learning technologies group

ANNUAL REPORT 2014

For the year ended 31 December 2014

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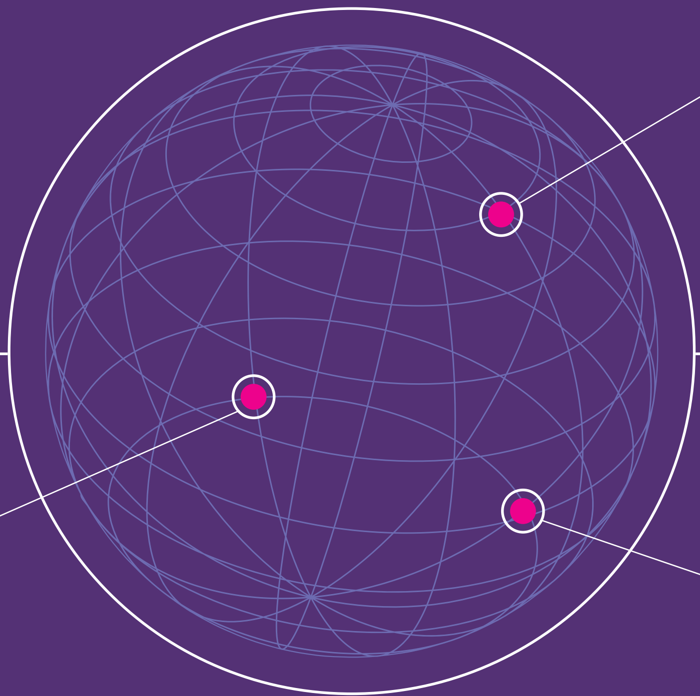
LTG AT A GLANCE

ltg



LEO

MOVING LEARNING TO THE HEART OF BUSINESS STRATEGY

- STRATEGY
- CONTENT
- PLATFORMS
- MOVING IMAGE
- GAMES WITH PURPOSE

200
GLOBAL CLIENTS

gomo LEARNING

BEAUTIFUL MULTI-DEVICE LEARNING. ANYWHERE.

- CONTENT CREATION
- CUSTOMISATION
- COLLABORATION
- HOSTING & DISTRIBUTION
- ANALYTICS

PRELOADED

GAMES WITH PURPOSE

- EDUCATIONAL GAMES
- WELLBEING GAMES
- CLINICAL HEALTH GAMES
- SITE-SPECIFIC GAMES
- TRAINING GAMES
- OUTREACH GAMES

CHAIRMAN'S STATEMENT

I am delighted to report Learning Technologies Group plc's ('LTG') results for the financial year ended 31 December 2014.

The global demand for digital learning, from both corporate and government sectors, continues to grow strongly; however, the learning technologies market has few dominant players. LTG's aim is to create a group of market-leading businesses with complementary services which forms a business of size and scale that can meet the demanding expectations of global customers.

LTG was formed via the reverse takeover of In-Deed Online plc by Epic Group Limited ('Epic') in November 2013. Epic was a long established market leader in the UK and Europe, delivering bespoke e-learning solutions with an acknowledged expertise in multi-device learning.

Business summary and operational review

During 2014, we made substantial progress towards our goal of consolidating the industry with the acquisition of LINE Communications Holdings Limited ('LINE') and Preloaded Limited ('Preloaded'). The subsequent merger of LINE and Epic to form LEO in July created the largest e-learning services business in the UK with significant presence in the defence, retail, leisure and automotive sectors. Furthermore, LEO enjoys strong relationships with the UK Government, in particular, Civil Service Learning.

LINE also brought consulting expertise and long-standing relationships with strategic partners such as KPMG and Xerox HR, with whom we are tendering for many substantial contracts. In December 2014, we announced that LEO had become the first 'go to market' partner of The Open University; we expect this to generate significant opportunities during 2015.

Merging two competitors often presents numerous challenges. I am therefore delighted to report that we have achieved a fully integrated business by the end of 2014, resulting in improved operating margins by the year end. The reorganisation was delivered on budget with annualised synergy savings of circa £0.7 million which will benefit our results in 2015.

Whilst the acquisition of LINE was about creating a substantial platform and channel for the Group's expanded service offering, Preloaded was about adding further expertise and capability. Preloaded creates 'games with purpose'; games which deliver a balance between being an engaging, enticing game whilst still delivering a genuine learning gain to the audience. Since joining LTG, Preloaded's team has exceeded our expectations by delivering strong growth in revenue and profit while broadening its customer base. We expect that Preloaded will build on these firm foundations in 2015.

LTG's authoring tool, 'gomo', made good progress in 2014 with sales in line with expectations and a particularly strong performance in the US. The launch of gomo 3.0 in March 2015 brings new services which double the potential revenue per customer, which, when combined with subscription renewals, should deliver substantial growth in 2015. We remain confident that gomo's recurring revenues will become an important part of our revenue mix in the next few years.

The US business exceeded our expectations in 2014 buoyed by two substantial new contracts. We expect continued progress in 2015 as LEO establishes itself as a strong brand in the North American market. We have recognised the importance of making our joint venture in Brazil operate a similar model to LEO to achieve the margins and customer satisfaction enjoyed in the UK. Following a significant training programme delivered by LEO staff in Brazil in the first half of 2014, we have seen good signs of improvement and therefore expect the operating loss in 2014 to be substantially reduced in 2015.

Despite the significant change and addition to the Company during 2014, the Group has achieved results ahead of management expectations. This has been achieved by the hard work and dedication of our highly capable staff and I would like to thank them, on behalf of the Board, for all their efforts in a busy and transformational year.

Board changes

In June 2014, we welcomed Leslie-Ann Reed (Non-executive Director), Piers Lea (Chief Strategy Officer), Dale Solomon (Chief Operating Officer) and Richard Jones (Group Finance Director) to the Board.

Peter Mountford, Deputy Chairman, stepped down from the Board in September 2014. Peter expertly assisted with the reverse takeover of Epic by LTG in 2013 and the acquisitions undertaken earlier in 2014. Following Peter's departure, Leslie-Ann Reed became Chairman of the Audit Committee in September 2014. Harry Hill became Deputy Chairman in December 2014.

Neil Elton joined the Board as Group Finance Director in November 2014, with Richard Jones stepping down from the Board but remaining with LTG as Group Financial Controller. Neil has helped build a number of fast-growing listed companies including Concateno plc and most recently Sagentia Group plc.

Current trading

The Group has enjoyed an excellent start to 2015 with sales in the first quarter ahead of target. Substantial new contract wins have created a strong Order Book, which, when combined with a record sales pipeline of large-scale contracts through our strategic partners, underpins the Board's confidence that 2015 will again deliver substantial progress in our financial performance.

In light of the results for 2014 and our confidence in the prospects for 2015 the Board recommends, subject to shareholder approval at the forthcoming Annual General Meeting to be held on 21 May 2015, a final dividend of 0.07 pence, making the total dividend for the year 0.10 pence per share.

The final dividend will be paid on 5 June 2015 to all shareholders on the register at 22 May 2015.

Andrew Brode
Chairman

STRATEGIC REPORT

For the year ended 31 December 2014

Financial results

On 8 November 2013, LTG acquired Epic Group Limited ('Epic') by way of a reverse takeover. During 2014, LTG acquired two further businesses: LINE Communications Holdings Limited ('LINE') and Preloaded Limited ('Preloaded'). Unless otherwise stated, the financial results presented in this report reflect the results of the Group based on the performance of the businesses whilst under the ownership of LTG.

In the year ended 31 December 2014, the Group generated revenue of £14.9 million (2013: £7.6 million), a 97% increase.

Unadjusted operating profit decreased by 71% to £0.3 million (2013: £1.1 million).

To provide a better understanding of the underlying business performance, adjusted EBITDA excludes the amortisation of acquisition-related intangible assets, the amortisation of internal capitalised development costs, depreciation, share-based payment charges and other exceptional items. Adjusted EBITDA increased by 42% to £2.1 million (2013: £1.5 million). The resulting adjusted EBITDA margin was 14% (2013: 19%).

