**147,560**	**31,983**	**182,044**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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 2018 the EBT holds 404,340 ordinary shares in the Company. These shares are held in treasury.

On 24 April 2018, the Company announced that it had entered into a conditional agreement to acquire the entire issued and outstanding shares of capital stock of PeopleFluent Holdings Corp. ('PeopleFluent') for cash consideration of $143 million, (on a cash-free, debt-free basis), plus transaction costs. On the same date, the Company also undertook a Placing of 86,734,694 new ordinary shares at 98 pence per share for a total consideration of £85 million to part-fund the acquisition.

A total of 8,157,150 ordinary shares were issued during the course of the year as a result of the exercise of employee share options.

25. 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.

	2018		2017	
	Number of options	Weighted average exercise price pence	Number of options	Weighted average exercise price pence
Approved share option plan - Enterprise Management Incentive ('EMI'):				
At 1 January	12,144,513	11.446	17,834,083	9.478
Options granted by Company	-	-	-	-
Forfeited	(1,638,331)	19.449	-	-
Exercised during the year	(6,567,138)	5.642	(5,689,570)	5.278
At 31 December	**3,939,044**	**17.794**	**12,144,513**	**11.446**

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.

	2018		2017	
	Number of options	Weighted average exercise price pence	Number of options	Weighted average exercise price pence
Unapproved share option plan:				
At 1 January	12,809,901	39.295	19,412,353	9.671
Granted by Company	15,200,000	93.679	9,400,000	43.588
Forfeited	(4,800,000)	69.079	-	-
Exercised during the year	(1,150,000)	36.326	(16,002,452)	5.880
At 31 December	**22,059,901**	**70.441**	**12,809,901**	**39.295**

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 2016, 2017 and 2018 Learning Technologies Group plc Sharesave Scheme in April 2016, April 2017 and April 2018 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 29.6, 40.8 and 68.4 pence per share respectively (the 'Option Price'), being a discount of 20% on the share price as of 26 April 2016, 20 April 2017 and 11 April 2018 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.

	2018		2017	
	Number of options	Weighted average exercise price pence	Number of options	Weighted average exercise price pence
Sharesave Option Scheme:				
At 1 January	1,620,950	33.436	3,908,777	17.911
Granted by Company	1,198,038	68.400	984,231	40.800
Forfeited	(81,525)	43.862	(307,465)	25.349
Exercised during the year	(439,990)	20.146	(2,964,593)	16.250
At 31 December	**2,297,473**	**53.844**	**1,620,950**	**33.436**

At 31 December 2018, 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
Jun 2013	343,945	-	-	2.718	-	11.96	10	45%
Mar 2014	200,000	-	-	15.500	-	8.76	10	45%
Nov 2014	1,125,000	-	-	17.625	-	9.96	10	45%
Nov 2014	250,000	-	-	17.625	Jan 2019	9.96	10	45%
Jan 2015	1,000,000	-	-	19.000	-	2.59 - 8.81	10	45%
Dec 2015	430,000	-	-	20.250	-	4.22 – 8.18	10	45%
Dec 2015	590,099	609,901	-	25.250	Dec 2019	9.40	10	45%
Apr 2016	-	-	244,386	29.600	-	9.53	3	45%
Aug 2016	-	800,000	-	28.500	-	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	-	2,000,000	-	37.500	-	5.2 - 13.86	10	34%
Apr 2017	-	-	868,206	40.800	-	17.63	3	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	-	300,000	-	60.114	Jan 2020	30.10	10	38%
Dec 2017	-	300,000	-	60.114	Jan 2021	30.10	10	38%
Dec 2017	-	300,000	-	60.114	Jan 2022	30.10	10	38%
Dec 2017	-	300,000	-	60.114	Jan 2023	30.10	10	38%
Jan 2018	-	200,000	-	60.114	Dec 2019	32.35	10	38%
Apr 2018	-	50,000	-	61.000	Jan 2020	75.50	10	40%
Apr 2018	-	50,000	-	61.000	Jan 2021	75.50	10	40%
Apr 2018	-	50,000	-	61.000	Jan 2022	75.50	10	40%
Apr 2018	-	50,000	-	61.000	Jan 2023	75.50	10	40%
Apr 2018	-	-	1,184,881	68.400	-	32.15	3	40%
Jul 2018	-	150,000		102.000	Jan 2020	52.61	10	38%
Jul 2018	-	275,000		102.000	Jan 2021	52.61	10	38%
Jul 2018	-	275,000		102.000	Jan 2022	52.61	10	38%
Jul 2018	-	300,000		102.000	Jan 2023	52.61	10	38%
Aug 2018	-	50,000		103.490	Jan 2020	56.14	10	40%
Aug 2018	-	2,250,000		103.490	Jan 2021	56.14	10	40%
Aug 2018	-	2,450,000		103.490	Jan 2022	56.14	10	40%
Aug 2018	-	2,650,000		103.490	Jan 2023	56.14	10	40%
Aug 2018	-	2,400,000		103.490	Jan 2024	56.14	10	40%
Totals	**3,939,044**	**22,059,901**	**2,297,473**					

