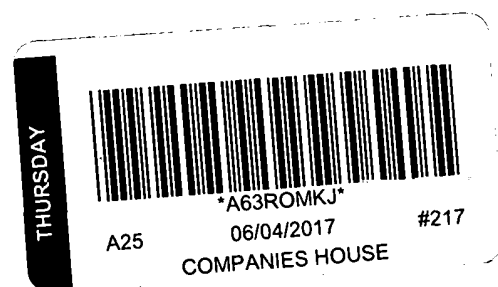


Company Regn No: 07176993

Learning Technologies Group plc

Annual Report for the year ended 31 December 2016



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Chairman's Statement

Learning Technologies Group plc ("LTG"), a market-leader in the fast growing learning technologies sector, has made excellent progress during 2016. In addition to the acquisition in January 2016 and strong subsequent performance of Rustici in the US, LTG's other businesses have delivered a solid performance and improved margins.

As a result revenues increased by 42% to £28.3 million (2015: £19.9 million), adjusted EBITDA by 77% to £7.7 million (2015: £4.3 million) and adjusted diluted EPS by 57% to 1.184 (2015: 0.756). Adjusted EBITDA margins have improved from 21.8% in 2015 to 27.1% in 2016 and we expect sustainable adjusted EBITDA margins in the mid-twenties in future periods. Statutory loss before tax for the year was £1.2 million compared with a restated profit before tax of £1.2 million for 2015, after accounting for acquisition related deferred consideration as deemed remuneration.

The successful development of new learning technology solutions and expansion into new geographical markets has seen the Group increase its recurring revenues from software licences and support contracts to 27% (2015: 10%), and over the same period revenues generated outside of the UK have risen from 12% in 2015 to 36% in 2016.

Market opportunity

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

The global corporate training market, of which LTG is focused on the digital learning segment, is estimated to be worth £140 billion in 2016 with a five year compound annual growth rate (CAGR) of 23%. Organisations are now looking to measure more precisely which learning interventions are most effective, using adaptive models which draw data from multiple sources to establish returns on e-learning investment.

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

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

Strategic progress

On 29 January 2016 we announced that LTG had acquired the entire issued share capital of Rustici Software LLC ('Rustici'), the expert in digital learning interoperability. Rustici is the acknowledged global leader in SCORM conformance (the de facto industry standard for e-learning interoperability), which enables online learning content and management systems to communicate and work together. I am pleased to report that, since acquisition, this business has performed significantly ahead of expectations.

At the same time, we acquired a 27.3% stake in Watershed Systems Inc ('Watershed'). Watershed has developed a SaaS-based learning analytics capability, which evaluates the impact and effectiveness of learning programmes, which is a significant advance for the e-learning industry. The acquisition of Rustici and our investment in Watershed have substantially enhanced the Group's ability to capture rich data about the learner and analyse and assess the impact of learning on organisational performance. Watershed has made good progress during the year developing its suite of analytical tools and working alongside clients to

Chairman's Statement *(continued)*

implement learning analytics solutions and we look forward to the company further demonstrating the powerful insights that its product suite offers clients, and to extending its market reach.

We are beginning to see the significant benefits of our blended service strategy, through increasing take-up by our customers. Our consultative and comprehensive approach is driving organic growth and, with the integration of our businesses and implementation of best practice, we realised impressive increases in adjusted EBITDA and adjusted EBITDA margins in 2016.

The success of our strategy was best exemplified by the landmark deal announced in December 2015, to design and develop a new learning architecture and to create and deliver blended courses that incorporate a combination of digital, informal and classroom components for the entire UK Civil Service, alongside our strategic partner KPMG UK LLP. Civil Service Learning ('CSL') delivers learning to more than 400,000 civil servants for whom we have designed and developed blended learning across 15 curriculum areas, from leadership & management, diversity, EU practices, through to project management and digital delivery. We successfully completed our implementation on time and on budget. Revenues have begun to accrue in 2016 in line with our plans and will grow significantly in 2017 onwards. This demonstrates the credibility and scale of LTG's offering and capabilities.

People

The Group has enjoyed a transformational year in which we have seen margins improve and the benefits of our blended offering begin to have a marked effect. This could not have been achieved without the skill, passion and dedication of all our staff. On behalf of the Board, I would like to thank them for their efforts during the year.

Post Year-End

On 20 March 2017 the acquisition of NetDimensions Holding Limited ('NetDimensions') by LTG was declared unconditional. NetDimensions is a leading global enterprise solutions provider of talent and learning management systems. It provides companies, government agencies, and other organisations with talent management solutions to personalise learning, share knowledge, enhance performance, foster collaboration, and manage compliance programs for employees, customers, partners, and suppliers via mobile learning, social collaboration and other extended enterprise management tools.

The acquisition brings to LTG the final major pillar of its strategic ambition to build a comprehensive full-service digital learning offering encompassing strategic consultancy, content, delivery and analytics capabilities for corporate and government clients. It deepens our expertise in highly regulated sectors such as financial services, defence and security whilst opening up access to the South East Asian market. Other LTG businesses will also have the opportunity to offer their technical capability and vertical sector specialisms to an extended client base.

On 29 March 2017, the Group also announced that it signed a new debt facility for £20 million that will be provided by Silicon Valley Bank ("SVB") and comprises a £10m term loan and £10m revolving credit facility, both available to LTG for five years. SVB is a bank focused on innovation businesses, enterprises and their investors and it will be able to support LTG with its global growth aspirations.

Board Changes

Following the acquisition of NetDimensions and with effect from today Peter Gordon steps down as a Non-Executive director to take on the role of Managing Director at NetDimensions. I would like to thank Peter on behalf of the Board for his invaluable work and advice over the past two years, particularly in his role in the successful acquisitions of Eukleia in 2015, Rustici in 2016, and latterly NetDimensions. We look forward to his continued contribution to the Group.

Chairman's Statement *(continued)*

Dividend and Annual General Meeting

In light of the results for 2016 and to demonstrate our confidence in the prospects for the Group in 2017, the Board is recommending an increased final dividend of 0.14p per share (2015: 0.10p per share), giving a total dividend for the year of 0.21p per share (2015: 0.15p per share). This final dividend is subject to shareholder approval at the forthcoming Annual General Meeting to be held on 18 May 2017.

If approved, the final dividend will be paid on 7 July 2017 to all shareholders on the register at 9 June 2017.

Current trading and outlook

The Group has enjoyed a strong start to 2017 and is trading in line with management's expectations, and significantly ahead of last year. We expect the current financial year to benefit from a healthy order book, increased sales resulting from our compelling blended learning capability and continuing strong margins. LTG has substantially diversified its geographical reach in the past year and has developed a broad client base both across corporate and government sectors. The Board is excited by the opportunities already identified that the acquisition of NetDimensions offers the Group.

The Board is therefore confident in the Group's prospects and expects to report enhanced progress during 2017.

A handwritten signature in black ink, appearing to read 'Andrew Brode', written in a cursive style.

Andrew Brode
Chairman
4 April 2017

Strategic Report for the year ended 31 December 2016

Financial results

In the year ended 31 December 2016, the Group generated revenue of £28.3 million (2015: £19.9 million), delivering a 42% increase.

Adjusted EBITDA increased by 77% to £7.7 million (2015: £4.3 million). The Group measures adjusted EBITDA to provide a better understanding of the underlying operating business performance. Adjusted EBITDA is defined as the Group profit or loss before tax, excluding the amortisation of acquisition-related intangible assets, the amortisation of internally capitalised development costs, depreciation, share based payment charges, acquisition related deferred consideration and earn-outs, finance expenses, the Group's share of profits or losses in associates and joint ventures and other specific items.

The implementation of operational best practice across the Group, increased economies of scale and a change in the revenue mix of the Group towards higher margin recurring licence sales contributed towards a significant improvement in adjusted EBITDA margins in the year to 27% (2015: 22%).

On a like-for-like basis, as if the businesses that LTG owned at the end of 2016 had been owned at the end of 2015, the order book is substantially ahead of prior year, bolstered by forecast revenues that will be delivered by the Civil Service Learning (CSL) multi-year contract during 2017 and beyond. The order book is defined as the value of contracts won but not yet delivered.

The amortisation charge for acquisition-related intangible assets was £3.2 million (2015: £1.2 million) and is discussed further in Note 12. The amortisation charge for internally generated development costs was £0.4 million (2015: £0.2 million) and relates to the development of 'gomo', the Group's award-winning multi-device authoring tool, various software tools used within the Eukleia business including an internally generated library of governance, risk and compliance ('GRC') materials used to service clients, and internally developed software in Rustici including SCORM and xAPI tools. The share-based payment charge decreased from £0.8 million in 2015 to £0.6 million in 2016. Further details are provided in Note 24.

Integration costs of £0.1 million (2015: £0.1 million) relate to restructuring costs following the acquisition of Rustici in January 2016.

Statutory loss before tax was £1.2 million compared with a restated profit before tax of £1.2 million and unadjusted operating loss was £142k compared to restated unadjusted operating profit of £1.4 million. These are stated after deferred contingent consideration and earn-out charges of £3.2 million (2015: £0.4 million) relating to the acquisitions of Eukleia and Rustici and reflect the strong incremental revenue growth of the businesses post acquisition (see below for details on prior year adjustments). Costs of acquisitions in 2016 were £0.1 million (2015: £0.2 million) and finance charges related to contingent consideration of the acquisitions of Preloaded, were £57,000 (2015: £0.1 million). Interest charges on the debt facility were £0.4 million (2015: nil) and net foreign exchange losses were £0.3 million (2015: nil). Adjusted profit before tax (see Note 9) increased by 66% to £6.4 million in 2016 (2015: £3.8 million).

The income tax expense of £133,000 in 2016 (2015: £258,000) is stated after adjusting for the effect of the release of deferred tax on the amortisation of acquired intangibles and a deferred tax asset related to the anticipated vesting of share options. Further details are provided in Note 8.

Based on the average number of shares in issue and adjusted operating profit during the year, adjusted basic EPS increased by 59% to 1.286 pence (2015: 0.809 pence). On a statutory basis, basic earnings per share ('EPS') decreased to a loss of 0.317 pence (2015: restated profit of 0.256 pence) primarily as a result of the deferred consideration charged to profit or loss relating to Rustici following its successful performance post acquisition. Further details are provided in Note 9.

On 28 January 2016, LTG acquired Rustici, the global market leader in digital learning interoperability, for an initial consideration of USD 23.6 million of which USD 18.0 million was paid in cash and USD 5.6 million in newly issued LTG shares at 30.25 pence per share. Further performance based payments, capped at USD 11.0 million, are payable based on ambitious revenue growth targets over the next 3 years. 80% of Rustici's

Strategic Report for the year ended 31 December 2016 (continued)

current revenues are from recurring subscription fees. Goodwill on acquisition has been calculated at £12.2 million with acquisition-related intangibles of £8.8 million represented mainly by customer relationships. Rustici delivered revenue of £6.3 million and £2.8 million profit before tax to the Group for the eleven months of 2016. LTG also acquired a 27.3% investment in Watershed, the developer of the next generation learning analytics platform, for USD 3.0 million. Further details are provided in Notes 11 and 13.

The Group has a strong balance sheet with shareholders' equity at 31 December 2016 of £30.7 million, equivalent to 7.3 pence per share (2015: restated shareholders' equity of £25.1 million, equivalent to 6.3 pence per share).

In January 2016 LTG secured a USD 20.0 million term loan with Barclays, in order to part-finance the acquisition of Rustici. The loan is subject to quarterly repayments of USD 1.0 million with the balance repayable on the expiry of the loan in January 2019. The loan balance is charged interest at a 2.0% margin above USD LIBOR, and is subject to various financial covenants. Net USD cash receipts to the business have operated as an effective internal hedge against the depreciation of Sterling against the USD in the second half of the year. Management regularly review the foreign exchange exposure of the Group. On 29 March 2017 LTG agreed a new debt facility with SVB and repaid the existing Barclays loan. Further details are provided in Note 32.

The gross cash position at 31 December 2016 was £5.3 million (2015: £7.3 million). The Group's net debt at 31 December 2016 was £8.5 million (2015: net cash of £7.3 million).