Whilst 2013 represented margins at the higher end of expectation, the year-on-year reduction reflects the acquisition of LINE which had been generating lower margins. The restructuring plan and rollout of new business practices in the second half of 2014 produced an improvement in margins towards the end of 2014.

On a like-for-like basis, as if the businesses that LTG owned at the end of 2014 had been owned at the end of 2013, the Order Book is in line with the prior year. The Order Book is defined as the value of contracts won but not yet delivered. On a like-for-like basis, the prospective sales pipeline has increased markedly as at 31 December 2014.

The amortisation charge for acquisition-related intangible assets was £0.6 million (2013: nil) and is discussed further in Note 11. The amortisation charge for internally generated development costs was £0.1 million (2013: £0.1 million) and relates to the development of 'gomo', the Group's award-winning multi-device authoring tool. The share-based payment charge increased from £0.2 million in 2013 to £0.6 million in 2014. Further details are provided in Note 22.

Integration costs of £0.3 million (2013: nil) relate to one-off restructuring costs following the acquisition of LINE and its merger with Epic to form LEO in July 2014. This delivered annualised savings of £0.7 million.

Loss before tax reduced from £0.9 million in 2013 to £0.1 million in 2014. Adjusted PBT (being adjusted EBITDA less depreciation and amortisation of internally generated intangible assets) was £1.8 million in 2014 (2013: £1.3 million). Costs of acquisitions in 2014 were £0.3 million (2013: £1.0 million), finance charges related to deferred consideration of the acquisition of Preloaded were £0.2 million (2013: nil) and in 2013 there were deemed costs of listing of £1.1 million.

The income tax expense of £35,000 in 2014 (2013: £0.2 million) is stated after adjusting for the effect of the release of deferred tax on the amortisation of acquired intangibles and a deferred tax asset related to the anticipated vesting of share options. Further details are provided in Note 8.

On a statutory basis, basic and diluted earnings per share ('EPS') from continuing operations reduced to a loss of 0.049 pence (2013: 0.429 pence). Based on the average number of shares in issue and adjusted operating profit during the year, adjusted basic EPS from continuing operations increased by 24% to 0.613 pence (2013: 0.495 pence).

STRATEGIC REPORT *(continued)*

For the year ended 31 December 2014

On 7 April 2014, the Group acquired 100% of the issued share capital of LINE, an e-learning solutions consultancy, for a total consideration of £9.0 million, comprising £5.1 million cash and £3.9 million in LTG shares. Goodwill on acquisition has been calculated at £7.4 million with acquisition-related intangible assets of £1.0 million represented mainly by customer relationships. LINE was merged with Epic in July 2014 to form LEO.

On 12 May 2014, the Group acquired 100% of the issued share capital of Preloaded, a designer of educational games, for an initial consideration of £2.2 million comprising £1.6 million cash and £0.6 million in LTG shares. Contingent deferred consideration of up to £2.4 million may be paid dependent on revenue performance in the period to 31 December 2015. Preloaded contributed £1.5 million revenue and £0.5 million profit before tax to the Group in the final eight months of 2014. Goodwill on acquisition has been calculated at £2.2 million with acquisition-related intangible assets of £1.1 million represented by customer relationships and the Preloaded brand. Further details of the two acquisitions are provided in Note 29.

LTG partly funded its acquisition of LINE and Preloaded through the placing of 50,000,000 shares at 16 pence per share, raising £8.0 million. The Group has a strengthened balance sheet with Shareholders' Funds at 31 December 2014 of £14.4 million, equivalent to 4.1 pence per share (2013: Shareholders' Funds of £1.5 million equivalent to 0.5 pence per share). The gross cash position at 31 December 2014 was £4.4 million (2013: £1.2 million). The Group has no debt.

Net cash generated from operating activities was £0.9 million (2013: £1.2 million), cash outflows from investing activities was £4.9 million (2013: £1.4 million) and cash inflows from financing activities was £7.2 million (2013: £0.3 million outflow). Debtor days were 58 days (2013: 45 days) and combined debtor and WIP days were 66 days (2013: 34 days). This increase reflects the greater proportion of projects being undertaken with large corporate and government agencies in 2014 following the acquisitions of LINE and Preloaded.

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) and the sales pipeline. 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. Performance against KPIs is reported within the review of Financial Results.

Principal risks and uncertainties

In addition to the financial risks discussed in Note 27, 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, primarily in the UK. 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.

STRATEGIC REPORT *(continued)*

For the year ended 31 December 2014

Attracting and retaining talented staff

LTG is a market leader and we will 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 projects are contracted on a fixed price basis. Project overruns can lead to loss of margin on projects and overall profitability for the Group.

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

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, or loss of, 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,

STRATEGIC REPORT *(continued)*

For the year ended 31 December 2014

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 22.

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 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, non-job-related-disability, 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 2014 the Group supported charitable activities by staff which raised a total of £5,000 (2013: £5,000) and made charitable contributions totaling £14,000 during the year (2013: £14,000).

The Group has, with other leading companies in the industry, set up an industry-wide charity foundation, Learn Appeal (www.learnappeal.com).

Environment

LTG's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental

STRATEGIC REPORT *(continued)*

For the year ended 31 December 2014

impact of our activities and the Group complies with ISO 14001. 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.

Service offering

We know that today's businesses are moving faster than ever, while at the same time becoming more complex. Organisations are required to achieve results in an increasingly globalised and competitive environment, meaning new strategies are needed. With both business needs and technology changing all the time, they are struggling to keep up.

It is critical for organisations to equip their people with skills and knowledge to remain agile, resilient and effective to keep up in today's fast-paced workplace. Organisations are increasingly turning to technology to find the answer, but that's just part of the challenge. With a wealth of new and existing learning technologies to choose from, there is a lack of understanding of how to deploy learning technology effectively to achieve results.

We believe that the right answer to that challenge lies in helping organisations adopt learning at a strategic level. 'Moving learning to the heart of business strategy' is our answer. LTG's end-to-end service offering enables us to partner with global clients throughout the creation, implementation and maintenance of their learning transformation. We deliver transformational results through learning innovation and the effective use of learning and performance technologies including consulting, content, games with purpose, moving image and platforms. We do this for a broad mix of public, private and not-for-profit clients across a range of sectors.

We ask questions which allow us to get to the root of an organisation's challenges, enabling us to craft learning architectures which move beyond disparate or traditional learning elements, such as e-learning or standalone solutions. Instead, we create complete learning programmes which seamlessly fit into businesses and improve performance throughout the organisation.

LEO

Merging two long established market leaders was not without its challenges, however the prize was more than worth it. LEO is a stronger, more dynamic business than its predecessors with a genuinely expanded service offering. Reassuringly, the provenance of Epic and LINE is still very apparent even though the new brand has its own values which we deliberately set out to make bolder and more pioneering. Most importantly, our existing customers have begun to notice the difference already, commenting on the refreshing approach we take on our mission to 'move learning to the heart of business strategy'.

Preloaded

In the seven months since Preloaded joined the Group it has achieved a phenomenal amount. LEO is now fully capable of offering 'games with purpose' to its clients whilst Preloaded has continued to expand its own client base with a high profile strategic contract to create playful learning games at the centre of a global digital marketing campaign for an international restaurant company.

It also continues to operate in the vanguard of the fast-growing learning games sector through its R&D programme, most notably resulting in virtual reality learning games for the new Samsung Gear VR headset which utilises a Galaxy phone. Our first proof of concept was a virtual reality tour of a new

STRATEGIC REPORT *(continued)*

For the year ended 31 December 2014

car model, enabling staff to interact with the car before it arrives in showrooms.