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 £1.007 (2017: £0.5020) and the estimated fair value of each share option granted was £0.3479 (2017: £0.2304).

The weighted average share price at grant date of the Sharesave Scheme was £0.8550 (2017: £0.5100) and the estimated fair value of each share option was £0.3215 (2017: £0.1763). It is assumed that 75% of members will remain in the Group after three years.

A 1.78% (2017: 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 2018 was £1,254,000 (year ended 31 December 2017: £675,000).

The weighted average share price at the date of exercise of options under the EMI Share Option Scheme was £0.917.

The weighted average share price at the date of exercise of options under the Unapproved Share Option Scheme was £1.031.

The weighted average share price at the date of exercise of options under the Sharesave Scheme was £1.068.

The number of options that are exercisable at 31 December 2018 is 5,898,945 (2017: 9,727,198).

26. Subsidiaries of the Group

The subsidiaries of the Group, all of which are private companies limited by shares, as at 31 December 2018, 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	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%

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For the year ended 31 December 2018

Company	Country of Registration or Incorporation	Registered Office	Principle Activity	Percentage of ordinary shares held by Company
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	52 Old Steine, Brighton, BN1 1NH, 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%
PeopleFluent Holdings Corp.	USA	Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, DE 19808	Holding company	100%
PeopleFluent Inc.	USA	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle DE 19801	Integrated talent management and learning solutions	100%
Strategia Communications Inc.	Canada	554-1111 RUE St-Charles O, Longueuil Québec J4K5G4, Canada	Integrated talent management and learning solutions	100%
Bedford HCIT Holdings Corp	USA	The Corporation Trust Company, Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle DE 19801	Holding company	100%
KZO Innovations Inc.	USA	Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, DE 19808	Video distribution software	100%
PeopleClick Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Integrated talent management and learning solutions	100%
PeopleFluent Limited	England and Wales	52 Old Steine, Brighton, BN1 1NH, England	Integrated talent management and learning solutions	100%
Learning Technologies Acquistion Corp	USA	Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, DE 19808	Holding company	100%
Watershed Systems, Inc.	USA	c/o National Registered Agents Inc. 160 Greentree Dr STE 101, Dover, Kent, DE, 19904	SaaS Learning Analytics Platform	100%

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

27. 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 IFRS 3 '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.

The share-based payment reserve arises from the requirement to value share options in existence at the grant date, it is the recognition of the fair value over the vesting period. (see Note 25).

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.

28. Related party transactions

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Amount owing (from)/to joint venture/associate:		
Current		
Trade balances with joint venture	(7)	10
Trade balances with associate	-	10
Total	**(7)**	**20**

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 8). 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 £521,000 in the year ended 31 December 2018 (2017: £255,000). Andrew Brode is the Chairman of RWS Group Limited. The amount due/accrued to RWS Group Limited at 31 December 2018 was £124,000 (31 December 2017: £57,000). These balances are included in trade and other payables (refer to Note 20).

Transactions with joint venture

During the normal course of business, the Group purchased graphics services from its joint venture, LEO Brazil, totalling £19,000 and received licence fee income, totalling £3,000 in the year ended 31 December 2018 (2017: 192,000 and £5,000 respectively).