Net cash generated from operating activities was £2.1 million (2015: £4.3 million). Operating cash flow in 2016 includes the upfront investment in the CSL project against which revenue receipts are expected in future periods and a bonus, accrued at the time of acquisition, payable to Rustici staff. Underlying operating cash flows were strong; debtor days were 54 days (2015: 64 days), and combined debtor and WIP days were 29 days (2015: 34 days), reflecting the Group's implementation of accelerated invoicing and effective credit control. Corporation tax payments were £0.6 million (2015: £0.5 million). Cash outflows from investing activities were £15.8 million (2015: £6.0 million). Cash inflows from financing activities were £11.6 million (2015: £5.1 million) and are stated after dividend payments which increased to £0.7 million from £0.4 million in 2015.

Our strategy

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

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

Each of our Group businesses brings a range of capability or sector specialisms that allow us to build on this strategic vision.

Strategic Consultancy

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

Strategic Report for the year ended 31 December 2016 *(continued)*

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

LTG is also developing sector expertise both organically and by acquisition.

Most notably LEO has developed a reputation as an industry leader in the automotive sector. For example, LEO has developed learning technologies that are used by dealers and customers throughout JLR's global network to learn about the latest vehicle models as they are launched. This involves the complex assignment of configuring the learning content for different territories, vehicle specifications and languages as well as different launch dates.

In certain instances LTG will acquire sector expertise. In July 2015, we acquired Eukleia Training Limited ('Eukleia'), a specialist provider of blended learning services to the financial services sector. Eukleia has performed well during the period and in October 2016 set-up an office in New York, sharing premises with its sister company LEO. The US office has already had success in winning new assignments and we are excited about the opportunities to service our existing and new clients from both sides of the Atlantic.

Content

There are myriad types of learning content ranging from face-to-face training through to a variety of e-learning formats. Tailoring the correct content and delivery mechanism to the needs of the learner is imperative in ensuring that learning is as effective as possible in driving business performance. LTG is at the forefront of developing this blended learning approach.

During 2016 LEO, in partnership with KPMG LLP, completed the roll-out of a new core-curriculum to the entire UK Civil Service ('CSL'). This involved the development of 15 core-curriculum areas ranging from leadership and management to EU practices and including 'blended' course design encompassing face-to-face training and e-learning content. The content was designed, built and launched in less than a year as part of a three year contract to deliver learning to over 400,000 civil servants. LTG has generated some revenues in 2016 as the courses have been launched during the year and expects these revenues to increase substantially during 2017 and 2018. CSL has the option to extend this contract into 2019.

LTG continues to invest in developing other forms of compelling learning content. Through its BAFTA award-winning business, Preloaded, LTG is at the forefront of the 'gamification' of learning content, or more particularly 'games with purpose'.

Preloaded worked with Eukleia in developing a training game, 'Zero Threat', that brings to life for employees and managers the importance of cyber-security in mitigating risks for all organisations. The game emotionally engages learners by showing, rather than describing, the consequences of getting cyber-security wrong. It takes a 'pull' rather than a 'push' approach to training, inviting learners to replay and try to improve their score.

Preloaded has also developed other immersive technologies such as 'augmented' and 'virtual' reality games. The company developed the Handley Page virtual reality experience for the Science Museum, an immersive 3D simulation that illustrates the mathematical principles of air flow through compelling graphics, sound effects and narration.

Delivery

Compelling e-learning content needs a platform through which it can be delivered to learners and LTG is building a comprehensive range of delivery solutions.

Strategic Report for the year ended 31 December 2016 *(continued)*

Moodle is an open-source Learning Management System ('LMS') platform used by organisations throughout the world and LEO has attained the recognition of becoming an accredited Moodle partner. LEO has helped clients build new Moodle systems and provides ongoing support and service desk assistance to clients around the world with particular success in the US.

LTG has also 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 2016 and through its SaaS based annual licences is achieving retention rates of in excess of 90%.

In March 2017 LTG acquired NetDimensions, one of the leading global proprietary LMS providers. This proprietary offering will complement LEO's Moodle offering enabling LTG to offer clients a full suite of delivery options.

In order for LMS's to communicate with a multitude of content from various service providers the e-learning industry uses an interoperability standard. This global standard is referred to as SCORM and this protocol has underpinned the delivery of digital learning content for nearly two decades. In January 2016 LTG acquired Rustici, the acknowledged global leader in SCORM related solutions. Since acquisition, Rustici has exceeded expectations, and has developed and launched a further SaaS based product Content Controller.

Analytics

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

Rustici was asked by Advanced Distributed Learning, a US Government body, to lead the industry in creating the next generation of learning interoperability standards. It created a global standard to capture rich data on every aspect of learning experiences – xAPI.

When LTG acquired Rustici it also acquired a 27.3% stake in Watershed for an investment of \$3.0 million. Watershed focuses on developing learning analytics that provide actionable insights to customers who want to adapt their learning strategy, creating more effective learning experiences and ultimately generating verifiable business results. Watershed has made good progress during 2016 in developing its suite of analytical tools and working alongside blue-chip clients. We look forward to Watershed making significant progress during 2017.

Prior year adjustments

Following a review of the Group's Annual Report and Accounts for the year ended 31 December 2015 by the Financial Reporting Council's Conduct Committee, adjustments have been recognised relating to two matters: deferred consideration and tax on share options.

Deferred Contingent Consideration

The terms of the acquisition of Eukleia completed in July 2015 allow for the payment of contingent deferred consideration to the vendors based on challenging incremental revenue targets being achieved by the company during the period 1st January 2016 to 31st December 2017. These contingent deferred consideration payments may be forfeited by employee vendors should they, in certain circumstances, leave the company prior to the end of the earn-out period. The Board of LTG believe that such protections safeguard the value of the investment made by the Group. Under IFRS3, the inclusion of this substantive service condition requires that the fair value of the contingent payments are accounted for as remuneration

Strategic Report for the year ended 31 December 2016 *(continued)*

charged to profit or loss rather than being capitalised as part of the business combination. The net effect of this adjustment in 2015 is a reduction in profit of £335,000. The underlying commercial effect of the acquisition agreement is unchanged and other financial measures such as cash, adjusted EBITDA and adjusted EPS are unaffected.

Tax on share options

Part of the 2015 current tax deduction on share options exercised in the year should have been recognised directly in equity rather than as a credit to the tax expense recognised in the Statement of Comprehensive Income. The comparative figures have been restated, reducing profit by £138,000. This has not had an effect on the Statement of Financial Position.

Further details are provided in Note 31.

Key Performance Indicators

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

Principal risks and uncertainties

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

Potential downturn in the market for outsourced e-learning services

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

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

Attracting and retaining talented staff

LTG is a market leader and we will always strive to ensure that all our operating companies are regarded as excellent employers within the e-learning industry. We benchmark ourselves against our peers regularly and are satisfied 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 technologies sector.

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.

Strategic Report for the year ended 31 December 2016 *(continued)*

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.

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.

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.

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

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

Corporate responsibility

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

Governance

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

More information on our corporate governance can be found on page 16.

Employees and their development

LTG is dependent upon the qualities and skills of its employees, and the commitment of its people plays a major role in the Group's business success. The Group invests in training and developing its staff through internally arranged knowledge sharing events and through external courses.

Employees' performance is aligned to the Group's goals through an annual performance review process and via LTG's incentive programmes. LTG provides employees with information about its activities through

Strategic Report for the year ended 31 December 2016 *(continued)*

regular briefings and other media. LTG operates a number of bonus and sales commission schemes, share option schemes and a Sharesave scheme operated at the discretion of the Remuneration Committee.

Diversity and inclusion

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

Health and Safety

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

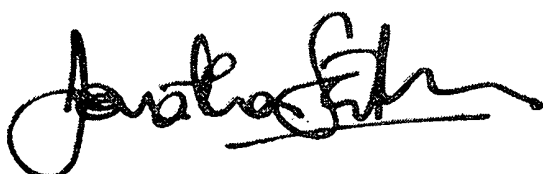
Community activities

LTG operates a Corporate Social Responsibility agenda that encourages employees to be involved in their local communities. In 2016 the Group supported charitable activities by staff which raised a total of £4,000 (2015: £5,000) and made charitable contributions totalling £35,000 during the year (2015: £29,000).

The Group has, with other leading companies in the industry, set up an industry-wide charity foundation, Learn Appeal (www.learnappeal.com) and is an active contributor to its activities. Learn Appeal has developed the 'Learn Appeal Capsule', a standalone unit that includes a Raspberry Pi2 computer and SD card. With a content library, LMS and Wi-Fi with up to 1km range, the device can be used in remote areas without internet connectivity to allow up to 250 users to simultaneously access learning materials.

Environment

LTG's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. The Group's operations are conducted 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.



Jonathan Satchell
Chief Executive Officer
4 April 2017

Directors' Report for the year ended 31 December 2016

The Directors present their report on the Group, together with the audited Consolidated Financial Statements for the year ended 31 December 2016.

Principal activities

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

Cautionary statement

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

Results and dividends

The results of the Group are set out in detail on page 25.

At the time of LTG's admission to AIM in November 2013, the Board stated that they would pursue a progressive dividend policy. On 28 October 2016, the Company paid an interim dividend of 0.07 pence per share (2015: 0.05 pence per share). The Directors propose to pay a final dividend of 0.14 pence per share for the year ended 31 December 2016, equating to a total payout in respect of the year of 0.21 pence per share (2015: 0.15 pence per share).

Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 7 July 2017 to all shareholders on the register at 9 June 2017.

Business review and future developments

Details of the business activities and acquisitions made during the year can be found in the Strategic Report on pages 4 to 10 and in Note 11 to the Consolidated Financial Statements respectively.

Political donations

The Group made no political donations during the year (2015: nil).

Financial instruments and risk management

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

Capital Structure

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

Directors' Report for the year ended 31 December 2016 (continued)

Research and development

The main area of research and development for the Group has been the development of interoperability software by Rustici, particularly the SCORM Cloud, and the continued work on the gomo multi-device authoring tool as covered in the Strategic Report on pages 4 to 10.

Post balance sheet events

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

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

Information on this is included within the Strategic report on pages 4 to 10. The employment policies are non-discriminatory and are disclosed in the Strategic report.

Directors

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

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

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

†Retires by rotation and will offer himself for re-election at next AGM

Andrew Brode – Independent Non-executive Chairman

Andrew Brode is a Chartered Accountant and was a former chief executive of Wolters Kluwer (UK) plc from 1978 to 1990. 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 30 of AIM companies.

He is also Non-Executive Director of AIM quoted Electric Word plc and a number of private equity-financed media companies. He acquired Epic Group Limited ('Epic') together with Jonathan Satchell (Chief Executive) in 2008.

Andrew Brode is the Chair of the Remuneration Committee and a member of the Audit Committee of LTG.

Harry Hill – Independent Non-executive Deputy Chairman

Harry Hill was Chief Executive Officer of Countrywide plc for 20 years until 2008. During his tenure at Countrywide, it founded and subsequently sold Chesnara plc and Rightmove plc. He was also responsible for forming Countrywide Property Lawyers, which was established to take advantage of conveyancing referrals from within the estate agency chain. His current directorships include Landwood Property Group and Hunters and Clarke Hillyer. He is also a trustee of Launch 22, a Shoreditch-based charity seeking to help young entrepreneurs.

Directors' Report for the year ended 31 December 2016 *(continued)*

Harry Hill is on the Remuneration Committee of LTG.

Leslie-Ann Reed – Independent Non-executive Director

Leslie-Ann Reed is a chartered accountant with extensive international experience in publicly listed IP, media and entertainment companies. She was formerly Chief Financial Officer of the global, online auctioneer Go Industry plc from 2010 until the business was sold in 2012. Prior to this she served as Chief Financial Officer of global commodities' media group Metal Bulletin plc and then as an adviser to private equity company Marwyn Investment Management. After a career at Arthur Andersen, she held senior finance leadership roles at Universal Pictures, Polygram Music, Warner Communications Inc. and EMI Music.

Leslie-Ann Reed is the Chair of the Audit Committee of LTG.

Peter Gordon – Independent Non-executive Director

Peter Gordon has been a successful investor in private equity and venture capital at 3i Group plc for over 18 years, latterly as a Partner in their London based European Buy Out business. Between 1998 and 2000 he was M&A Director at GE Capital and has an MBA from London Business School.