We are now proposing solutions where 'games with purpose' form the kernel of a comprehensive learning programme and believe that this approach can better engage the audience, resulting in a greater learning gain and corresponding competence.

gomo

After a slow start, gomo sales increased month on month and achieved target for the year, with a particularly strong performance in the US, the world's largest market for e-learning authoring tools. Judging by the number of projects customers are creating, we are confident that subscription renewals, which are just commencing, will be high.

gomo 3.0, launched in March 2015, brings an entirely new feature set including data analytics and hosting, enabling customers to create and subsequently deploy learning content to any device globally. This doubles the potential revenue per customer and opens up new opportunities. Furthermore, gomo subscribers are hiring LEO's experts to assist them in creating learning content.

International

Our joint venture, LEO Brazil, had a challenging year caused by local factors such as the World Cup and latterly the economic downturn. Project margins were consistently much lower than the UK business and we invested in a comprehensive upskilling programme during the first half of the year resulting in significant improvements by the year end. Sales performance in Q1 2015 has been encouraging.

LEO US enjoyed a fantastic year, turning its first year loss into a substantial profit. As planned, Ruth Haddon, the US COO who went from the UK in 2012 to establish the business, returns in April to take a senior role at Preloaded. Bill West, the new Senior VP for North America, is an experienced e-learning entrepreneur who will lead our growth in this important market. We are also actively seeking to expand by acquisition.

Jonathan Satchell
Chief Executive

DIRECTORS' REPORT

For the year ended 31 December 2014

The Directors present their report on the Group, together with the audited Consolidated Financial Statements for the year ended 31 December 2014.

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 34.

At the time of LTG's admission to AIM in November 2013, the Board stated that they would pursue a progressive dividend policy. On 14 November 2014, the Company paid an interim dividend of 0.03 pence per share. The Directors propose to pay a final dividend of 0.07 pence per share for the year ended 31 December 2014, equating to a total payout in respect of the year of 0.10 pence per share.

Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 5 June 2015 to all shareholders on the register at 22 May 2015.

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 8 to 14 and in Note 29 to the Consolidated Financial Statements respectively.

Political donations

The Group made no political donations during the year (2013: nil).

Financial instruments and risk management

Disclosures regarding financial instruments are provided within the Strategic Report and Note 27 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 21 to the Financial Statements. The Company has one class of Ordinary Share which carry no right to fixed income.

Research and development

The main area of research and development has been the continued work on the gomo multi-device authoring tool as covered in the Strategic Report on pages 8 to 14.

Post balance sheet events

On 3 March 2015 the Group incorporated Learning Technologies Group (Trustee) Limited, a wholly owned subsidiary of Learning Technologies Group plc. The purpose of the company is to act as an Employee Benefit Trust ('EBT') for the benefit of current and

DIRECTORS' REPORT *(continued)*

For the year ended 31 December 2014

previous employees of the Group. As at the date of this report the EBT had not entered into any transactions.

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

Director	Role at 31 Dec 2014	Date of (re-) appointment	Retired	Board Committee	
Andrew Brode	Non-executive Chairman	22/05/2014		A	R
Harry Hill	Non-executive Deputy Chairman	22/05/2014			R
Leslie-Ann Reed*	Non-executive Director	25/06/2014		A	
Jonathan Satchell†	Chief Executive	22/05/2014			
Neil Elton*	Group Finance Director	03/11/2014			
Piers Lea*	Chief Strategy Officer	25/06/2014			
Dale Solomon*	Chief Operating Officer	25/06/2014			
Richard Jones		25/06/2014	03/11/2014		
Peter Mountford		22/05/2014	23/09/2014		

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

* Appointed since last AGM and will offer themselves for re-election at next AGM

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

DIRECTORS' REPORT *(continued)*

For the year ended 31 December 2014

Board of Directors

Andrew Brode

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

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.

Harry Hill is on the Remuneration Committee of LTG.

DIRECTORS' REPORT *(continued)*

For the year ended 31 December 2014

Board of Directors *(continued)*

Leslie-Ann Reed

Non-executive Director

Leslie-Ann Reed was appointed Chief Financial Officer of Go Industry Dovebid plc in 2010 until July 2012 when the business was sold to Liquidity Services Inc. Prior to this, she served as Chief Financial Officer of Metal Bulletin plc and as an adviser to Marwyn Investment Management. She has extensive international experience in the media industry having served as Chief Financial Officer of PolyGram Film Operations and also worked at Warner Communications and EMI. She qualified as a Chartered Accountant with Cocke, Vellacot & Hill before moving to Arthur Andersen to continue to develop her financial management expertise.

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

Jonathan Satchell

Chief Executive

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 helped to transform 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 purchased the Company with Andrew Brode. Jonathan Satchell has overseen the transformation of Epic from a custom content e-learning company to an international and growing learning technologies agency.

DIRECTORS' REPORT *(continued)*

For the year ended 31 December 2014

Board of Directors *(continued)*

Neil Elton

Group Finance Director

Neil Elton is a Chartered Accountant and was appointed as Group Finance Director of LTG in November 2014. An experienced 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.

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.

DIRECTORS' REPORT *(continued)*

For the year ended 31 December 2014

Directors' interests in shares and contracts

Directors' interests in the shares of LTG at 31 December 2014 and 31 December 2013, and any changes subsequent to 31 December 2014, 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 7.

Annual General Meeting

The Annual General Meeting ('AGM') will be held at 2pm on 21 May 2015 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.

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	113,215,005	31.83%
Jonathan Satchell	110,214,995	30.98%
Hargreave Hale	22,412,983	6.30%
Liontrust Asset Management	21,652,500	6.09%
Piers Lea	17,023,383	4.79%
Nigel Wray	10,862,500	3.05%

Except as referred to above, the Directors are not aware of any person who was interested in 3% or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control.

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 complies with the provisions of the QCA Guidelines insofar as possible for a company of 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 pages 18 to 20.

At 31 December 2014, the Board comprised a Non-executive Chairman, Chief Executive, Group Finance Director, Chief Strategy Officer, Chief Operating Officer and two independent Non-executive Directors. All Directors bring a wide range of skills and international experience to the Board. The Non-executive Directors hold meetings without the Executive Directors present. The Chairman is primarily responsible for the working of the Board of LTG. The Chief Executive is primarily responsible for the running of the business and implementation of the Board strategy and policy. The Chief Executive is assisted in the managing of the business on a day-to-day basis by the Managing Directors of the operating businesses, the Group Finance Director and the Executive team of LTG.

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

The Board met ten times during 2014 (2013: 9). 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 2014 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 2014 (2013:nil). Further details on the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee

The Remuneration Committee is chaired by Harry Hill and also comprises Andrew Brode. The Remuneration Committee met once during 2014 (2013: nil). Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee.

CORPORATE GOVERNANCE REPORT *(continued)*

Meetings of the Board and sub-committees during 2014 were as follows:

	Board meetings	Audit Committee	Remuneration Committee
Number of meetings held in 2014	**10**	**3**	**1**
Andrew Brode	10/10	3/3	1/1
Harry Hill	9/10	1/1	1/1
Jonathan Satchell	10/10	-	1/1*
Neil Elton	1/1	1/1*	-
Piers Lea	6/6	-	-
Dale Solomon	5/6	-	-
Leslie-Ann Reed	6/6	2/2	-
Peter Mountford	6/7	-	-
Richard Jones	5/5	2/2*	-

*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 misstatement 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 necessary to implement the guidance on internal control issued by the FRC Guidance on Audit Committees 2010. 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.

This process, which operates in accordance with the FRC guidance, was maintained throughout the financial year, and has remained in place up to the

REPORT OF THE AUDIT COMMITTEE *(continued)*

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 Group Finance Director and LTG's auditors during 2014. 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 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 Harry Hill, also comprises Andrew Brode.

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 both determines the individual remuneration package of the executive management of the Board. In accordance with the provisions of the UK Corporate Governance Code, 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 2014.

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 Chairman does not participate in the performance-related bonus scheme.
- Benefits – benefits include life assurance and pension contributions. The Chairman does 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 incentives plans:

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

Further details are provided in Note 22.