Transactions with associate

In the period to 15 November 2018, the Group purchased licences and services totalling £47,000 from its associate, Watershed, during the normal course of business (2017: £48,000).

Close family members

Two close family members of the Chief Executive were employed in the Group during the year-ended 31 December 2018 at an arms-length basis, the payments made within the period were £1,000 each (2017: £nil) and there are no balances owing at the year-end. A close family member of the Chief Operating Officer was employed in the Group during the year ended 31 December 2018 at an arms-length basis, the payments made within the period were £14,000 (2017: £18,000) and there are no balances owing at the year-end. Employment for both close family members ended during the year.

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For the year ended 31 December 2018

29. Dividends paid

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Final dividend paid	1,396	766
Interim dividend paid	999	513
Total	**2,395**	**1,279**

On 2 November 2018, the Company paid an interim dividend of 0.15 pence per share (2017: 0.09 pence per share). The Directors propose to pay a final dividend of 0.35 pence per share for the year ended 31 December 2018 (totalling £2.34 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 0.50 pence per share (2017: 0.30 pence per share). The final dividend paid in 2018 relates to the year ending 31 December 2017.

30. 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, Canadian 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 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 2018									
Financial assets	33,564	274	7,048	170	1,695	409	12	-	43,172
Financial liabilities	39,615	37	10	-	3	-	2	-	39,667
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

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 2018 increase/ (decrease)	31 December 2017 increase/ (decrease)
	£'000	£'000
United States Dollar:		
- Strengthened by 10%	(605)	(415)
- Weakened by 10%	605	415
Hong Kong Dollar:		
- Strengthened by 10%	24	(5)
- Weakened by 10%	(24)	5
Euro:		
- Strengthened by 10%	704	489
- Weakened by 10%	(704)	(489)
Swiss Franc:		
- Strengthened by 10%	17	11
- Weakened by 10%	(17)	(11)
Canadian Dollar:		
- Strengthened by 10%	169	16
- Weakened by 10%	(169)	(16)
Australian Dollar:		
- Strengthened by 10%	41	34
- Weakened by 10%	(41)	(34)
Philippine Piso:		
- Strengthened by 10%	1	-
- Weakened by 10%	(1)	-
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.

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 2018 and net assets at that date would decrease by £104,000 (2017: £45,000). 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

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

To measure the expected credit losses, trade receivables and contract assets have been grouped based on the shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have a lower risk profile than trade receivables as the Group has the right to bill the customer for work completed to date.

The expected loss rates are based on the historic payment profiles of sales and the credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information. Different loss rates have been calculated and applied to different business units, products and geography. The loss allowance calculated is detailed in Note 15.

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 (2017: 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 2018	31 Dec 2017
	£'000	£'000
United Kingdom	7,079	6,467
North America	22,601	2,775
Europe	4,527	494
Asia Pacific	583	2,517
Middle East and Africa	635	-
South and Central America	221	-
Allowance for impairment losses	(1,332)	(186)
	34,314	**12,067**

Ageing analysis

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

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Not past due	25,371	8,183
Past due:		
Less than three months	6,852	2,879
Three to six months	1,744	603
Past six months	1,679	588
Gross amount	**35,646**	**12,253**

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 2018					
Trade payables	924	-	-	-	924
Borrowings	8,256	7,970	7,684	19,616	43,526
Contingent consideration	8	-	-	-	8
	9,188	**7,970**	**7,684**	**19,616**	**44,458**
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**

(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 existing debt facility with Silicon Valley Bank and replaced it with a new debt facility with Silicon Valley Bank and Barclays Bank for a total of up to $63m – see Note 22 – this is the only external debt finance of the Group.

The Company made dividend distributions of 0.36 pence per share during the year ended 31 December 2018 (2017: 0.23 pence per share).