Peter Gordon has supported LTG in the acquisitions of Eukleia, Rustici, and most recently NetDimensions. He joined the Board of LTG in April 2016 and retired from the Board of LTG on 4 April 2017.

Jonathan Satchell - Chief Executive Officer

Jonathan Satchell is responsible for the overall strategic development of LTG with a particular focus on innovation and international opportunities. He has a strong sales and entrepreneurial background, having started his first business in 1992 selling subscriptions for Accountancy TV, a joint venture of the Institute of Chartered Accountants in England and Wales and the BBC which created continued professional development content for training programmes. He has been involved in the education and training industry ever since, acquiring EBC in 1997, which he transformed from a provider of training videos to a bespoke e-learning company. The company was sold to Futuremedia in 2006.

He became interim Managing Director of Epic in 2007 and the following year he acquired the Company with Andrew Brode. Jonathan Satchell oversaw the transformation of Epic from a custom content e-learning company to an international and growing learning technologies agency.

Neil Elton - Group Finance Director

Neil Elton is a Chartered Accountant and was appointed as Group Finance Director of LTG in 2014. An experienced listed company Finance Director, he has worked with and successfully built a number of fast-growing companies. He joined from Sagentia Group plc, a Cambridge-based technology research and development company, where he was Group Finance Director from 2010 to 2014. Between 2007 and 2010, he was Finance Director at Concateno plc, Europe's largest tester of drugs of abuse. Prior to Concateno he was Finance Director at Mecom Group plc, an acquisitive AIM listed European media group. During the earlier part of his career Neil Elton worked at Trinity Mirror plc and trained at Arthur Andersen and Deloitte & Touche.

Directors' Report for the year ended 31 December 2016 *(continued)*

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. Piers Lea continues to aid clients in achieving results through the use of learning technologies.

Dale Solomon - Chief Operating Officer

Dale Solomon was appointed Commercial Director of Epic in 2010. Prior to this, he spent 12 years as a learning consultant working with global organisations to help them achieve measurable return on investment. Dale Solomon was instrumental in the successful opening of the company's first international offices in Rio de Janeiro and New York in 2011 and 2012 respectively. He became Chief Operating Officer of LTG following the creation of LEO in 2014. He is now responsible for overseeing central support functions of the Group, including Sales, Marketing, Bid, IT & Facilities, Human Resources and Quality as well as the operations of LEO.

Directors' Report for the year ended 31 December 2016 (continued)

Directors' interests in shares and contracts

Directors' interests in the shares of LTG at 31 December 2016 and 31 December 2015, and any changes subsequent to 31 December 2016, are disclosed in Note 7. Directors' interests in contracts of significance to which LTG was a party during the financial year are disclosed in Note 27.

Substantial interests

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

Shareholder	Ordinary shares held	% held
Andrew Brode	115,881,671	21.25
Jonathan Satchell	104,039,995	19.08
Henderson Group plc	34,125,000	6.26
Hargreave Hale	42,608,723	7.81
Liontrust Asset Management	31,454,653	5.77
River & Mercantile Asset Management	20,500,000	3.76
Piers Lea	17,023,383	3.12
Nigel Wray	16,791,547	3.08

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 2pm on 18 May 2017 at DWF LLP, 20 Fenchurch Street, London, EC3M 4AD. The notice of the AGM contains the full text of the resolutions to be proposed.

Independent auditors


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

Provision of information to auditors

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

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

Signed by order of the Board



Neil Elton
Group Finance Director
4 April 2017

Corporate Governance Report

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

Statement about applying the principle of the QCA Guidelines

The Board recognises the value of good governance and attempts to comply with the best practice outlined in the QCA guidelines wherever possible given the size and nature of the company.

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

Board of Directors

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

Biographical details of the Directors are included on page 12 to 14.

At 31 December 2016, the Board comprised a Non-executive Chairman, Chief Executive, Group Finance Director, Chief Strategy Officer, Chief Operating Officer and three independent Non-executive Directors. All Directors bring a wide range of skills and international experience to the Board. The Non-executive Directors hold meetings without the executive Directors present. The Chairman is primarily responsible for the working of the Board of LTG. The Chief Executive is primarily responsible for the running of the business and implementation of the Board strategy and policy. The Chief Executive is assisted in the managing of the business on a day-to-day basis by the Managing Directors of the operating businesses, the Group Finance Director and the Executive team of LTG.

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

The Board met 12 times during 2016 (2015: 14). The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically meets ten times a year to consider a formal schedule of matters including the operating performance of the business and to review LTG's financial plan and business model. Non-executive Directors are appointed for a three-year term after which their appointment may be extended by mutual agreement after due consideration by the Board.

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

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

Corporate Governance Report (continued)

Relations with shareholders

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

Balanced and understandable assessment of position and prospects

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

Remuneration strategy

LTG operates in a competitive market. If LTG is to compete successfully, it is essential that it attracts, develops and retains high quality staff. Remuneration policy has an important part to play in achieving this objective. LTG aims to offer its staff a remuneration package which is both competitive in the relevant employment market and which reflects individual performance and contribution. For 2016 the remuneration package comprised salary, pension contributions, bonus or sales commission schemes, a Sharesave scheme and, where appropriate, share options.

Board committees

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

Audit Committee

The Audit Committee is chaired by Leslie-Ann Reed and currently comprises Leslie-Ann Reed and Andrew Brode. The Audit Committee met three times during 2016 (2015: 3). Further details on the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee

The Remuneration Committee is chaired by Andrew Brode and also comprises Harry Hill. The Remuneration Committee met once during 2016 (2015: 1). Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee.

Meetings of the Board and sub-committees during 2016 were as follows:

	Board Meetings	Audit Committee	Remuneration Committee
Number of meetings held in 2016	12	3	1
Andrew Brode	12/12	3/3	1/1
Harry Hill	12/12	-	1/1
Jonathan Satchell	12/12	1/1*	1/1*
Neil Elton	12/12	3/3*	-
Piers Lea	9/12	-	-
Dale Solomon	12/12	-	-
Leslie-Ann Reed	12/12	3/3	1/1*
Peter Gordon	8/9	-	-

*Attendance by invitation

Report of the Audit Committee

Audit Committee

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

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

Internal controls

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

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

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

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

Information systems – Group businesses participate in periodic operational/strategic reviews and annual plans. The Board actively monitors performance against 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.

Report of the Audit Committee *(continued)*

This process, which operates in accordance with the FRC guidance, was maintained throughout the financial year, and has remained in place up to the date of the approval of these Financial Statements. The Board, via the Audit Committee, has reviewed the systems and processes in place in meetings with the Finance Director and LTG's auditors during 2016. No internal audit function is operated outside of the systems and processes in place, as the Board considers that LTG is too small for a separate function. The Board considers the internal control system to be adequate for LTG. The auditors have provided services in relation to the annual audit of the Group, advice and compliance work in relation to taxation, transaction services and other advisory work during the year. The Audit Committee reviews the scope and scale of the non-audit services undertaken by the auditors in order to ensure that their independence and objectivity is safeguarded.

Report of the Remuneration Committee

Remuneration Committee

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

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

The Remuneration Committee recognises that incentivisation of staff is a key issue for LTG, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to LTG results. During the year the Remuneration Committee approved grants of share options and confirmed a number of KPI-related bonus schemes for the Group for 2016.

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

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

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

The remuneration package comprises the following elements:

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

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

Service contracts

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

Report of the Remuneration Committee *(continued)*

Share option plans

The Company operates three long-term equity incentive plans:

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

Further details are provided in Note 24.

The market price of the shares at 31 December 2016 was 35.48 pence (31 December 2015: 30.25 pence). The highest and lowest price during the year was 37.90 pence and 27.50 pence respectively.

Directors' Responsibilities Statement in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102. The Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group for that period. In preparing these Financial Statements, the Directors are required to:

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

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

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

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

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

Independent Auditor's Report to the Members of Learning Technologies Group plc

We have audited the financial statements of Learning Technologies Group plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income the Consolidated and Parent Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated and Parent Statement of Changes in Equity, and the related notes to the consolidated financial statements numbered 1 to 32 and numbered 1 to 14 for the parent.

The financial reporting framework that has been applied in the preparation of the group 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report and any other surround information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss 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

Independent Auditor's Report to the Members of Learning Technologies Group plc (continued)

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

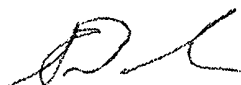
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report and Strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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



Richard Baker
Senior Statutory Auditor
For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
St Bride's House
10 Salisbury Square
London
EC4Y 8EH
4 April 2017

**Consolidated Statement of Comprehensive Income
Year ended 31 December 2016**

		Year ended 31 Dec 2016 £'000	(Restated) Year ended 31 Dec 2015 £'000
Revenue	4	28,263	19,905
Operating expenses (excluding acquisition related deferred consideration and earn-outs)		(25,194)	(18,075)
Operating profit (before acquisition related deferred consideration and earn-outs)		3,069	1,830
Acquisition related deferred consideration and earn-outs		(3,211)	(414)
Operating (loss)/profit		(142)	1,416
Adjusted EBITDA		7,672	4,338
Depreciation	10	(320)	(214)
Amortisation of intangibles	12	(3,605)	(1,419)
Share-based payment costs	24	(605)	(776)
Integration costs		(73)	(99)
Acquisition related deferred consideration and earn-outs	5	(3,211)	(414)
Operating (loss)/profit		(142)	1,416
Fair value movement on contingent consideration		-	198
Costs of acquisition	11	(99)	(234)
Share of losses on associates/joint ventures	13	(205)	(62)
Finance expense:			
Charge on contingent consideration	5	(57)	(116)
Interest on borrowings	5	(358)	-
Net foreign exchange difference on borrowings		(333)	-
Interest receivable	5	1	12
(Loss)/profit before taxation	5	(1,193)	1,214
Income tax expense	8	(133)	(258)
(Loss)/profit for the year		(1,326)	956
(Loss)/profit per share attributable to owners of the Parent:			
Basic (pence)	9	(0.317)	0.256
Diluted (pence)	9	(0.317)	0.239

Consolidated Statement of Comprehensive Income
Year ended 31 December 2016 *(continued)*

Adjusted earnings per share:

Basic (pence)	9	<u>1.286</u>	<u>0.809</u>
Diluted (pence)	9	<u>1.184</u>	<u>0.756</u>

	Year ended 31 Dec 2016 £'000	<i>(Restated)</i> Year ended 31 Dec 2015 £'000
(Loss)/profit for the year	(1,326)	956
Other comprehensive (loss)/income:		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	1,183	33
Total comprehensive (loss)/income for the year attributable to owners of the parent Company	<u>(143)</u>	<u>989</u>

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Consolidated Statement of Financial Position

		31 Dec 2016 £'000	(Restated) 31 Dec 2015 £'000
Non-current assets			
Property, plant and equipment	10	708	543
Intangible assets	12	39,950	17,930
Deferred tax assets	18	1,717	1,029
Investments accounted for under the equity method	13	1,890	-
Other receivables, deposits and prepayments	15	1,293	-
		<u>45,558</u>	<u>19,502</u>
Current assets			
Trade receivables	14	4,229	4,201
Other receivables, deposits and prepayments	15	1,995	554
Amounts recoverable on contracts	16	2,642	1,853
Cash and bank balances	17	5,348	7,305
		<u>14,214</u>	<u>13,913</u>
Total assets		59,772	33,415
Current liabilities			
Trade and other payables	19	9,215	5,835
Borrowings	21	3,252	-
Corporation tax		546	309
Amount owing to related parties	27	45	2
		<u>13,058</u>	<u>6,146</u>
Non-current liabilities			
Deferred tax liabilities	18	3,897	1,182
Other long term liabilities	20	1,426	844
Borrowings	21	10,582	-
Provisions	22	99	99
		<u>16,004</u>	<u>2,125</u>
Total liabilities		29,062	8,271
Net assets		30,710	25,144
Shareholders' equity			
Share capital	23	1,580	1,506
Share premium account	26	17,044	15,988
Merger reserve	26	31,983	28,120
Reverse acquisition reserve	26	(22,933)	(22,933)
Share-based payment reserve	26	3,245	2,273
Foreign exchange translation reserve	26	1,233	50
Accumulated profits/(losses)		<u>(1,442)</u>	<u>140</u>
Total equity attributable to the owners of the parent		30,710	25,144