The market price of the shares at 31 December 2014 was 21.25 pence (31 December 2013: 12.25 pence). The highest and lowest price during the year was 24.25 pence and 12.25 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 Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law. The Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group 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.

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS *(continued)*

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

27 March 2015

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 2014 which include the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related Notes numbered 1 to 30, the parent Company Statement of Financial Position, the parent Company Reconciliation of Shareholders' Funds and the related Notes numbered 1 to 14.

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 surrounding 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 2014 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
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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

Leo Malkin

Senior Statutory Auditor for and on behalf of:

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

27 March 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	Year ended 31 Dec 2014 £'000	Proforma Year ended 31 Dec 2013 £'000
Revenue	4	14,920	7,557
Operating expenses		(14,433)	(6,400)
		487	1,157
Share of losses of joint venture	12	(160)	(32)
Operating profit		**327**	**1,125**
Adjusted EBITDA		**2,065**	**1,452**
Depreciation	10	(171)	(79)
Amortisation of intangibles	11	(659)	(75)
Share-based payment costs	22	(583)	(173)
Integration costs		(325)	-
Operating profit		**327**	**1,125**
Deemed cost of listing	2a	-	(1,108)
Costs of acquisition	29	(296)	(950)
Finance expense	29	(162)	-
Interest receivable	5	4	7
Loss before taxation	5	(127)	(926)
Income tax expense	8	(35)	(182)
Loss for the year		**(162)**	**(1,108)**
Loss per share attributable to owners of the parent:			
Basic, (pence)	9	(0.049)	(0.429)
Diluted, (pence)	9	(0.049)	(0.429)
Adjusted earnings per share:			
Basic, (pence)	9	0.613	0.495
Diluted, (pence)	9	0.584	0.450
Loss for the year		(162)	(1,108)
Other comprehensive income: items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations		17	-
Total comprehensive loss for the year attributable to owners of the parent Company		**(145)**	**(1,108)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Non-current assets			
Property, plant and equipment	10	339	250
Intangible assets	11	11,364	150
Deferred tax assets	17	618	-
Investments	12	16	-
		12,337	**400**
Current assets			
Trade receivables	13	2,762	1,237
Other receivables, deposits and prepayments	14	337	86
Amounts recoverable on contracts	15	1,806	947
Deferred tax assets	17	-	1
Cash and bank balances	16	4,358	1,170
		9,263	**3,441**
Total assets		**21,600**	**3,841**
Current liabilities			
Trade and other payables	18	4,832	2,206
Corporation tax		352	87
Amount owing to related parties	25	-	30
		5,184	**2,323**
Non-current liabilities			
Deferred tax liabilities	17	446	-
Other long-term liabilities	19	1,512	-
Provisions	20	49	30
		2,007	**30**
Total liabilities		**7,191**	**2,353**
Net assets		**14,409**	**1,488**
Shareholders' equity			
Share capital	21	1,329	1,034
Share premium account	24	13,098	1,159
Merger relief reserve	24	22,269	22,269
Reverse acquisition reserve	24	(22,933)	(22,933)
Share-based payment reserve	24	1,203	547
Foreign exchange translation reserve	24	17	-
Accumulated losses		(574)	(588)
Total equity attributable to the owners of the parent		**14,409**	**1,488**

The Notes on pages 38 to 88 form an integral part of these Consolidated Financial Statements.

The Financial Statements on pages 34 to 88 were approved by the Board of Directors on 27 March 2015 and signed on its behalf by Neil Elton, Group Finance Director.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