Total equity increased from £76.8 million to £168.8 million during the year and net funds decreased from net cash of £1 million to net debt of £11.5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

(c) Classification of financial instruments

Financial assets	31 Dec 2018	31 Dec 2017
	£'000	£'000
Loans and receivables financial assets:		
Trade receivables	34,314	12,067
Amounts recoverable on contracts	3,979	4,242
Amount owing by related parties	7	-
Cash and bank balances	26,794	15,662
	65,094	**31,971**

Financial liabilities	31 Dec 2018	31 Dec 2017
	£'000	£'000
Fair value through the profit and loss:		
Contingent consideration	2,386	360
	2,386	**360**
At amortised cost:		
Trade payables	924	946
Borrowings	38,259	14,614
Amount owing to related parties	-	20
	39,183	**15,580**

(d) Reconciliation of liabilities arising from financing activities

	Note	31 December 2017	Net financing cashflows	Interest paid	Fair value movement / interest accrued	Acquisition of subsidiary	Foreign exchange movement	31 December 2018
Borrowings	22	14,614	21,307	(1,224)	1,512	-	2,050	38,259
Contingent consideration	20, 21	360	(193)	-	(129)	2,296	52	2,386

	Note	31 December 2016	Net financing cashflows	Interest paid	Fair value movement / interest accrued	Acquisition of subsidiary	Foreign exchange movement	31 December 2017
Borrowings	22	13,834	1,807	(474)	594	-	(1,147)	14,614
Contingent consideration	20, 21	430	(59)	-	(11)	-	-	360

The loan from Silicon Valley Bank was designated as a hedging instrument in a net investment hedge. As a result, the foreign exchange gains and losses on the loan are taken to the other comprehensive income to be offset against the foreign exchange gains and losses arising on the retranslation of the net assets of foreign operations.

(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.

2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Contingent consideration	-	-	2,386	2,386
	-	**-**	**2,386**	**2,386**

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

31. 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:

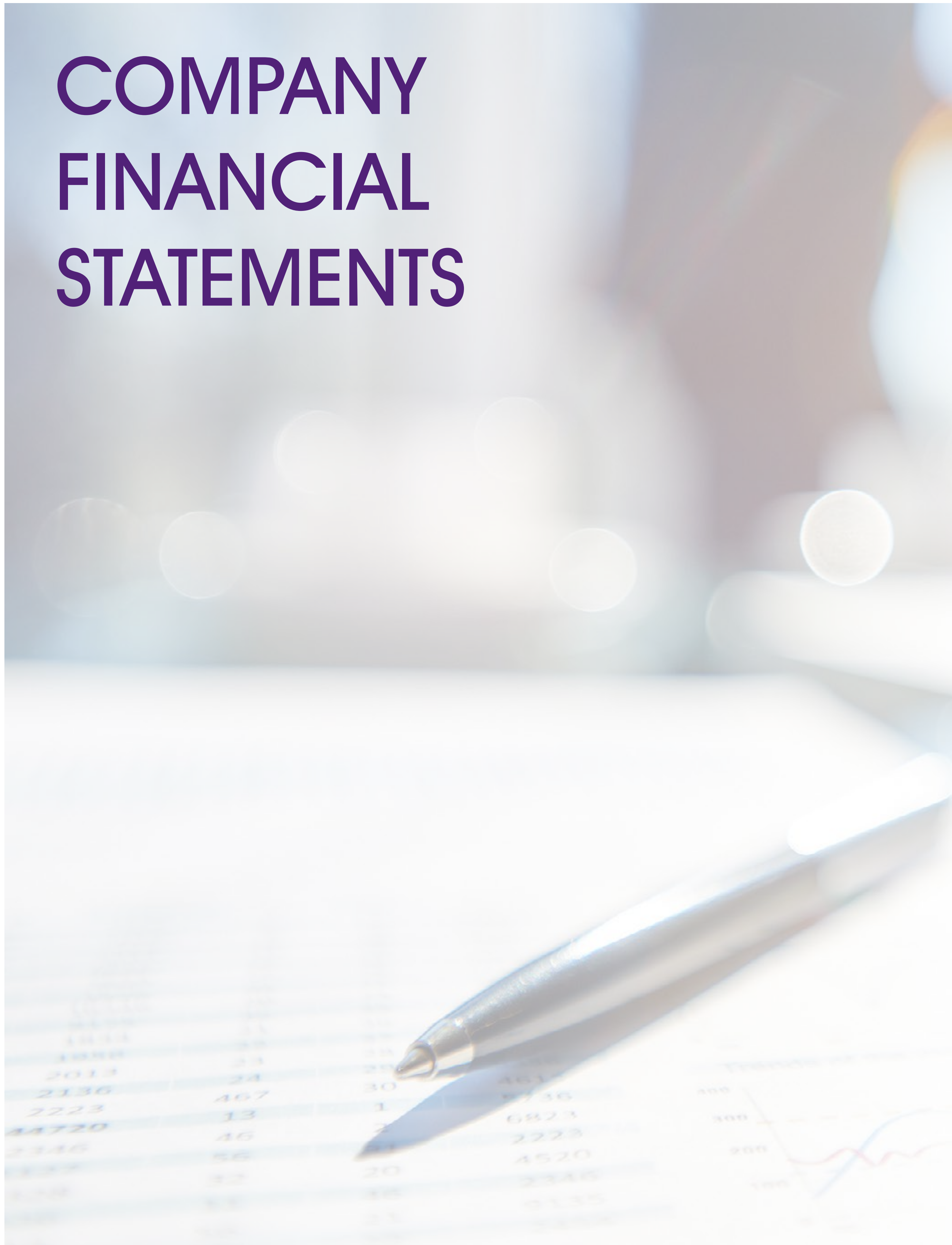
	31 Dec 2018	31 Dec 2017
	Land and buildings	Land and buildings
Operating leases which are due:	£'000	£'000
Within one year	2,989	1,075
In the second to fifth years inclusive	8,342	1,841
Over five years	1,393	330
	12,724	**3,246**