The Notes on pages 31 to 81 form an integral part of these Consolidated Financial Statements
 The Financial Statements on pages 25 to 81 were approved by the Board of Directors on 4 April 2017 and signed on its behalf by



Neil Elton
 Group Finance Director

Consolidated Statement of Changes in Equity
Year ended 31 December 2016

	Note	Share capital	Share premium	Merger reserve	Reverse acquisition reserve	Share based payments reserve	Translation reserve	Retained earnings	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2015 reported in the 2015 financial statements		1,329	13,098	22,269	(22,933)	1,203	17	(574)	14,409
Adjustment regarding prior years	31	-	(4,377)	4,377	-	-	-	-	-
Balance at 1 January 2015 (Restated)		1,329	8,721	26,646	(22,933)	1,203	17	(574)	14,409
Profit for the period as reported in the 2015 financial statements		-	-	-	-	-	-	1,429	1,429
Adjustment regarding prior year	31	-	-	-	-	-	-	(473)	(473)
Restated profit for the period		-	-	-	-	-	-	956	956
Exchange differences on translating foreign operations		-	-	-	-	-	33	-	33
Total comprehensive income for the period		-	-	-	-	-	33	956	989
Issue of shares		177	7,484	1,474	-	-	-	-	9,135
Costs of issuing shares		-	(257)	-	-	-	-	-	(257)
Sale of treasury shares		-	40	-	-	-	-	-	40
Share based payment charge credited to equity		-	-	-	-	776	-	-	776
Deferred tax credit on share options		-	-	-	-	362	-	-	362
Transfer on exercise and lapse of options		-	-	-	-	(68)	-	68	-
Tax deduction on exercise of share options recognised directly in equity	31	-	-	-	-	-	-	138	138
Dividend paid		-	-	-	-	-	-	(448)	(448)
Transactions with owners		177	7,267	1,474	-	1,070	-	(242)	9,746
Balance at 31 December 2015 (Restated)		1,606	15,988	28,120	(22,933)	2,273	50	140	25,144
Loss for the period		-	-	-	-	-	-	(1,326)	(1,326)
Exchange differences on translating foreign operations		-	-	-	-	-	1,183	-	1,183
Total comprehensive loss for the period		-	-	-	-	-	1,183	(1,326)	(143)
Issue of shares		74	1,056	3,863	-	-	-	-	4,993
Share based payment charge credited to equity		-	-	-	-	605	-	-	605
Deferred tax credit on share options		-	-	-	-	648	-	-	648
Transfer on exercise and lapse of options		-	-	-	-	(281)	-	281	-
Tax deduction on exercise of share options recognised directly in equity		-	-	-	-	-	-	175	175
Dividends paid		-	-	-	-	-	-	(712)	(712)
Transactions with owners		74	1,056	3,863	-	972	-	(256)	5,709
Balance at 31 December 2016		1,680	17,044	31,983	(22,933)	3,245	1,233	(1,442)	30,710

Consolidated Statement of Cash Flows

	<i>(Restated)</i>	
	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Note	£'000	£'000
Cash flows from operating activities		
Profit/(loss) before taxation	(1,193)	1,214
Adjustments for:		
Share based payment charge	605	776
Cash costs of acquisition	99	234
Amortisation of intangible assets	3,605	1,419
Depreciation of plant and equipment	320	214
Share of loss of joint venture/investment	205	62
Finance expense	57	116
Interest on borrowings	358	-
Net foreign exchange difference on borrowings	333	-
Fair value movement on contingent consideration	-	(198)
Acquisition related deferred consideration and earn-outs	3,211	414
Interest income	(1)	(12)
Operating cash flows before working capital changes	7,599	4,239
(Increase)/decrease in trade and other receivables	(2,030)	(49)
(Increase) in amount recoverable on contracts	(788)	(62)
Increase/(decrease) in payables	(1,760)	607
	3,021	4,735
Interest paid	(275)	-
Interest received	1	12
Income tax paid	(645)	(483)
Net cash flows from operating activities	2,102	4,264
Cash flows used in investing activities		
Purchase of property, plant and equipment	(422)	(232)
Development of intangible assets	(796)	(310)
Acquisition of subsidiaries, net of cash acquired	(12,389)	(5,617)
Cash costs of acquisition	(99)	(234)
Investment in associates/joint ventures	(2,095)	(46)
Net cash flows in investing activities	(15,801)	(6,439)

Consolidated Statement of Cash Flows (Continued)

Cash flows from financing activities	Note		
Dividends paid		(712)	(448)
Proceeds from borrowings		13,909	-
Issue of ordinary share capital net of share issue costs		647	7,379
Repayment of bank loans		(2,278)	-
Sale of treasury shares		-	40
Contingent consideration payments in the period		-	(1,882)
Net cash flows from/(used) in financing activities		11,566	5,089
Net increase/(decrease) in cash and cash equivalents		(2,133)	2,914
Cash and cash equivalents at beginning of the year		7,305	4,358
Exchange (losses)/gains on cash		176	33
Cash and cash equivalents at end of the year	17	<u>5,348</u>	<u>7,305</u>

Significant non-cash transactions

During the year, the Group issued 19,732,163 ordinary shares in the Company. 14,367,082 shares were issued as part consideration for the acquisition of Rustici Software LLC, of which 12,930,374 shares were issued to the vendors and the balance to key staff members as pre-acquisition remuneration.

The Group also issued 1,284,641 shares in payment of part of the deferred contingent consideration to the vendors of Preloaded Limited and 4,080,440 in settlement of the exercise of employee share options. Further details are provided in Note 24.

The notes on pages 31 to 81 form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

1. General information

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

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

2. Summary of significant accounting policies

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

a) Basis of preparation

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

Going concern

At 31 December 2016 the Group had £5.3 million of cash and good cash conversion. Having undertaken a detailed budgeting exercise, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

Adoption of new and revised International Financial Reporting Standards

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

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosures and IFRS 16 will have an impact on the recognition of operating leases. The Directors are completing their detailed review of these standards and will give a clearer indication of the potential impact in the next set of financial statements. At this point it is not practicable for the Directors to provide a reasonable estimate of the effect of these standards as the Directors wish to complete a detailed review of these standards on a Group wide basis following the acquisition of Net Dimensions.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

(b) Basis of consolidation

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

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

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

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

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

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

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

(c) Joint arrangements and associates

The Group has applied IFRS 11 to all joint arrangements and associates as of 1 January 2012. 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

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

(d) Intangible assets

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

Goodwill

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

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

Acquisition-related intangible assets

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

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

Research and development expenditure

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

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

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

(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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

- *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:

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

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

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

(h) Long-term contracts

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

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

(i) Impairment

(i) Impairment of financial assets

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

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

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

(ii) Impairment of non-financial assets

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

An impairment loss is recognised in profit or loss immediately.

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

(j) Income taxes

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

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

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

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

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

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

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

(k) Cash and cash equivalents

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

(l) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

to employee service in the current and prior periods. The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate.

(m) Provisions, contingent liabilities

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

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

(o) Revenue and other income

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

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

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

Revenue from subscriptions such as licences is amortised over the contractual period of the licence with the exception of perpetual licences where all revenue is recognised at time of contract. Revenue from perpetual licences is recognised in full at the time of contract because the Group has no continuing obligation to the customer following delivery.

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

(p) Operating segments

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

(q) 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.

(r) 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 leases classified under the category of finance leases.

3. Summary of critical accounting estimates and judgements

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

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

Revenue recognition

The Group recognises revenue from service contracts with customers.

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

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

In December 2015, the Group announced a deal to provide services to Civil Service Learning ('CSL') alongside KPMG UK LLP. Revenue is recognised by the consortium as attendees take the developed courses. This revenue is then shared, after third party costs, based on an agreed profit share ratio between KPMG UK LLP and the Group. Management considers the services provided with KPMG to be, in substance, a collaborative arrangement. The Group recognises their agreed share of revenue when the revenue has been earned by the consortium. The consortium has a reliable forecast of the expected revenues based on prudent assumptions which is used to calculate the forecast margin on the contract. The Group recognises costs in the Income Statement based on this forecast margin.

Amounts recoverable on contracts

In making its judgement 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.

Contingent consideration

In some instances, the cost of acquiring a business will not be known at the time of acquisition as it will depend in part on the achievement of certain performance criteria at a future date. Management exercise their judgement in discounting the future value of the anticipated deferred consideration.

See Note 11 for details of how these estimates and judgements have been applied.

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 judgement.

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.

Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and management's estimate of the period over which economic benefit will be derived from the asset.

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations. Any reduction in the estimated useful life would lead to an increase in the amortisation charge.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

See Notes 11 and 12 for details of how these estimates and judgements have been applied.

Impairment reviews

IFRS requires management to undertake an annual test for impairment of indefinite lived assets 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.

Impairment testing is an area involving management judgement, 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 EBITDA;
- Long-term growth rates; and
- The selection of discount rates to reflect the risks involved.

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)**4. Segment analysis**

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

The Directors of the Company consider the principal activity of the Group to be the production of interactive multimedia programmes, and to constitute one reportable segment, that of the production of interactive multimedia programmes. A majority of sales were generated by the operations in the United Kingdom in the two years ended 31 December 2015 and 2016.

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

Geographical information

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

	UK	Switzerland	Italy	Rest of Europe	United States	Canada	Rest of the world	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2016								
revenue	18,205	777	257	334	7,736	613	341	28,263
Non-current assets	45,270	-	-	-	288	-	-	45,558
31 December 2015								
revenue	17,528	539	-	20	1,638	110	70	19,905
Non-current assets (Restated)	19,481	-	-	-	21	-	-	19,502

Information about major customers

In both the year ended 31 December 2015 and the year ended 31 December 2016, no customer accounted for more than 10 per cent of reported revenues.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)***5. (Loss)/profit before taxation**

(Loss)/profit before taxation is arrived at after charging/(crediting): -

	Note	31 Dec 2016 £'000	<i>(Restated)</i> 31 Dec 2015 £'000
Costs of acquisition		99	234
Integration costs		73	99
Amortisation of acquired intangible assets	12	3,200	1,203
Amortisation of software development costs	12	405	216
Fees repayable to the company's auditor and its associates for the audit of the Group's annual accounts		55	40
Other fees payable to auditors			
- Corporate finance services		4	96
- Taxation		24	30
Depreciation of property, plant and equipment		320	214
Directors' fees	7	734	678
Directors' pension contributions	7	16	21
Staff costs (including Directors):			
- Salaries, allowances and bonuses	6	13,569	9,305
- Social security costs	6	1,292	942
- Defined contribution pension plan costs	6	311	180
Rental of offices		805	540
Research and development		-	5
Finance charges on contingent consideration		57	116
Finance charges on borrowings		358	-
Fair value movement on contingent consideration		-	(198)
Acquisition related deferred consideration and earn outs		3,211	414
Interest income		(1)	(12)

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

6. Staff costs

	Year ended 31 Dec 2016 No.	Year ended 31 Dec 2015 No.
The average monthly number of employees was:		
Production	230	188
Administration	46	30
Management	7	7
	<hr/>	<hr/>
	283	225
	<hr/>	<hr/>
	31 Dec 2016 £'000	31 Dec 2015 £'000
Aggregate remuneration (including Directors):		
Wages and salaries (including bonuses)	13,569	9,305
Social security costs	1,292	942
Share-based payments	605	776
Pension costs	311	180
	<hr/>	<hr/>
	15,777	11,203
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)**7. Directors' remuneration, interests and transactions**

The Directors of the Company are considered to be the Key Management personnel of the Group. Directors' emoluments and benefits include:

Year ended 31 December 2016	Salary or fees	Bonuses	Pension contribution	Share based payments	Total
	£'000	£'000	£'000	£'000	£'000
Andrew Brode	-	-	-	-	-
Harry Hill	40	-	-	-	40
Jonathan Satchell	210	54	6	-	270
Neil Elton	158	35	5	-	198
Piers Lea	126	35	4	-	165
Dale Solomon	147	35	1	305	488
Leslie-Ann Reed	30	-	-	-	30
Peter Gordon	23	-	-	-	23
	734	159	16	305	1,214

Year ended 31 December 2015	Salary or fees	Bonuses	Pension contribution	Share based payments	Total
	£'000	£'000	£'000	£'000	£'000
Andrew Brode	-	-	-	-	-
Harry Hill	46	-	-	-	46
Jonathan Satchell	200	70	12	-	282
Neil Elton	142	45	4	68	259
Piers Lea	120	45	4	-	169
Dale Solomon	140	45	1	325	511
Leslie-Ann Reed	30	-	-	-	30
	678	205	21	393	1,297

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

Total social security costs related to Directors during the year was £111,000 (2015: £92,000).