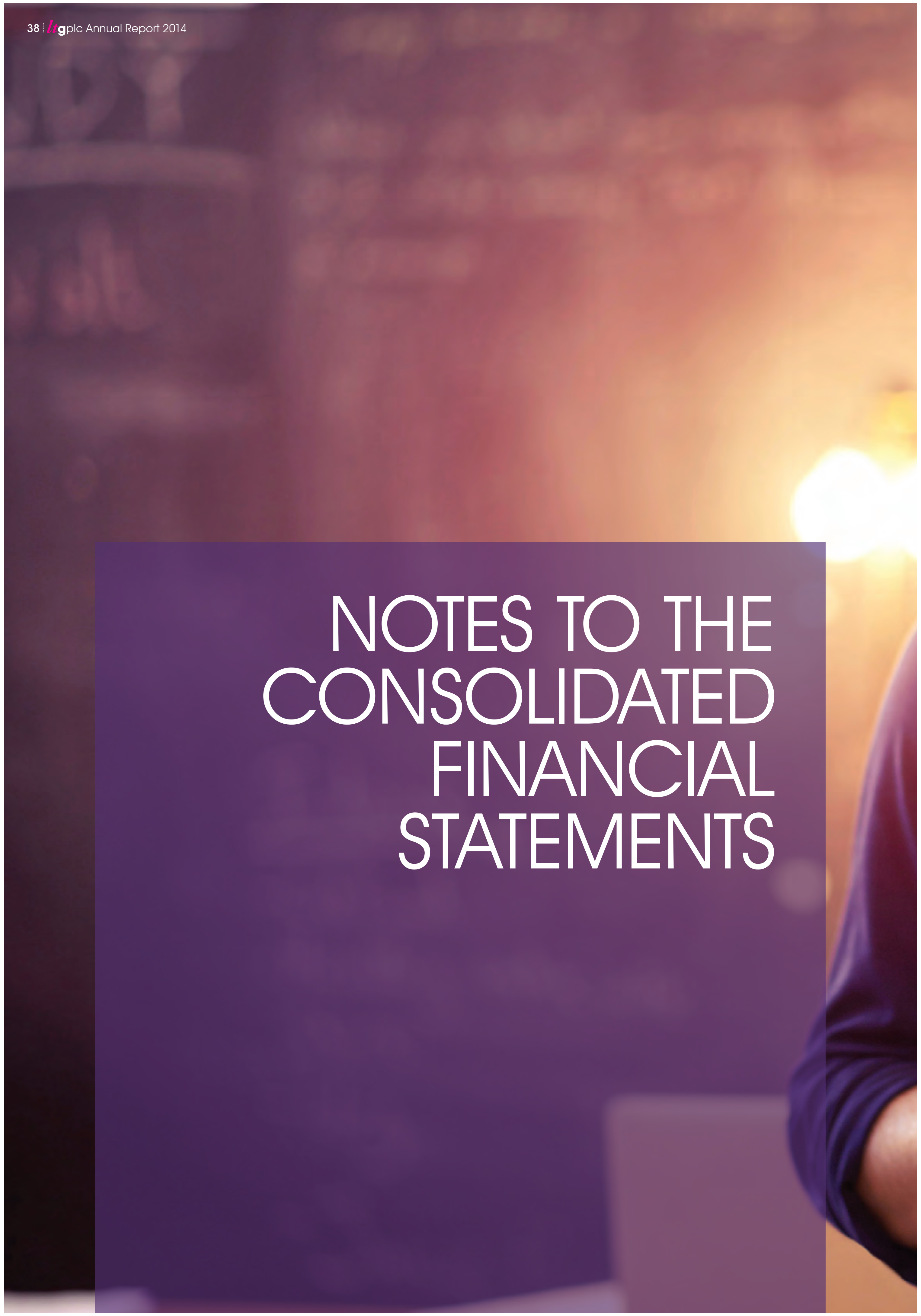
For the year ended 31 December 2014

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger relief reserve £'000	Reverse acquisition reserve £'000	Share based payments reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2013	**77**	**1,218**	**28**	**275**	**(524)**	**144**	**-**	**695**	**1,913**
Loss for period	-	-	-	-	-	-	-	(1,108)	(1,108)
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,108)**	**(1,108)**
Group reconstruction	957	23	(28)	21,994	(22,409)	-	-	-	537
Costs of issuing shares	-	(82)	-	-	-	-	-	-	(82)
Share-based payment charge credited to equity	-	-	-	-	-	528	-	-	528
Transfer on exercise and lapse of options	-	-	-	-	-	(125)	-	125	-
Dividend paid	-	-	-	-	-	-	-	(300)	(300)
Transactions with owners	**957**	**(59)**	**(28)**	**21,994**	**(22,409)**	**403**	**-**	**(175)**	**683**
Balance at 31 December 2013	**1,034**	**1,159**	**-**	**22,269**	**(22,933)**	**547**	**-**	**(588)**	**1,488**
Loss for the period	-	-	-	-	-	-	-	(162)	(162)
Exchange differences on translating foreign operations	-	-	-	-	-	-	17	-	17
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**(162)**	**(145)**
Issue of shares	295	12,211	-	-	-	-	-	-	12,506
Costs of issuing shares	-	(272)	-	-	-	-	-	-	(272)
Share-based payment charge credited to equity	-	-	-	-	-	583	-	-	583
Deferred tax credit on share options	-	-	-	-	-	356	-	-	356
Transfer on exercise and lapse of options	-	-	-	-	-	(283)	-	283	-
Dividends paid	-	-	-	-	-	-	-	(107)	(107)
Transactions with owners	**295**	**11,939**	**-**	**-**	**-**	**656**	**-**	**176**	**13,066**
Balance at 31 December 2014	**1,329**	**13,098**	**-**	**22,269**	**(22,933)**	**1,203**	**17**	**(574)**	**14,409**

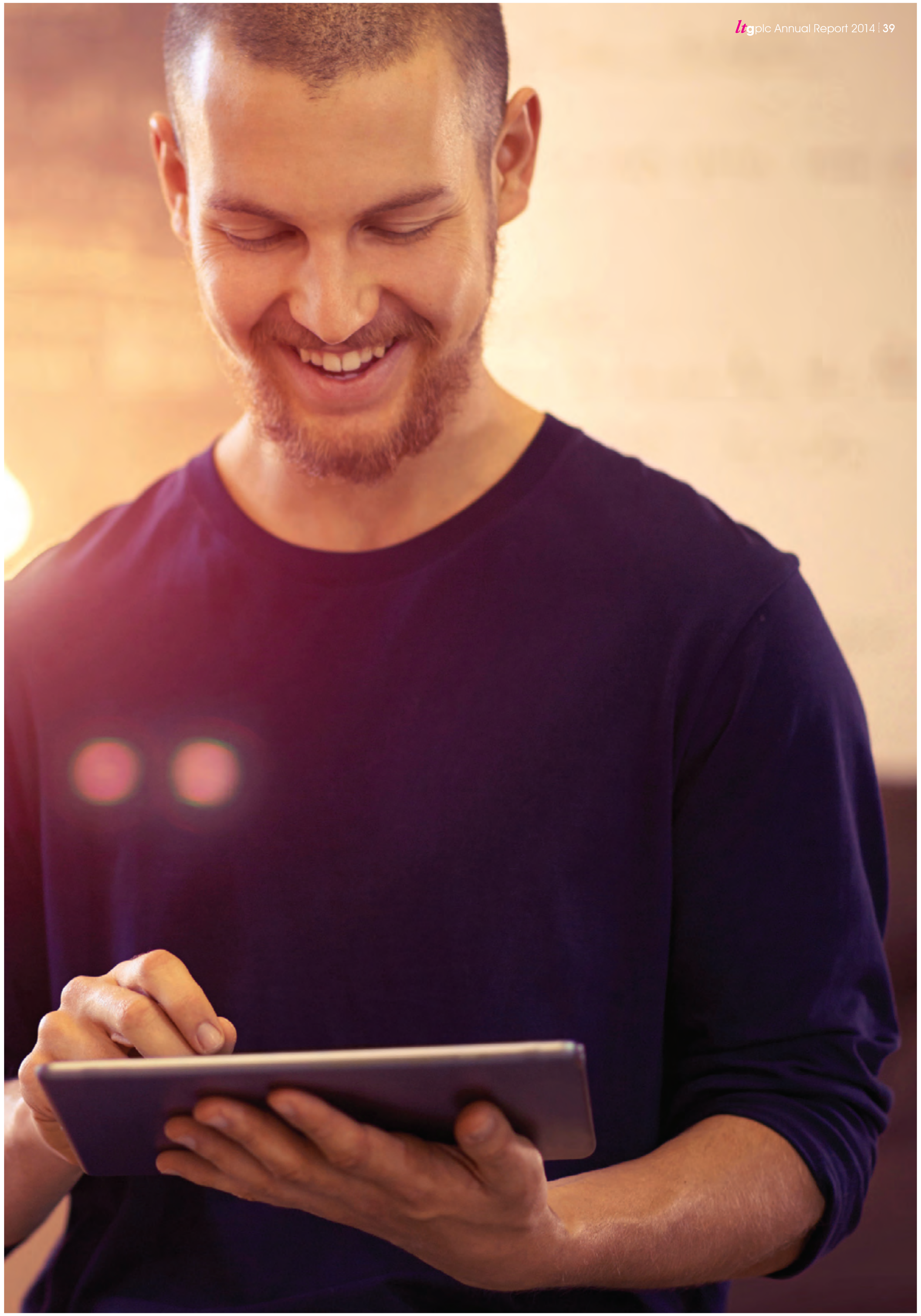
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	Year ended 31 Dec 2014 £'000	Proforma Year ended 31 Dec 2013 £'000
Cash flows from operating activities			
(Loss) before taxation		(127)	(926)
Adjustments for:			
Share-based payment charge		583	173
Deemed cost of listing		-	1,108
Non-cash costs of acquisition		-	950
Amortisation of intangible assets		659	75
Depreciation of plant and equipment		171	79
Share of loss of joint venture		160	32
Finance expense		162	-
Interest income		(4)	(7)
Operating cash flows before working capital changes		**1,604**	**1,484**
Decrease/(increase) in trade and other receivables		507	(444)
(Increase) in amount recoverable on contracts		(668)	(245)
(Decrease)/increase in payables		(507)	578
		936	1,373
Interest received		4	7
Income tax paid		(32)	(192)
Net cash flows from operating activities		**908**	**1,188**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(123)	(63)
Development of intangible assets		(198)	(77)
Cash acquired on reverse acquisition		-	705
Acquisition of subsidiaries, net of cash acquired		(4,407)	-
Cash costs of acquisition		-	(652)
Cash consideration on reverse acquisition		-	(1,323)
Investment in joint venture		(179)	-
Net cash flows used in investing activities		**(4,907)**	**(1,410)**
Dividends paid		(107)	(300)
Issue of ordinary share capital net of share issue costs		7,756	-
Repayment of bank loans		(465)	-
Net cash flows from/(used) in financing activities		**7,184**	**(300)**
Net increase/(decrease) in cash and cash equivalents		3,185	(522)
Cash and cash equivalents at beginning of the year		1,170	1,692
Exchange gains on cash		3	-
Cash and cash equivalents at end of the year	**16**	**4,358**	**1,170**



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 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 52 Old Steine, Brighton, East Sussex, BN1 1NH. 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 of Learning Technologies Group plc are presented in pounds sterling, which is the presentation currency for the Consolidated Financial Statements. The functional currency of each of the Group entities is the local currency of each individual entity and figures have been rounded to the nearest thousand.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 3.

On 8 November 2013 the Company, then named In-Deed Online plc, became the legal parent of Epic Group Limited. The Consolidated Financial Statements for the year ended 31 December 2013 were presented as proforma to present the substance of the transaction.

This transaction is deemed outside the scope of IFRS 3 (Revised 2008) and not considered a business combination because the Directors have made a judgement that prior to the transaction, In-Deed Online plc was not a business under the definition of IFRS 3 Appendix A and the application guidance in IFRS 3.B7- B12 due to In-Deed Online plc being a shell company that had no processes or capability for outputs (IFRS 3.B7).