The Group has 15 leases included above primarily located in the USA and U.K. for various office properties. The remaining terms of these leases range from one to nine years of the balance sheet date.

32. Events since the reporting date

There have been no notifiable events between the 31 December 2018 and the date of this Annual Report.

COMPANY FINANCIAL STATEMENTS



COMPANY STATEMENT OF FINANCIAL POSITION

(Registered number: 07176993)
As at 31 December 2018

	Note	31 Dec 2018 £'000	31 Dec 2017 £'000
Fixed assets:			
Investment in subsidiaries	3	164,404	91,160
		164,404	**91,160**
Current assets:			
Debtors	4	49,993	13,243
Cash and bank balances		3,136	2,001
		53,129	**15,244**
Creditors:			
Amounts falling due within one year	8	6,960	2,397
		6,960	**2,397**
Net current assets		**46,169**	**12,847**
Total assets less current liabilities		**210,573**	**104,007**
Creditors:			
Amounts falling due after more than one year	9	31,656	12,957
Net Assets		**178,917**	**91,050**
Capital and reserves:			
Share capital	7	2,501	2,145
Share premium account	7	147,520	64,168
Merger reserve	7	9,714	9,714
Share-based payments reserve	7	1,606	1,090
Retained profits		17,576	13,933
		178,917	**91,050**

Capital and reserves includes profit or loss for the year of the parent company, of £4.601 million (2017: £9.459 million).

The Notes on pages 96 to 99 form an integral part of these Financial Statements.

The Financial Statements on pages 94 to 99 were approved and authorised for issue by the Board of Directors on 18 March 2019 and were signed on its behalf by:

Neil Elton
Chief Financial Officer
18 March 2019

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Share capital	Share premium	Merger reserve	Share-based payments reserve	Retained profits	Total
		£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2017		**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**
Profit for the year		-	-	-	-	5,300	5,300
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**5,300**	**5,300**
Issue of shares	6	356	85,521	-	-	-	85,877
Costs of issuing shares		-	(2,169)	-	-	-	(2,169)
Payment of dividends		-	-	-	-	(2,395)	(2,395)
Share-based payment charge credited to equity	11	-	-	-	1,254	-	1,254
Transfer on exercise and lapse of options		-	-	-	(738)	738	-
Transactions with owners		**356**	**83,352**	**-**	**516**	**(1,657)**	**82,567**
At 31 December 2018		**2,501**	**147,520**	**9,714**	**1,606**	**17,576**	**178,917**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 15 Fetter Lane, London EC4A 1BW. 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 2018 is £5,300,000 (year ended 31 December 2017: profit of £9,459,000).