Peter Gordon was appointed as a Non-Executive Director on 1 April 2016.

The above figures for emoluments do not include any gains made on the exercise of share options received under long-term incentive schemes.

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 2016 or 31 December 2015.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

Directors' interests in the shares of the Company at 31 December 2016 and 31 December 2015, and any changes subsequent to 31 December 2016, are as follows:

LTG Ordinary shares of £0.00375 each	Options				Shares	
	2016	2015	2016	2015	2016	2015
	Weighted Average Exercise Price (pence)		Number		Number	
Andrew Brode	-	-	-	-	113,215,005	113,215,005
Harry Hill	-	-	-	-	2,028,000	2,008,000
Jonathan Satchell	-	-	-	-	105,289,995	107,039,995
Leslie-Ann Reed	-	-	-	-	1,100,000	750,000
Neil Elton	19.000	19.000	1,095,744	1,095,744	160,000	160,000
Piers Lea	-	-	-	-	17,023,383	17,023,383
Dale Solomon	5.653	5.468	20,561,013	21,626,013	-	-
Peter Gordon	-	-	-	-	2,000,000	2,000,000
	6.329	6.120	21,656,757	22,721,757	240,816,383	242,196,383

On 26 January 2015, Jonathan Satchell sold 3,000,000 shares and on the same day Leslie-Ann Reed acquired 750,000 shares and Neil Elton acquired 160,000 shares in the Company.

On 26 January 2015, the Company granted to Neil Elton 1,000,000 new EMI share options over the Company's shares at an exercise price of 19.000 pence per share. These options have all vested due to meeting demanding performance criteria based upon significant share price increases.

On 24 April 2015, Neil Elton became a member of the Company's Sharesave option scheme enabling him to buy a maximum of 95,744 shares in the Company at an exercise price of 18.800 pence per share at the end of the three-year saving period. Further details relating to the Sharesave option scheme can be found in note 24.

On 29 September 2015, Dale Solomon exercised 240,000 options granted in May 2012. On the same day Harry Hill acquired 165,000 shares and Jonathan Satchell disposed of 3,175,000 shares in the Company.

On 30 September 2015, Harry Hill acquired 13,000 shares in the Company.

On 29 January 2016 Jonathan Satchell disposed of 1,750,000 shares in the Company.

On 30 March 2016, Harry Hill acquired 20,000 shares in the Company.

Prior to his appointment as a Director on 1 April 2016, Peter Gordon held 2,000,000 shares in the Company.

On 29 April 2016 Dale Solomon exercised 1,065,000 options granted in May 2012. On the same day Leslie-Ann Reed acquired 350,000 shares in the Company.

On 1 March 2017 Leslie-Ann Reed acquired and Jonathan Satchell disposed of 1,250,000 shares in the Company.

On 20 March 2017, as part of the placing of new ordinary shares in the Company the following Directors acquired shares: Andrew Brode: 2,666,666, Leslie-Ann Reed: 1,866,666, Peter Gordon: 233,333, Harry Hill: 140,000, Neil Elton: 46,666.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

The aggregate gain made by Directors on the exercise of options in the year amounted to £340,000 (2015: £50,000).

See Note 24 for further details on share option plans.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

8. Income tax

	31 Dec 2016 £'000	(Restated) 31 Dec 2015 £'000
Current tax expense:		
- UK Current Tax on profits for the year	565	684
- Adjustments in respect to prior years	(35)	(169)
- Foreign Current Tax on profits for the year	528	56
Total current tax	<u>1,058</u>	<u>571</u>
Deferred tax (Note 18):		
- Origination and reversal of temporary differences	(943)	(341)
- Adjustments in respect to prior years	2	28
Change in deferred tax rate	16	-
Total deferred tax	<u>(925)</u>	<u>(313)</u>
Income tax expense	<u>133</u>	<u>258</u>

A reconciliation of income tax expense applicable to the 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 2016 £'000	(Restated) 31 Dec 2015 £'000
Profit / (loss) before taxation	<u>(1,193)</u>	<u>1,214</u>
Tax calculated at the domestic tax rate of 20% (2015: 20.25%):	(239)	246
Tax effects of: -		
Income not subject to tax	(157)	(70)
Expenses not deductible for tax purposes	467	187
Joint venture/associate results reported net of tax	41	12
Tax deductions not recognised as an expense	(234)	-
Tax losses for which no deferred tax is recognised	2	-
Difference of deferred rate and current tax rate	38	3
Adjustments in respect to prior years	(33)	(141)
Effect of different international tax rates	248	21
	<u>133</u>	<u>258</u>

The aggregate current and deferred tax directly credited to equity amounted to £823,000 (2015: £500,000).

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

9. Earnings per share

	31 Dec 2016 Pence	<i>(Restated)</i> 31 Dec 2015 Pence
Basic profit/loss per share	(0.317)	0.256
Diluted profit/loss per share	(0.317)	0.239
Adjusted basic earnings per share	1.286	0.809
Adjusted diluted earnings per share	1.184	0.756

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

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

	(Loss) after tax	2016 Weighted average number of shares '000	Pence per share	Profit after tax	(Restated) 2015 Weighted average number of shares '000	Pence per share
	£'000			£'000		
Basic earnings per ordinary share	(1,326)	418,619	(0.317)	956	373,505	0.256
Effect of adjustments:						
Amortisation of acquired intangibles	3,200			1,203		
Share based payment costs	605			776		
Integration costs	73			99		
Cost of acquisitions	99			234		
Fair value movement on contingent consideration	-			(198)		
Deferred consideration and earn-outs from acquisitions	3,211			414		
Net foreign exchange differences on borrowings	333			-		
Interest receivable	(1)			(12)		
Finance expense	57			116		
Income tax expense	133			258		
Effect of adjustments	7,710	-	1.842	2,890	-	0.774
Adjusted profit before tax	6,384	-	-	3,846	-	-
Tax impact after adjustments	(1,000)	-	(0.239)	(824)	-	(0.221)
Adjusted basic earnings per ordinary share	5,384	418,619	1.286	3,022	373,505	0.809
Effect of dilutive potential ordinary shares:						
Share options	-	30,031	(0.086)	-	26,406	(0.053)
Deferred consideration payable (conditions met)		1,819	(0.005)		-	-
Deferred consideration payable (contingent)		4,412	(0.011)		-	-
Adjusted diluted earnings per ordinary share	5,384	454,881	1.184	3,022	399,911	0.756

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)**10. Property, plant and equipment**

	Computer equipment £'000	Fixtures and fittings £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2015	1,088	226	104	1,418
Additions on acquisitions	48	21	117	186
Additions	160	58	14	232
At 31 December 2015	1,296	305	235	1,836
Additions on acquisitions	9	8	-	17
Additions	206	211	5	422
Foreign exchange differences	15	31	-	46
At 31 December 2016	1,526	555	240	2,321
Accumulated Depreciation				
At 1 January 2015	820	165	94	1,079
Charge for the year	135	62	17	214
At 31 December 2015	955	227	111	1,293
Charge for the year	168	116	36	320
At 31 December 2016	1,123	343	147	1,613
Net book value				
At 31 December 2015	341	78	124	543
At 31 December 2016	403	212	93	708

11. Acquisitions*Rustici Software LLC*

On 28 January 2016 LTG acquired the entire issued share capital of Rustici Software LLC ("Rustici"), the global market leader in digital learning interoperability. Rustici was established in Nashville, USA in 2002 and has been instrumental in the support and development of the universal technical standards for the e-learning software industry. It is the acknowledged global leader in SCORM (Sharable Content Object Reference Model) conformance. SCORM is the de facto industry standard for e-learning interoperability, allowing online learning content and learning management systems to communicate and work together.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

Rustici is also the co-creator of the next generation of learning interoperability standards, Tin Can API, or xAPI. This global standard was created to capture rich data on every aspect of learning experiences.

The consideration for Rustici comprised an initial payment of USD 23.6 million of which USD 18.0 million was paid in cash and USD 5.6 million in new LTG shares to the vendors (issued at a price of 30.25 pence per share). The fair value of these shares was determined using the quoted price as required by IFRS 3. Cash consideration was adjusted to take account of surplus cash in Rustici at completion. Merger relief has been taken on recognising the excess over nominal value of the shares issued on acquisition.

Further performance based payments, capped at USD 11.0 million, are payable to the Rustici vendors and key employees based on ambitious revenue growth targets in each of the years ending 31 December 2016, 2017 and 2018, payable with up to 25% in new LTG shares at the option of the Company, and the remainder in cash. Although the directors consider that these payments are in substance contingent consideration, they have been accounted for as a remuneration expense in line with the requirements of IFRS 3 and will be recognised directly in the Statement of Comprehensive Income over the service period.

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

	Book value	Fair value
	£'000	£'000
Consideration		
Cash		12,999
Equity instruments (12,930,374 ordinary shares)		3,911
Contingent consideration due in 2017		1,860
Contingent consideration due in 2018		1,684
Contingent consideration due in 2019		1,525
Less: Contingent consideration on acquisitions accounted for as a remuneration expense		(5,069)
Total consideration		16,910
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	610	610
Property, plant and equipment	17	17
Internally generated intangible assets - software	249	249
Gross trade and other receivables	732	732
Trade and other payables	(2,677)	(2,677)
Deferred tax liabilities on acquisition	-	(3,094)
Intangible assets identified on acquisition	-	8,840
Total identifiable net assets	(1,069)	4,677
Goodwill		12,233
Total		16,910

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 Rustici CGU. Fair value adjustments have been recognised for acquisition-related intangible assets and related deferred tax and in alignment with accounting policies.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

Acquisition related intangible assets of £8.6 million relate to the valuation of the customer relationships which are amortised over a period of five years and £0.26 million which relates to the value of the Rustici brand and is amortised over five years.

Acquisition costs of £99,000 have been charged to the statement of comprehensive income in the year relating to the acquisition of Rustici.

A deferred tax liability of £3.1 million in respect of the acquisition-related intangible assets was established on acquisition (refer to Note 18). An amortisation charge on this goodwill which is not recognised in the accounts is expected to be deductible for income tax purposes.

Rustici contributed £6.3 million of revenue for the period between the date of acquisition and the balance sheet date and £2.8 million of profit before tax. If the acquisition of Rustici had been completed on the first day of the financial year, Group revenues would have been £0.5 million higher and Group profit attributable to equity holders of the parent would have been £0.2 million higher.

Details regarding the strategic decision to acquire Rustici can be found in the Chairman's statement and Strategic report on pages 1 and 4 respectively.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

12. Intangible assets

	Goodwill	Customer contracts and relationships	Branding	IP and Software development	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2015	9,615	1,880	180	565	12,240
Additions on acquisitions	2,764	4,411	248	252	7,675
Additions	-	-	-	310	310
At 31 December 2015 (Restated)	12,379	6,291	428	1,127	20,225
Additions on acquisition	12,233	8,584	256	249	21,322
Additions	-	-	-	796	796
Foreign exchange differences	1,996	1,317	125	69	3,507
At 31 December 2016	26,608	16,192	809	2,241	45,850
Accumulated amortisation					
At 1 January 2015	-	546	24	306	876
Amortisation charged in year	-	1,063	140	216	1,419
At 31 December 2015	-	1,609	164	522	2,295
Amortisation charged in year	-	3,060	140	405	3,605
At 31 December 2016	-	4,669	304	927	5,900
Carrying amount					
At 31 December 2015 (Restated)	12,379	4,682	264	605	17,930
At 31 December 2016	26,608	11,523	505	1,314	39,950

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

CGU	Goodwill		Growth rate		Pre-tax discount rate	
	2016 £'000	2015 £'000	2016 %	2015 %	2016	2015
LEO	7,435	7,435	8%	8%	11.0%	11.0%
Preloaded	2,180	2,180	9%	9%	12.5%	12.5%
Eukleia	2,764	2,764	9%	9%	12.5%	12.5%
Rustici	14,229	-	9%	-	12.5%	-
	<u>26,608</u>	<u>12,379</u>				

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 EBITDA margins (which are based on past experience). The Group monitors its pre-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rates applying to CGUs, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows. The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates revenues, net margins and cash flows for the following four years based on forecast growth rates of the CGUs. Cash flows beyond this five-year period are also considered in assessing the need for any impairment provisions. The growth rates are based on internal growth forecasts of between 8% and 9% for the first five years. The terminal rate used for the value in use calculation thereafter is 2.25%.