On this basis, the Directors have developed an accounting policy for this transaction, applying the principles set out in IAS 8.10-12, in that the policy adopted is:

- Relevant to the users of the financial information;
- More representative of the financial position, Performance and cash flows of the Group;
- Reflects the economic substance of the transaction, not merely the legal form; and
- Free from bias, prudent and complete in all material aspects.

The accounting policy adopted by the Directors applies the principles of IFRS 3 in identifying the accounting acquirer and the presentation of the Consolidated Financial Statements of the legal parent (Learning Technologies Group plc) as a continuation of the accounting acquirer's Financial Statements (Epic Group Limited). This policy reflects the commercial substance of this transaction as follows:

- The original shareholders of the subsidiary undertakings were the most significant shareholders post initial public offering, owning 92.45 per cent, of the issued share capital; and
- The cash consideration paid as part of the initial public offering returned equity to the original shareholders of the legal subsidiary undertaking and as a consequence diluted their shareholding.

Accordingly, the following accounting treatment and terminology was applied in respect of the reverse acquisition:

- The assets and liabilities of the legal subsidiary Epic Group Limited are recognised and measured in the Group Financial Statements at the pre-combination carrying amounts, without reinstatement to fair value;
- The retained earnings and other equity balances recognised in the Group Financial Statements reflect the retained earnings and other equity balances of Epic Group Limited immediately before the business combination, and the results of the year from 1 January 2013 to the date of the business combination are those of Epic Group Limited. However, the equity structure appearing in the Group Financial Statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the business combination; the cost of the combination has been determined from the perspective of Epic Group Limited.

The fair value of the shares in Epic Group Limited has been determined from the admission price of the Learning Technologies Group plc shares on re-admission to trading on AIM for 9 pence per share. The value of the consideration shares was £22,950,000. The fair value of the notional number of equity instruments that the legal subsidiary would have had to have issued to the legal parent to give the owners of the legal parent the same percentage ownership in the combined entity was 7.41 per cent of the market value of the shares after issues, being £1,836,000. The difference between the notional consideration paid by Learning Technologies Group plc for Epic Group Limited and the Learning Technologies Group plc net assets acquired of £728,000 was charged to the Consolidated Statement of Comprehensive Income in the year ended 31 December 2013 as a deemed cost of listing amounting to £1,108,000 with a corresponding entry to the reverse acquisition reserve.

Transaction costs of equity transactions relating to the issue and re-admission of the Company's shares are accounted for as a deduction from equity where they relate to the issue of new shares and listing costs are charged to the Group Income Statement.

At 31 December 2014 the Group had £4.4 million of net 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

Adoption of new and revised International Financial Reporting Standards

None of the new and revised Standards and Interpretations that were adopted in the current year were considered to have had a material effect to the presentation or disclosures reported in these Financial Statements.

(i) Standards, amendments and interpretations to published standards not yet effective

The Directors have considered those Standards and Interpretations, which have not been applied in the Financial Statements but are relevant to the Group's operations, that are in issue but not yet effective, and do not consider that any will have a material impact on the future results of the Group.

(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 basis of consolidation of the acquisition of Epic Group Limited by the Company in November 2013 is described in the basis of preparation above in Note 2(a). The substance of 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.

Business combinations other than noted above are accounted for under the acquisition method.

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, plus any costs directly attributable to the business combination. 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

The Group has applied IFRS 11 to all joint arrangements 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 which are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

(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 over their useful lives which are individually assessed.

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 if, and only if, an entity can demonstrate all of the following:

(i) Its ability to measure reliably the expenditure attributable to the asset under development;

(ii) The product or process is technically and commercially feasible;

(iii) Its future economic benefits are probable;

(iv) Its ability to use or sell the developed asset; and

(v) The availability of adequate technical, financial and other resources to complete the asset under development.

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 three 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 *(continued)*

For the year ended 31 December 2014

(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 instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

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.

A financial instrument is recognised initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

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. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

(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.

The Group classifies all its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Loans and receivables financial assets

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

ii) Financial liabilities

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

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

Fair value through 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. There were no financial liabilities classified under this category.

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 as liabilities when approved for appropriation.

(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.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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.

The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the income statement within other income/(expenses). Any revaluation reserve included in equity is transferred directly to retained profits on retirement or disposal of the asset.

(h) Long-term contracts

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Revenue for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value in use, which is measured by reference to discounted future cash flow.

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.

(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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

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.

Deferred tax relating to acquired intangible assets is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity.

Deferred tax arising from a business combination is included in the resulting goodwill or excess of the acquirer's interest in the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities over the business combination costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

(k) Cash and cash equivalents

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

(l) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution plans

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

(m) Provisions, contingent liabilities and contingent assets

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 a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Notes to the Financial Statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(n) Related parties

A party is related to an entity if:

(i) Directly, or indirectly through one or more intermediaries, the party:

- Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- Has an interest in the entity that gives it significant influence over the entity; or
- Has joint control over the entity;

(ii) The party is an associate of the entity;

(iii) The party is a joint venture in which the entity is a venturer;

(iv) The party is a member of the key management personnel of the entity or its parent;

(v) The party is a close member of the family of any individual referred to in (i) or (iv);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

(vi) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(o) Revenue and other income

(i) Services

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 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.

(ii) Interest income

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.

(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 22 to the Consolidated Financial Statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 to 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.

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.

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.

Deferred 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 29 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.

See Notes 11 and 29 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 EBITDA, calculated as adjusted operating profit before
  - Depreciation and amortisation;
  - Long-term growth rates; and
  - The selection of discount rates to reflect the risks involved.

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

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

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 consummate 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 each of the two years ended 31 December 2014.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 £'000	Europe £'000	America £'000	Other £'000	Total £'000
31 December 2014 revenue	**11,893**	**997**	**1,977**	**53**	**14,920**
Non-current assets	12,315	-	6	16	12,337
31 December 2013 (proforma) revenue	**6,534**	**808**	**215**	**-**	**7,557**
Non-current assets	400	-	-	-	400

Information about major customers

In the year ended 31 December 2014, no single customer accounted for more than 10 per cent of reported revenues. In the year ended 31 December 2013, one customer generated revenues of £760,000 being for more than 10 per cent of reported revenues.

5. Loss before taxation

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

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Costs of acquisition	296	950
Deemed cost of listing	-	1,108
Integration costs	325	-
Amortisation of acquired intangible assets	570	-
Amortisation of software development costs	89	75
Auditors' remuneration	43	20
Other fees payable to auditors		
• Reverse acquisition costs	-	47
• Acquisition costs	72	-
• Taxation	15	8
Depreciation of property, plant and equipment	171	79
Directors' fees	500	228

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Directors' pension contributions	3	2
Staff costs (including Directors):		
• Salaries, allowances and bonuses	7,565	4,099
• Social security costs	796	423
• Defined contribution pension plan costs	188	65
Rental of offices	365	126
Research and development	50	-
Finance charges	162	-
Interest income	(4)	(7)

6. Staff costs

	31 Dec 2014	Proforma 31 Dec 2013
	No.	No.
The average monthly number of employees was:	198	107

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Aggregate remuneration (including Directors):		
Wages and salaries (including bonuses)	7,565	4,099
Social security costs	796	423
Share-based payments	583	528
Pension costs	188	65
	9,132	5,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 Dec 2014	Salary or fees £'000	Bonuses £'000	Pension contribution £'000	Share-based payments £'000	Total £'000
Andrew Brode	-	-	-	-	-
Harry Hill	30	-	-	-	30
Jonathan Satchell	200	25	-	-	225
Neil Elton	21	-	-	-	21
Piers Lea	62	-	1	-	63
Dale Solomon	72	21	1	163	257
Leslie-Ann Reed	15	-	-	-	15
Peter Mountford	65	-	-	133	198
Richard Jones	35	-	1	38	74
	500	46	3	334	883

Year ended 31 Dec 2013	Salary or fees £'000	Bonuses £'000	Pension contribution £'000	Share-based payments £'000	Total £'000
Andrew Brode	-	-	-	-	-
Harry Hill	25	-	-	-	25
Jonathan Satchell	18	-	-	-	18
Peter Mountford	13	-	-	24	37
Peter Gordon	31	-	-	-	31
	87	-	-	24	111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 £50,000 (2013: £9,000).