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) Fixed asset investments

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

(c) 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.

(d) 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.

(e) 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.

(f) Pensions

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

(g) Share-based payment arrangements

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. Investment in subsidiaries

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Cost		
At 1 January	91,160	36,271
Additions	73,244	54,889
Disposals	-	-
At 31 December	**164,404**	**91,160**
Amortisation/impairment:		
At 1 January	-	-
Provision for impairment	-	-
Disposals	-	-
At 31 December	**-**	**-**
Net Book Value	**164,404**	**91,160**

Included in the above balance is a non-current intercompany loan of £1.9 million (2017: £nil) arising due to the transfer of funds to Rustici to complete the acquisition of Watershed as detailed in Note 12 to the Consolidated Financial Statements.

Details of the Company's acquisitions during the year ended 31 December 2018 are set out in Note 12 to the Consolidated Financial Statements.

Details of the Company's subsidiaries as at 31 December 2018 are set out in Note 26 to the Consolidated Financial Statements

4. Debtors

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Amounts due from subsidiary undertakings	49,919	13,091
Deferred tax asset (see Note 5)	-	51
Other debtors	74	101
	49,993	**13,243**

5. Deferred tax assets

	31 Dec 2018	31 Dec 2017
	£'000	£'000
At 1 January	51	77
Deferred tax credit on share options in issue	-	-
Release of deferred tax on exercise of share options	(51)	(26)
	-	**51**

6. Share capital

Details of the Company's authorised, called-up and fully paid share capital are set out in Note 24 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, it is the recognition of the fair value over the vesting period.

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 2018	31 Dec 2017
	£'000	£'000
Trade creditors	12	55
Contingent consideration	8	168
Other creditors and accruals	338	325
Borrowings	6,602	1,849
	6,960	**2,397**

Details of the Company's contingent consideration as at 31 December 2018 are set out in Notes 20 and 21 to the Consolidated Financial Statements.

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

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Contingent consideration	-	192
Deferred consideration on acquisitions charged to the Income Statement	-	-
Borrowings	31,656	12,765
	31,656	**12,957**

The interest expense relating to the movement in present value of contingent consideration in the year ending 31 December 2018 amounted to £24,000 (2017: £41,000).

10. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in Note 8 to the Consolidated Financial Statements.

The following transactions with subsidiaries occurred in the year:

	31 Dec 2018	31 Dec 2017
	£'000	£'000
Opening amount due from related parties	13,091	13,167
Amounts (repaid) by related parties	(11,716)	(20,121)
Amounts advanced from related parties	48,544	20,045
Closing amount due from related parties	**49,919**	**13,091**

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 25 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'):

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		pence		pence
At 1 January	2,000,000	5.88	3,000,000	5.88
Exercises	(2,000,000)	5.88	(1,000,000)	5.88
At 31 December	**-**	**-**	**2,000,000**	**5.88**

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

2,000,000 options were exercised during the year (2017: 1,000,000 options), the weighted average share price at exercise was £0.6900 (2017: £0.6025). No options were granted, forfeited or expired during the year (2017: nil).

A 1.78% (2017: 1.78%) risk-free interest rate has been assumed for all schemes.

The number of options that are exercisable at 31 December 2018 is nil (2017: 2,000,000).

Share-based payments which were expensed in the entity and taken to equity in the year ended 31 December 2018, amounted to £nil (year ended 31 December 2017: £nil). The remaining difference between the share-based payments which were expensed as per Note 25 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 29 to the Consolidated Financial Statements.

13. Subsequent events

Disclosures in relation to events after 31 December 2018 are shown in Note 32 to the Consolidated Financial Statements.

COMPANY INFORMATION

Directors

Andrew Brode, Non-executive Chairman
Neil Elton, Chief Financial Officer
Piers Lea, Chief Strategy Officer
Leslie-Ann Reed, Non-executive Director
Jonathan Satchell, Chief Executive
Aimie Chapple, Non-executive Director

Company Secretary

Neil Elton

Company number

07176993

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Joint broker

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Germany
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Hong Kong
Wan Chai

Australia
Sydney