No reasonably possible change in a key assumption would produce a significant movement in the carrying value of goodwill allocated to a CGU and therefore no sensitivity analysis is presented.

Customer contracts, relationships and branding

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

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

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

IP and software development

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

13. Investments accounted for using the equity method

Joint ventures

	31 Dec 2016 £'000	31 Dec 2015 £'000
Investment in joint ventures:		
Cost of investments	274	274
Share of accumulated losses	(271)	(271)
Foreign exchange differences	(3)	(3)
	<u>-</u>	<u>-</u>

The movements in joint venture investments is as follows:

	31 Dec 2016 £'000	31 Dec 2015 £'000
Balance at beginning of year	-	16
Share of losses for the year	-	(62)
Investment during the year	-	46
Foreign exchange differences	-	-
	<u>-</u>	<u>-</u>

The Group acquired a 50% interest in LEO Brasil Tecnologia Educaional Ltda ("LEO Brazil") in November 2011, for a total consideration of 150,000 Brazilian Real (BRL); equivalent to approximately £49,000.

In the year ended 31 December 2014, the Group invested an additional capital sum of BRL 748,000 (approximately £179,000) alongside that of the other party to the joint venture.

In the year ended 31 December 2015, the Group invested an additional capital sum of BRL 232,000 (approximately £46,000) alongside that of the other party to the joint venture.

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 2015 and 31 December 2016 is listed below.

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

The joint venture is a private company and there is no quoted market price available for its shares. The accounting reference date of the joint venture is coterminous with that of the Company.

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)**Summarised financial information for the joint venture**

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

Summarised statement of financial position:

	31 December 2016 £'000	31 December 2015 £'000
Non-current assets	31	29
Current assets		
Cash and cash equivalents	10	4
Other current assets	475	178
Total current assets	<u>485</u>	<u>182</u>
Current liabilities		
Borrowings	(200)	-
Other current liabilities (including trade payables)	(371)	(302)
Total current liabilities	<u>(571)</u>	<u>(302)</u>
Non-current liabilities	(287)	-
Net (liabilities) / assets	<u><u>(342)</u></u>	<u><u>(91)</u></u>

Summarised statement of comprehensive income:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue	973	629
Depreciation and amortisation	(10)	(9)
(Loss) from continuing operations	(181)	(215)
Income tax expense / release	-	-
(Loss) for the year	(181)	(215)
Other comprehensive (expense) / income	-	-
Total comprehensive (loss) for the year	<u><u>(181)</u></u>	<u><u>(215)</u></u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

Where the Group's share of losses in a joint venture exceeds its interests in the joint venture, the Group does not recognise further losses as it has no further obligation to make payments on behalf of the joint venture. Such losses not recognised in the year ended 31 December 2016 totalled £91,000 (year ended 31 December 2015: £46,000).

Reconciliation of summarised financial information:

	31 December 2016 £'000	31 December 2015 £'000
Opening net assets/(liabilities) at 1 January	(91)	33
(Loss) for the year	(181)	(215)
Issue of share capital or capital contribution	-	92
Foreign exchange differences	(70)	(1)
Closing net (liabilities)/assets at 31 December	(342)	(91)
Interest in joint venture at 50%	(171)	(46)
Total unrecognised losses	137	46
Foreign exchange differences on unrecognised losses	34	
Carrying value	-	-

Associates

	31 Dec 2016 £'000	31 Dec 2015 £'000
Investment in associates:		
Cost of investments	2,095	-
Share of accumulated losses	(205)	-
Foreign exchange differences	-	-
	1,890	-

The movements in associate investments is as follows:

	31 Dec 2016 £'000	31 Dec 2015 £'000
Balance at beginning of year	-	-
Share of losses for the year	(205)	-
Investment during the year	2,095	-
Foreign exchange differences	-	-
	1,890	-

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

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

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

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

The associate is a private company and there is no quoted market price available for its shares. The accounting reference date of the associate is coterminous with that of the Company.

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

Summarised financial information for the associate

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

Summarised statement of financial position:

	31 December 2016 £'000
Non-current assets	610
Current assets	
Cash and cash equivalents	1,753
Other current assets	219
Total current assets	<u>1,972</u>
Current liabilities	
Other current liabilities (including trade payables)	(131)
Total current liabilities	<u>(131)</u>
Non-current liabilities	(34)
Net assets	<u>2,417</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

Summarised statement of comprehensive income:

	(Post acquisition) Period ended 31 December 2016 £'000
Revenue	299
Loss from continuing operations	(752)
Income tax expense / release	<u>-</u>
(Loss) for the year	(752)
Other comprehensive (expense) / income	-
Total comprehensive (loss) for the year	<u>(752)</u>

No depreciation or amortisation was charged in the period.

Reconciliation of summarised financial information:

	2016 £'000
Opening net (liabilities) at acquisition	(9)
(Loss) for the year	(752)
Issue of share capital or capital contribution	2,797
Foreign exchange differences	<u>381</u>
Closing net assets at 31 December	<u>2,417</u>
Interest in associate's net assets at 27.27%	659

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

14. Trade receivables

	31 Dec 2016 £'000	31 Dec 2015 £'000
Trade receivables	4,286	4,241
Allowance for impairment losses	(57)	(40)
	<u>4,229</u>	<u>4,201</u>
Impairment losses:		
At 1 January	40	10
Additions	17	30
Amounts written-back	-	-
At 31 December	<u>57</u>	<u>40</u>

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

15. Other receivables, deposits and prepayments

Current assets

	31 Dec 2016 £'000	31 Dec 2015 £'000
Sundry receivables	238	38
Prepayments	1,757	516
	<u>1,995</u>	<u>554</u>

Non-current assets

	31 Dec 2016 £'000	31 Dec 2015 £'000
Prepayments	1,293	-
	<u>1,293</u>	<u>-</u>

16. Amount recoverable on contracts

	31 Dec 2016 £'000	31 Dec 2015 £'000
Amount recoverable on contracts	2,642	1,853
	<u>2,642</u>	<u>1,853</u>

17. Cash and cash equivalents

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

	31 Dec 2016 £'000	31 Dec 2015 £'000
Cash and bank balances	<u>5,348</u>	<u>7,305</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

18. Deferred tax assets/(liabilities)

	Share options £'000	Short-term timing differences £'000	Total £'000
Deferred tax assets			
At 1 January 2015	548	70	618
Acquisition of subsidiaries	-	-	-
Deferred tax charge directly to the income statement	119	(70)	49
Deferred tax charge directly to equity	362	-	362
At 31 December 2015	1,029	-	1,029
Acquisition of subsidiaries	-	-	-
Deferred tax charged directly to the income statement	38	2	40
Deferred tax charged directly to equity	648	-	648
At 31 December 2016	1,715	2	1,717
Deferred tax liabilities			
	Intangibles £'000	Accelerated tax depreciation £'000	Total £'000
At 1 January 2015	(313)	(133)	(446)
Deferred tax on acquired intangibles and via acquisition	(932)	(68)	(1,000)
Deferred tax charge directly to the income statement	249	15	264
Exchange rate differences	-	-	-
At 31 December 2015	(996)	(186)	(1,182)
Deferred tax on acquired intangibles and via acquisition	(3,094)	-	(3,094)
Deferred tax charge directly to the income statement	919	(34)	885
Exchange rate differences	(506)	-	(506)
At 31 December 2016	(3,677)	(220)	(3,897)

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

19. Trade and other payables

	31 Dec 2016 £'000	31 Dec 2015 £'000
Trade payables	871	814
Payments received on account	2,711	1,858
Tax and social security	1,002	1,140
Contingent consideration	59	405
Acquisition related deferred consideration and earn outs	2,824	-
Accruals	1,748	1,618
	<u>9,215</u>	<u>5,835</u>

The contingent consideration relates wholly to the acquisition of Preloaded Limited. The acquisition related deferred consideration and earn-outs balance relates wholly to the acquisition of Rustici Software LLC.

20. Other long-term liabilities

	31 Dec 2016 £'000	<i>(Restated)</i> 31 Dec 2015 £'000
Acquisition related deferred consideration and earn-outs	1,055	414
Contingent consideration	371	430
	<u>1,426</u>	<u>844</u>

The contingent consideration relates wholly to the acquisition of Preloaded Limited and is repayable over the period 2018 to 2019. The acquisition related deferred consideration and earn-outs balance relates wholly to the acquisition of Eukleia Training Limited and is payable in 2018.

21. Borrowings

The acquisitions of the subsidiary Rustici Software LLC and the associate Watershed LLC were part funded by a USD 20.0 million debt facility which was entered into on 29 January 2016 with Barclays Bank plc. The duration of the loan is 3 years and attracts interest at 2% above US Dollar LIBOR with quarterly repayments of USD 1.0 million with the balance repayable on the expiry of the loan in January 2019.

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 2016 £'000	31 Dec 2015 £'000
Current interest-bearing loans and borrowings	3,252	-
Non-current interest-bearing loans and borrowings	10,582	-
	<u>13,834</u>	<u>-</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)**22. Provisions**

	31 Dec 2016 £'000	31 Dec 2015 £'000
Property costs		
At 1 January – brought forward	99	49
Paid in the year	-	-
Addition via acquisition	-	50
Addition	-	-
	99	99

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

23. Share capital

Shares were issued during the year as follows:

	Number of shares	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
At 1 January 2016	401,679,817	1,506	15,988	28,120	45,614
Issue of shares to acquire Rustici Software LLC	14,367,082	54	429	3,863	4,346
Issue of shares on payment of Preloaded contingent consideration	1,284,641	5	456	-	461
Shares issued on the exercise of options	4,080,440	15	171	-	186
At 31 December 2016	421,411,980	1,580	17,044	31,983	50,607

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 2016 the EBT holds 404,340 ordinary shares in the Company. These shares are held in treasury.

On 29 January 2016, the Company announced that it had agreed to acquire the entire issued share capital of Rustici Software LLC ('Rustici'). 12,930,374 new shares were issued in the Company in part consideration of the acquisition of Rustici along with 1,436,708 new shares issued to certain employees as pre-acquisition remuneration, this resulted in £3.8 million being recognised in the merger reserve. Further details are provided in Note 11.

During the year, 1,284,641 new ordinary shares were issued as part payment of the deferred contingent consideration due on the acquisition of Preloaded.

4,080,440 ordinary shares were issued during the course of the year as a result of the exercise of employee share options.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)**24. Share-based payment transactions**

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

(a) Share option plans

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

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

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

	Number of options	2016 Weighted average exercise price (pence)	Number of options	2015 Weighted average exercise price (pence)
At 1 January	24,449,914	9.397	25,248,910	6.530
Options granted by Company	-	-	4,928,370	20.839
Forfeited	(2,600,000)	16.600	(1,400,000)	18.321
Exercised during the year	(4,015,831)	4.380	(4,327,366)	2.809
At 31 December	17,834,083	9.478	24,449,914	9.397

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

Unapproved share option plan:

	Number of options	2016 Weighted average exercise price (pence)	Number of options	2015 Weighted average exercise price (pence)
At 1 January	17,412,353	7.130	16,402,452	5.688
Granted by Company	2,800,000	28.500	1,409,901	22.413
Forfeited	(800,000)	20.250	(125,000)	1.882
Exercised during the year	-	-	(275,000)	1.882
At 31 December	<u>19,412,353</u>	<u>9.671</u>	<u>17,412,353</u>	<u>7.130</u>

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.