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 2013 or 31 December 2014.

Directors' interests in the shares of the Company at 31 December 2014 and 31 December 2013, and any changes subsequent to 31 December 2014, are as follows:

LTG Ordinary Shares of £0.00375 each	Options				Shares	
	2014	2013	2014	2013	2014	2013
	Average Exercise Price (pence)		Number		Number	
Andrew Brode	-	-	-	-	113,215,005	113,215,005
Harry Hill	-	-	-	-	1,830,000	1,830,000
Jonathan Satchell	-	-	-	-	113,214,995	113,214,995
Leslie-Ann Reed	-	-	-	-	-	-
Neil Elton	-	-	-	-	-	-
Piers Lea	-	-	-	-	17,023,383	-
Dale Solomon	5.88	5.88	21,866,013	6,063,561	-	-
	5.88	**5.88**	**21,866,013**	**6,063,561**	**245,283,383**	**228,260,000**

Dale Solomon was granted 16,002,452 unapproved share options on 17 February 2014. The exercise price was 5.88 pence and the vesting of the new share options are subject to the achievement of demanding performance criteria based upon significant share price increases. On 21 November 2014, he exercised 200,000 options granted in May 2012.

Peter Mountford resigned as a director of the Company with effect from 23 September 2014. Of the 11,033,000 share options that he held, 8,033,000 were forfeited. The balance remains exercisable.

Richard Jones resigned as a director of the Company with effect from 3 November 2014. Of the 9,345,887 share options that he held, 5,668,473 were forfeited. The balance remains exercisable.

On 26 January 2015, Jonathan Satchell sold 3,000,000 Ordinary Shares of 0.375 pence each in the Company 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

the Company's Ordinary Shares of 0.375 pence each at an exercise price of 19.000 pence per share. The vesting of the new share options are subject to the achievement of demanding performance criteria based upon significant share price increases.

See Note 22 for further details on share option plans.

Other transactions

During the normal course of business, the Group purchased translation and accommodation services from RWS Group Limited totalling £185,000 in the year ended 31 December 2014 (2013: £169,000). Andrew Brode is the Chairman of RWS Group Limited. The amount due to RWS Group Limited at 31 December 2014 was £35,000 (31 December 2013: £82,000). These balances are included in trade and other payables (refer to Note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

8. Income tax

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Current tax expense:		
- For the financial year	214	205
Deferred tax (Note 17) - origination and reversal of temporary differences	102	(23)
- Release on amortisation of intangibles	(120)	-
- Deferred tax credit on share options	(192)	-
- Under provision in the previous financial year	31	-
Deferred tax (release)	(179)	(23)
Income tax expense	**35**	**182**

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 2014 £'000	Proforma 31 Dec 2013 £'000
Loss before taxation	(127)	(926)
Tax calculated at weighted average statutory tax rates applicable to results	(35)	(215)
Tax effects of:		
Non-deductible expenses	19	489
Capital allowances and other short-term differences not recognised for tax purposes	(60)	(18)
Share-based payments not recognised for tax purposes	156	40
Other permanent differences		170
Loss relief	(48)	22
Results of joint venture	44	7
Others	(32)	-
Current tax expense for the financial year	214	205
Deferred tax (release)	(179)	(23)
Income tax expense	**35**	**182**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

The weighted average statutory applicable tax rate was 27.7% (2013: 23.3%). The increase in the current year reflects an increase in profits generated overseas which are subject to higher rates of tax than in the UK.

9. Earnings per share

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Basic loss per share (pence)	(0.049)	(0.429)
Diluted loss per share (pence)	(0.049)	(0.429)
Adjusted basic earnings per share (pence)	0.613	0.495
Adjusted diluted earnings per share (pence)	0.584	0.450

Basic earnings per share is calculated by dividing the loss/profit 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. The share options in issue during the year to 31 December 2014 are anti-dilutive and therefore are not included in the above calculation of diluted earnings per share.

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 loss/profit after tax attributable to equity holders of the Group for certain charges as set out in the table on the following page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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

	(Loss)/Profit after tax £'000	2014 Weighted average number of shares '000	Pence per share	(Loss)/Profit after tax £'000	2013 Weighted average number of shares '000	Pence per share
Basic earnings per ordinary share	(162)	332,027	(0.049)	(1,108)	258,138	(0.429)
Effect of adjustments:						
Depreciation	171			79		
Amortisation of intangibles	659			75		
Share based payment costs	583			173		
Integration costs	325			-		
Deemed cost of listing	-			1,108		
Cost of acquisitions	296			950		
Finance expense	162			-		
Effect of adjustments	2,196	-	0.662	2,385	-	0.924
Adjusted basic earnings per ordinary share	2,034	332,027	0.613	1,277	258,138	0.495
Effect of dilutive potential ordinary shares:						
Share options	-	16,063	(0.029)	-	25,609	(0.045)
Adjusted diluted earnings per ordinary share	2,034	348,090	0.584	1,277	283,747	0.450

In calculating the weighted average number of ordinary shares outstanding during the pro forma year ended 31 December 2013 the number of ordinary shares outstanding from the beginning of the period to the acquisition date was computed, on the basis of the weighted average number of ordinary shares of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement, and the number of ordinary shares outstanding from the acquisition date to the end of the period was the actual number of ordinary shares of the legal acquirer (the accounting acquiree) outstanding during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

10. Property, plant and equipment

	Computer equipment £'000	Fixtures and fittings £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 January 2013 (proforma)	835	184	76	1,095
Additions	32	17	14	63
At 31 December 2013	867	201	90	1,158
Additions on acquisitions	101	22	13	136
Additions	114	3	1	118
Foreign exchange differences	6	-	-	6
At 31 December 2014	1,088	226	104	1,418
Accumulated depreciation				
At 1 January 2013 (proforma)	708	45	76	829
Charge for the year	10	66	3	79
At 31 December 2013	718	111	79	908
Charge for the year	102	54	15	171
At 31 December 2014	820	165	94	1,079
Net book value				
At 31 December 2013	149	90	11	250
At 31 December 2014	268	61	10	339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

11. Intangible assets

	Goodwill £'000	Customer contracts and relationships £'000	Branding £'000	Software development £'000	Total £'000
Cost					
At 1 January 2013	-	-	-	290	290
Additions	-	-	-	77	77
At 31 December 2013	-	-	-	367	367
Additions	9,615	1,880	180	198	11,873
At 31 December 2014	9,615	1,880	180	565	12,240
Accumulated amortisation					
At 1 January 2013	-	-	-	142	142
Amortisation charged in year	-	-	-	75	75
At 31 December 2013	-	-	-	217	217
Amortisation charged in year	-	546	24	89	659
At 31 December 2014	-	546	24	306	876
Carrying amount					
At 31 December 2013	-	-	-	150	150
At 31 December 2014	9,615	1,334	156	259	11,364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

Goodwill and acquisition-related intangible assets recognised have arisen from acquisitions during the year. Refer to Note 29 for further details.

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. Following the acquisition of LINE and its merger with Epic in July 2014 to form LEO, management have determined that LEO represents one CGU. The carrying amount of goodwill has been allocated as follows:

CGU	Goodwill £'000	Long-term growth rate %	Post-tax discount rate %
LEO	7,435	8%	11.0%
Preloaded	2,180	9%	12.5%
	9,615		

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 and growth rates. The Group monitors its post-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 post-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.