(b) Sharesave option scheme

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

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

	Number of options	2016 Weighted average exercise price (pence)	Number of options	2015 Weighted average exercise price (pence)
Sharesave Option Scheme:				
At 1 January	3,964,574	16.594	3,987,857	16.250
Granted by Company	406,815	29.600	573,500	18.800
Forfeited	(398,003)	17.017	(547,246)	16.428
Exercised during the year	(64,609)	16.250	(49,537)	16.250
At 31 December	<u>3,908,777</u>	<u>17.911</u>	<u>3,964,574</u>	<u>16.594</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

At 31 December 2016, 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 (pence)	Remaining vesting period	Fair value of options (pence)	Life (years)	Volatility
	Approved Scheme	Unapproved scheme	Sharesave Scheme					
May 2012	3,874,751	-	-	1.882	-	12.52	10	45%
Jun 2013	1,231,824	-	-	2.718	-	11.96	10	45%
Nov 2013	6,399,138	-	-	5.880	-	10.46	10	45%
Feb 2014	-	8,001,226	-	5.880	Feb 2017	4.91	10	45%
Feb 2014	-	4,000,613	-	5.880	Feb 2017	3.28	10	45%
Feb 2014	-	4,000,613	-	5.880	Feb 2017	2.40	10	45%
Mar 2014	200,000	-	-	15.500	-	8.76	10	45%
Mar 2014	200,000	-	-	15.500	-	8.76	10	45%
Mar 2014	200,000	-	-	15.500	Dec 2017	8.76	10	45%
Apr 2014	-	-	3,086,438	16.250	-	7.57	3	45%
Nov 2014	650,000	-	-	17.625	-	9.96	10	45%
Nov 2014	200,000	-	-	17.625	-	9.96	10	45%
Nov 2014	450,000	-	-	17.625	Jan 2017	9.96	10	45%
Nov 2014	200,000	-	-	17.625	Oct 2017	9.96	10	45%
Nov 2014	450,000	-	-	17.625	Jan 2018	9.96	10	45%
Nov 2014	200,000	-	-	17.625	Oct 2018	9.96	10	45%
Nov 2014	250,000	-	-	17.625	Jan 2019	9.96	10	45%
Jan 2015	500,000	-	-	19.000	-	8.81	10	45%
Jan 2015	250,000	-	-	19.000	-	3.35	10	45%
Jan 2015	250,000	-	-	19.000	-	2.59	10	45%
Apr 2015	-	-	415,524	18.800	-	9.47	3	45%
Dec 2015	200,000	-	-	20.250	Jan 2017	4.22	10	45%
Dec 2015	400,000	-	-	20.250	Jan 2018	5.77	10	45%
Dec 2015	400,000	-	-	20.250	Jan 2019	6.95	10	45%
Dec 2015	338,271	-	-	20.250	Jan 2020	7.94	10	45%
Dec 2015	200,000	-	-	25.250	Dec 2017	6.71	10	45%
Dec 2015	200,000	-	-	25.250	Dec 2018	8.18	10	45%
Dec 2015	590,099	609,901	-	25.250	Dec 2019	9.40	10	45%
Apr 2016	-	-	406,815	29.600	-	9.53	3	45%
Aug 2016	-	250,000	-	28.500	Dec 2017	16.11	10	45%
Aug 2016	-	700,000	-	28.500	Dec 2018	16.11	10	45%
Aug 2016	-	700,000	-	28.500	Dec 2019	16.11	10	45%
Aug 2016	-	700,000	-	28.500	Dec 2020	16.11	10	45%
Aug 2016	-	450,000	-	28.500	Dec 2021	16.11	10	45%
Totals	17,834,083	19,412,353	3,908,777					

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

The weighted average share price of the options granted during the year in the Unapproved Share Option Scheme was £0.2850 (2015: £0.2075) and the estimated fair value of each share option granted was £0.1611 (2015: £0.0622).

The weighted average share price at grant date of the Sharesave Scheme was £0.3700 (2015: £0.2340) and the estimated fair value of each share option was £0.0953 (2015: £0.0947). It is assumed that 75% of members will remain in the Group after three years.

A 1.78% (2015: 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

The expense and equity reserve arising from share-based payment transactions recognised in the year ended 31 December 2016 was £605,000 (year ended 31 December 2015: £776,000).

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

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

The number of options that are exercisable at 31 December 2016 is 13,555,713 (2015: 9,528,897).

25. Subsidiaries of the Group

The subsidiaries of the Group, all of which are private companies limited by shares, as at 31 December 2016, are as follows:

	Country of Registration or Incorporation	Principal activity	Percentage of ordinary shares held by Company
Epic Group Limited	England and Wales	Holding company	100%
gomo Learning Limited	England and Wales	Mobile e-learning	100%
Leo Learning Limited	England and Wales	Bespoke e-learning	100%
Leo Learning Ag (Formerly Line Communications Ag)	Switzerland	Bespoke e-learning	100%
Leo Learning Inc	USA	Bespoke e-learning	100%
Preloaded Limited	England and Wales	Educational Games	100%
Learning Technologies Group (Trustee) Limited	England and Wales	Employee Benefit Trust	100%
Eukleia Training Limited	England and Wales	Bespoke e-learning	100%
Rustici Software LLC	USA	e-learning interoperability	100%
Line Communications Holdings Limited	England and Wales	Dormant	100%
Line Communications Group Limited	England and Wales	Dormant	100%

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

26. Reserves

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

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

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

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

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

27. Related party transactions

	31 Dec 2016 £'000	31 Dec 2015 £'000
Amount owing to joint venture:		
Current		
Trade balances	45	2

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

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

Remuneration of Directors and other transactions

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

During the normal course of business, the Group purchased translation and accommodation services from RWS Group Limited totalling £453,000 in the year ended 31 December 2016 (2015: £286,000). Andrew Brode is the Chairman of RWS Group Limited. The amount due/accrued to RWS Group Limited at 31 December 2016 was £69,000 (31 December 2015: £57,000). These balances are included in trade and other payables (refer to Note 19).

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

Transactions with joint venture

During the normal course of business, the Group purchased graphics services from its joint venture, LEO Brazil, totalling £115,000 in the year ended 31 December 2016.

Transactions with associate

In the year ended 31 December 2016, the Group sold services totalling £4,000 to its associate, Watershed.

28. Dividends paid

	31 Dec 2016 £'000	31 Dec 2015 £'000
Final dividend paid	418	248
Interim dividend paid	294	200
	<u>712</u>	<u>448</u>

On 24 October 2016, the Company paid an interim dividend of 0.07 pence per share (2015: 0.05 pence per share). The Directors propose to pay a final dividend of 0.14 pence per share for the year ended 31 December 2016 (totalling £763,000 based on the issued share capital of the Company at the date of this report), equating to a total payout in respect of the year of 0.21 pence per share (2015: 0.15 pence per share). The final dividend paid in 2016 relates to the year ending 31 December 2015.

29. Financial instruments

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

(a) Financial risk management policies

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

(i) Market risk

(i) Foreign currency risk

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

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 £'000	Brazilian Real £'000	Euro £'000	Swiss Francs £'000	Total £'000
31 December 2016					
Financial assets	3,623	-	265	49	3,937
Financial liabilities	16,772	-	-	-	16,772
31 December 2015					
Financial assets	906	-	108	46	1,060
Financial liabilities	30	-	-	-	30

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:

	31 December 2016 increase/ (decrease) £'000	31 December 2015 increase/ (decrease) £'000
Effects on profit after taxation/equity		
United States Dollar		
- Strengthened by 10%	(1,315)	88
- Weakened by 10%	1,315	(88)
Brazilian Real:		
- Strengthened by 10%	-	-
- Weakened by 10%	-	-
Euro:		
- Strengthened by 10%	27	11
- Weakened by 10%	(27)	(11)
Swiss Franc:		
- Strengthened by 10%	5	5
- Weakened by 10%	(5)	(5)

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

(ii) Interest rate risk

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

Interest rate risk sensitivity analysis

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

If the interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2016 and net assets at that date would decrease by £64,000 (2015: Nil). This is attributable to the Group's exposure to movements in interest rate on its variable borrowings.

(ii) Credit risk

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

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

Credit risk concentration profile

The Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics (2015: one customer at 12% of the Group's trade receivables). 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

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

	31 Dec 2016 £'000	31 Dec 2015 £'000
United Kingdom	2,870	3,645
United States	1,136	482
Europe	280	114
Allowance for impairment losses	(57)	(40)
	<u>4,229</u>	<u>4,201</u>

Ageing analysis

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

	31 December 2016 £'000	31 December 2015 £'000
Not past due	2,743	2,751
Past due:		
- Less than three months	1,135	1,279
- Three to six months	330	211
- Past six months	78	-
Gross amount	<u>4,286</u>	<u>4,241</u>

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)*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:

Year ended 31 December 2016	Less than 1 year £'000	1-2 years £'000	2-3 years £'000	>3 years £'000	Total £'000
Trade payables	871	-	-	-	871
Amounts owing to related parties	45	-	-	-	45
Borrowings	3,602	3,516	7,401	-	14,519
Contingent consideration	59	371	-	-	430
Acquisition related deferred consideration and earn outs	2,824	1,055	-	-	3,879
	<u>7,401</u>	<u>4,942</u>	<u>7,401</u>	<u>-</u>	<u>19,744</u>
Year ended 31 December 2015					
Trade payables	814	-	-	-	814
Amounts owing to related parties	2	-	-	-	2
Contingent consideration	461	-	312	62	835
Acquisition related deferred consideration and earn outs	-	-	414	-	414
	<u>1,277</u>	<u>-</u>	<u>726</u>	<u>62</u>	<u>2,065</u>

(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 2016, the Group took out a USD 20 million loan with Barclays PLC in order to part fund the acquisition of Rustici Software LLC – see Note 21 – this is the only external debt finance of the Group.

The Company made dividend distributions of 0.17 pence per share during the year ended 31 December 2016 (2015: 0.12 pence per share).

Total equity increased from £25.1 million to £30.7 million during the year and net funds decreased from net cash of £7.3 million to net debt of £8.5 million.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

(c) Classification of financial instruments

	31 Dec 2016 £'000	<i>(Restated)</i> 31 Dec 2015 £'000
Financial assets		
Loans and receivables financial assets		
Trade receivables	4,229	4,201
Amounts recoverable on contracts	2,642	1,854
Cash and bank balances	5,348	7,305
	<u>12,219</u>	<u>13,360</u>
Financial liabilities		
Fair value through the profit and loss:		
Contingent consideration	430	835
	<u>430</u>	<u>835</u>
At amortised cost:		
Trade payables	871	814
Borrowings	13,834	-
Acquisition related deferred consideration and earn outs	3,879	414
Amount owing to related parties	45	2
	<u>18,629</u>	<u>1,230</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)**(d) 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.

2016

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

2015

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Contingent consideration	-	-	835	835
	-	-	835	835

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

30. Commitments

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

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

	31 Dec 2016 land and buildings £'000	31 Dec 2015 land and buildings £'000
Operating leases which are due:		
Within one year	666	473
In the second to fifth years inclusive	1,530	704
Over five years	553	616
	<hr/> <u>2,749</u>	<hr/> <u>1,793</u>

31. Prior year adjustments

Following a review of the Group's Annual Report and Accounts for the year ended 31 December 2015 by the Financial Reporting Council's Conduct Committee adjustments have been recognised relating to three matters; deferred consideration, tax on share options and the merger reserve.

Deferred consideration

The 2015 comparative figures have been restated to incorporate the impact of an adjustment to the deferred contingent consideration payable to the vendors of Eukleia Training Limited ('Eukleia') on acquisition.

It has been decided that the deferred contingent consideration which had been accounted for as part of the business combination, and so capitalised, does not meet the requirements of IFRS 3, as there is a substantive post-acquisition service condition and the employees who leave voluntarily automatically forfeit the contingent payments. On this basis this should be accounted for as a separate arrangement and charged through profit or loss as remuneration.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

The impact on the 2015 figures have been summarised in the table below:

	Effect on 2015 £'000
Acquisition related deferred consideration charged to the income statement	(414)
Decrease finance expense to reverse the unwinding of the discounted deferred consideration	79
Prior year adjustment – decrease in profit	<u>(335)</u>
	£'000
Decrease in goodwill by the fair value of the deferred consideration at the acquisition date	(1,873)
Increase in non-current liabilities by the accrual of the deferred consideration charged to the income statement	(414)
Decrease in non-current liabilities by the fair value of the deferred consideration at the balance sheet date	1,952
Prior year adjustment – increase in equity	<u>(335)</u>

Tax on share options

Part of the 2015 current tax deduction on options exercised in the year should have been recognised directly in equity rather than the Statement of Comprehensive Income. The comparative figures have been restated to correct this with the impact shown below. This has not had an effect on the Statement of Financial Position.

	Effect on 2015 £'000
Increase in current tax charge	(138)
Prior year adjustment – decrease in profit	<u>(138)</u>

Merger reserve

On review of the business combinations where the company's equity was used as part of the consideration it was concluded that section 612 of the Companies Act 2006 applies and a merger relief adjustment in the merger reserve should have been recorded.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

The results of these adjustments on each relevant line in the Statement of Comprehensive Income and the Statement of Financial Position are detailed below.

	2015 reported £'000	Adjustment £'000	2015 restated £'000
Acquisition related deferred consideration	-	(414)	(414)
Finance expense	(195)	79	(116)
Profit before taxation	1,549	(335)	1,214
Taxation	(120)	(138)	(258)
Profit for the year	1,429	(473)	956
Total comprehensive income	1,462	(473)	989
Earnings per share:			
Basic (pence)	0.382	(0.126)	0.256
Diluted (pence)	0.357	(0.118)	0.239
Intangible assets	19,803	(1,873)	17,930
Other long term liabilities	2,382	(1,538)	844
Share premium account	21,839	(5,851)	15,988
Merger reserve	22,269	5,851	28,120
Accumulated profits/(losses)	475	(335)	140

32. Events since the reporting date

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

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

On an estimated equivalent basis to LTG's accounting policies under IFRS, NetDimensions generated audited revenues of USD 25 million and EBITDA loss of USD 0.5 million in the year-ended 31 December 2015. It is anticipated that there will be Goodwill arising on the acquisition due to the synergies created and the opportunities of access to new markets for the Group.

On 9 February 2017, the Group announced the purchase of 1,000,000 ordinary shares in NetDimensions (representing 1.95%) for total consideration of £0.984 million.

On 20 March 2017, the Offer was declared unconditional in all respects and as at 28 March 2017 LTG had received acceptances against 97.05% of the shares to which the Offer related.

The completion accounting has not been finalised at the date of signing these financial statements so the value of acquired assets, liabilities, contingent liabilities and goodwill has not been disclosed.

The acquisition was part funded by a Placing of 124,000,000 new ordinary shares in LTG at a price of 37.5 pence per share. The Placing raised £46.5 million.

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 *(continued)*

At the time of the Placing the Company entered into a £5 million loan facility with Andrew Brode for an arrangement fee of £75,000. The arrangement is deemed to be on an arm's length basis.

On 29 March 2017 LTG entered into a new Debt Facility with Silicon Valley Bank ('SVB') for £20.0 million. This debt facility is for a term of five years, comprises a £10 million term loan and a £10 million revolving credit facility, is secured on the assets of the Group and is subject to various financial covenants. The new debt facility was used to repay the existing USD 16.0 million facility held with Barclays Bank plc and as a result of the SVB facility the Group has not draw down on the Andrew Brode loan facility.

Company Statement of Financial Position
(Registered number: 07176993)
As at 31 December 2016

		31 Dec 2016 £'000	(Restated) 31 Dec 2015 £'000
	Note		
Fixed assets			
Investment in subsidiaries	3	36,271	26,558
		<u>36,271</u>	<u>26,558</u>
Current assets			
Debtors	4	13,283	733
Cash and bank balances		317	418
		<u>13,600</u>	<u>1,151</u>
Creditors			
Amounts falling due within one year	8	3,397	858
		<u>3,397</u>	<u>858</u>
Net current assets		<u>10,203</u>	<u>293</u>
Total assets less current liabilities		<u>46,474</u>	<u>26,851</u>
Creditors			
Amounts falling due after more than one year	9	12,008	844
Net Assets		<u><u>34,466</u></u>	<u><u>26,007</u></u>
Capital and Reserves			
Share capital	7	1,580	1,506
Share premium account	7	17,004	15,948
Merger reserve	7	9,714	5,851
Share based payments reserve	7	1,879	1,555
Retained profits		4,289	1,147
		<u>34,466</u>	<u>26,007</u>

Capital and reserves includes profit or loss for the year of the parent company, of £3.854 million (2015 - £89,000).

The Notes on pages 84 to 91 form an integral part of these Financial Statements.

The Financial Statements on pages 82 to 91 were authorised for issue by the Board of Directors on 4 April 2017 and were signed on its behalf by:


Neil Elton
Group Finance Director

**Company Statement of Changes in Equity
For the year ended 31 December 2016**

		Share capital	Share premium	Merger reserve	Share based payments reserve	Retained Profits	Total
Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2015		1,329	13,098	-	847	1,506	16,780
Adjustment regarding prior years	13	-	(4,377)	4,377	-	-	-
Restated balance at 1 January 2015		1,329	8,721	4,377	847	1,506	16,780
Profit for the Year as reported in the 2015 financial statements		-	-	-	-	424	424
Adjustment regarding prior year	13	-	-	-	-	(335)	(335)
Restated profit for the Year		-	-	-	-	89	89
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	-	89	89
Issue of shares	6	177	7,484	1,474	-	-	9,135
Costs of issuing shares		-	(257)	-	-	-	(257)
Payment of dividends		-	-	-	-	(448)	(448)
Share based payment charge credited to equity	11	-	-	-	776	-	776
Transfer on exercise and lapse of options		-	-	-	(68)	-	(68)
Transactions with owners		177	7,227	1,474	708	(448)	9,138
At 31 December 2015		1,506	15,948	5,851	1,555	1,147	26,007
Profit for the year		-	-	-	-	3,854	3,854
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	-	3,854	3,854
Issue of shares	6	74	1,056	3,863	-	-	4,993
Costs of issuing shares		-	-	-	-	-	-
Payment of dividends		-	-	-	-	(712)	(712)
Share based payment charge credited to equity	11	-	-	-	605	-	605
Transfer on exercise and lapse of options		-	-	-	(281)	-	(281)
Transactions with owners		74	1,056	3,863	324	(712)	4,605
At 31 December 2016		1,580	17,004	9,714	1,879	4,289	34,466

Notes to the Company Financial Statements for the year ended 31 December 2016

1. General information

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future in accordance with the FRC Going Concern and Liquidity Risk guidance. 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 2016 is £3,854,000 (year ended 31 December 2015: profit of £89,000).

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

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

(b) Revenue recognition

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

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

(c) Interest revenue

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

Notes to the Company Financial Statements for the year ended 31 December 2016 (continued)

(d) Fixed asset investments

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

(e) Foreign currencies

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

(f) Cash and cash equivalents

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

(g) Income taxes

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

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

(h) Pensions

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

(i) Share-based payment arrangements

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

Notes to the Company Financial Statements for the year ended 31 December 2016 *(continued)*

3. Investment in subsidiaries

	31 Dec 2016 £'000	<i>(Restated)</i> 31 Dec 2015 £'000
Cost		
At 1 January	26,558	17,482
Additions	9,713	9,076
Disposals	-	-
At 31 December	<u>36,271</u>	<u>26,558</u>
Amortisation/impairment:		
At 1 January	-	-
Provision for impairment	-	-
Disposals	-	-
At 31 December	<u>-</u>	<u>-</u>
Net Book Value	<u>36,271</u>	<u>26,558</u>

Details of the Company's acquisitions during the year ended 31 December 2016 are set out in Note 11 to the Consolidated Financial Statements.

Details of the Company's subsidiaries as at 31 December 2016 are set out in Note 25 to the Consolidated Financial Statements.

4. Debtors

	31 Dec 2016 £'000	31 Dec 2015 £'000
Amounts due from subsidiary undertakings	13,167	602
Deferred tax asset (see Note 5)	77	53
Other debtors	39	78
	<u>13,283</u>	<u>733</u>

Deferred tax includes £77,000 (2015: £53,000) falling due after more than one year.

Notes to the Company Financial Statements for the year ended 31 December 2016 *(continued)*

5. Deferred tax assets

	31 Dec 2016 £'000	31 Dec 2015 £'000
At 1 January	53	35
Deferred tax credit on share options in issue	24	18
	<hr/> 77	<hr/> 53

6. Share capital

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

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

Notes to the Company Financial Statements for the year ended 31 December 2016 *(continued)*

7. Reserves

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

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

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

8. Creditors: amounts falling due within one year

	31 Dec 2016 £'000	31 Dec 2015 £'000
Trade creditors	25	6
Contingent consideration	59	405
Other creditors and accruals	61	447
Borrowings	3,252	-
	<u>3,397</u>	<u>858</u>

Details of the Company's contingent consideration as at 31 December 2016 are set out in Notes 19 and 20 to the Consolidated Financial Statements.

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

	31 Dec 2016 £'000	<i>(Restated)</i> 31 Dec 2015 £'000
Contingent consideration	371	430
Deferred consideration on acquisitions charged to the Income Statement	1,055	414
Borrowings	10,582	-
	<u>12,008</u>	<u>844</u>

The interest expense relating to the movement in present value of contingent consideration in the year ending 31 December 2016 amounted to £57,000 (2015: £116,000).

Notes to the Company Financial Statements for the year ended 31 December 2016 *(continued)*

10. Related party transactions

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

The following transactions with subsidiaries occurred in the year:

	31 Dec 2016 £'000	31 Dec 2015 £'000
Opening amount due from related parties	602	2,079
Amounts (repaid)/advanced by/ from related parties	<u>12,565</u>	<u>(1,477)</u>
Closing amount due from related parties	<u>13,167</u>	<u>602</u>

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

Notes to the Company Financial Statements for the year ended 31 December 2016 (continued)

11. Share based payments

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

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

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

	Number of options	2016 Weighted average exercise price (pence)	Number of options	2015 Weighted average exercise price (pence)
At 31 December	3,000,000	5.88	3,000,000	5.88

At 31 December 2016, options granted to subscribe for ordinary shares of the Company, and the valuation criteria are as follows:

Date of grant	Approved Scheme	Exercise Price (pence)	Remaining vesting period	Fair value of options (pence)	Life (years)	Volatility
Nov 2013	3,000,000	5.88	-	10.46	10	45%
Totals	<u>3,000,000</u>					

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

No options were granted, forfeited, expired or exercised during the year (2015: nil)

A 1.78% (2014: 1.78%) risk-free interest rate has been assumed for all schemes.

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

The number of options that are exercisable at 31 December 2016 is 3,000,000 (2015: Nil).

Share based payments which were expensed in the entity and taken to equity in the year ended 31 December 2016, amounted to £141,000 (year ended 31 December 2015: £135,000). The remaining difference between the share based payments which were expensed as per Note 24 and the entity, relate to the options over the Company's share capital held by employees of subsidiaries.

Notes to the Company Financial Statements for the year ended 31 December 2016 *(continued)*

12. Dividends paid

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

13. Prior year adjustments

The 2015 comparative figures have been restated to incorporate the impact of an adjustment to the deferred contingent consideration payable to the vendors of Eukleia Training Limited ('Eukleia') on acquisition. Furthermore, on review of the business combinations where the company's equity was used as part of the consideration it was concluded that section 612 of the Companies Act 2006 applies and a merger reserve should have been recorded.

The results of the adjustments on each relevant line in the Statement of Financial Position are detailed below.

	2015 reported £'000	Adjustment £'000	2015 restated £'000
Investment in subsidiaries	28,431	(1,873)	26,558
Other long term liabilities	2,382	(1,538)	844
Retained profits	1,482	(335)	1,147
Share premium account	21,799	(5,851)	15,948
Merger reserve	-	5,851	5,851

Further details of these prior year adjustments can be found in Note 31 of the Consolidated Financial Statements.

14. Subsequent events

Disclosures in relation to events after 31 December 2016 are shown in Note 32 to the Consolidated Financial Statements.

Company information

Directors

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

Company Secretary

Neil Elton

Company number

07176993

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