Software development

Software development costs principally comprise expenditure incurred on major software development projects 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 three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

12. Investments accounted for using the equity method

	31 Dec 2014 £000	31 Dec 2013 £000
Investment in joint venture:		
Cost of investment	228	49
Share of accumulated losses	(209)	(49)
Foreign exchange differences	(3)	-
	16	-

The movements in joint venture investments is as follows:

	31 Dec 2014 £000	31 Dec 2013 £000
Balance at beginning of year	-	32
Share of losses for the year	(160)	(32)
Investment during the year	179	-
Foreign exchange differences	(3)	-
	16	-

Joint venture

Epic Group Limited acquired a 50% interest in Epic Brasil Tecnologia Educacional Ltda 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.

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 2013 and 31 December 2014 is listed below.

Name of entity	Country of registration or incorporation	Principal activity	Percentage of Ordinary Shares held by Group
Epic Brasil Tecnologia Educacional Ltda	Brazil	Bespoke e-learning	50%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 co-terminous with that of the Company. There are no contingent liabilities or commitments relating to the Group's interest in the joint venture.

Summarised financial information for the joint venture

Set out below is summarised financial information for Epic Brasil Tecnologia Educacional Ltda 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.

Summarised statement of financial position:

	31 December 2014 £'000	31 December 2013 £'000
Non-current assets	51	36
Current assets		
Cash and cash equivalents	7	117
Other current assets	207	189
Total current assets	214	306
Current liabilities		
Financial liabilities (excluding trade payables)	-	-
Other current liabilities (including trade payables)	(232)	(404)
	(232)	(404)
Net assets/(liabilities)	33	(62)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

Summarised statement of comprehensive income:

	Year ended 31 Dec 2014 £'000	Year ended 31 Dec 2013 £'000
Revenue	776	404
Depreciation and amortisation	(11)	-
Interest expense	-	(2)
Loss from continuing operations	**(251)**	**(134)**
Income tax expense / release	-	-
(Loss) for the year	**(251)**	**(134)**
Other comprehensive (expense) / income	-	-
Total comprehensive (loss) for the year	**(251)**	**(134)**

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 2014 totalled £nil (year ended 31 December 2013: £35,000).

Reconciliation of summarised financial information:

	31 Dec 2014 £'000	31 Dec 2013 £'000
Opening net (liabilities)/assets at 1 January	**(62)**	**64**
(Loss) for the year	(251)	(134)
Issue of share capital	323	-
Foreign exchange differences	23	8
Closing net assets/(liabilities)	**33**	**(62)**
Interest in joint venture at 50%	16	(31)
Carrying value	**16**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

13. Trade receivables

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Trade receivables	2,772	1,247
Allowance for impairment losses	(10)	(10)
	2,762	**1,237**

Impairment losses:		
At 1 January	10	10
Additions	-	-
Amounts written-back	-	-
At 31 December	**10**	**10**

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.

14. Other receivables, deposits and prepayments

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Sundry receivables	12	-
Prepayments	325	86
	337	**86**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

15. Amount recoverable on contracts

	31 Dec 2014 £'000	31 Dec 2013 £'000
Cost incurred to date	4,567	1,478
Attributable profits	6,132	2,038
Progress billings	(8,893)	(2,569)
	1,806	947
Represented by:		
Amount owing by contract customers	1,806	947
Amount of contract revenue recognised as revenue (Note 3)	14,920	7,557
Amount of contract costs recognised as expenses	6,206	2,978

16. Cash and cash equivalents

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

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Cash and bank balances	4,358	1,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

17. Deferred tax assets/(liabilities)

Deferred tax assets	31 Dec 2014 £'000	31 Dec 2013 £'000
At 1 January	1	-
Acquisition of subsidiaries	69	-
Deferred tax credit on share options in issue	548	-
Other provisions for the year	-	1
Deferred tax on excess tax deduction arising on share options	356	-
At 31 December	**618**	**1**

Deferred tax liabilities	31 Dec 2014 £'000	31 Dec 2013 £'000
At 1 January	-	(22)
Deferred tax on acquired intangibles	(433)	-
Release on amortisation of intangibles	120	-
Other provisions for the year (credit)/debit	(102)	22
Under provision in earlier years (Note 8)	(31)	-
At 31 December	**(446)**	**-**

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. An analysis of deferred tax assets and liabilities is as follows:

	31 Dec 2014 £'000	31 Dec 2013 £'000
Deferred tax on share options	548	-
Temporary differences	70	1
Deferred tax assets	**618**	**1**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

	31 Dec 2014 £'000	31 Dec 2013 £'000
Deferred tax on intangible assets	(313)	-
Temporary differences	(133)	-
Deferred tax liabilities	**(446)**	**-**

18. Trade and other payables

	31 Dec 2014 £'000	31 Dec 2013 £'000
Trade payables	546	281
Payments received on account	1,505	1,217
Tax and social security	672	429
Contingent consideration	1,087	-
Accruals and others	1,022	279
	4,832	**2,206**

The contingent consideration is payable in 2015 as described in Note 29 to the Financial Statements.

19. Other long-term liabilities

	31 Dec 2014 £'000	31 Dec 2013 £'000
Contingent consideration	1,512	-
At 31 December	**1,512**	**-**

The contingent consideration is payable in 2016 as described in Note 29 to the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

20. Provisions

	31 Dec 2014 £'000	31 Dec 2013 £'000
Property costs		
At 1 January	30	86
Paid in the year	-	(62)
Recognised in profit or loss	19	6
At 31 December	**49**	**30**

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

21. Share capital

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2014	275,825,000	1,034	1,159	2,193
Placing of shares	50,000,000	187	7,813	8,000
Transaction costs	-	-	(272)	(272)
Issue of shares to acquire LINE Communications Holding Limited	24,187,500	91	3,779	3,870
Issue of shares to acquire Preloaded Limited	3,125,000	12	597	609
Shares issued on the exercise of options	1,357,946	5	22	27
At 31 December 2014	**354,495,446**	**1,329**	**13,098**	**14,427**

The Company has no authorised share capital. The par value of all shares is £0.0375. All shares in issue were allotted, called up and fully paid.

On 8 April 2014, the Company announced that it had agreed to acquire the entire issued share capital of LINE Communications Group Limited ('LINE'). The cash element of the acquisition consideration was funded from part of the proceeds of the placing of 50,000,000 new shares in the Company to raise £8 million at 16 pence per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

In addition, 24,187,500 new shares were issued to the shareholders of LINE for a total of £3,870,000.

On 13 May 2014, the Company announced that it entered into an agreement to acquire the entire issued share capital of Preloaded Limited. Part of the initial consideration of approximately £2.2 million was settled by the issue of 3,125,000 ordinary shares in LTG.

Further details of the acquisitions are described in Note 29.

A further 1,357,946 ordinary shares were issued during the course of the year as a result of the exercise of employee share options.

22. Share-based payment transactions

The Group's share-based payment arrangements are summarised below.

(a) EMI Share option plans

	Number of options	Year ended 31 Dec 2014 Weighted average exercise price (pence)	Number of options	Year ended 31 Dec 2013 Weighted average exercise price (pence)
Epic Share option scheme:				
At 1 January	-	-	2,312,341	17.8227
Granted	-	-	272,020	25.7315
Lapsed during the year	-	-	(124,685)	17.8227
Exercised	-	-	(1,117,555)	17.8227
Options modified to New Scheme (see note below)	-	-	(1,342,121)	19.4257
At 31 December	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

	Number of options	Year ended 31 Dec 2014 Weighted average exercise price (pence)	Number of options	Year ended 31 Dec 2013 Weighted average exercise price (pence)
New Share Option Scheme:				
At 1 January	24,240,723	5.88	-	-
Options modified from Epic scheme (see note below)	-	-	13,207,724	2.05
Options granted by Company	6,000,000	17.06	11,032,999	5.88
Forfeited	(3,633,861)	5.88	-	-
Exercised during the year	(1,357,952)	5.88	-	-
At 31 December	**25,248,910**	**8.54**	**24,240,723**	**5.88**

(b) Unapproved share option plans

	Number of options	Year ended 31 Dec 2014 Weighted average exercise price (pence)	Number of options	Year ended 31 Dec 2013 Weighted average exercise price (pence)
Epic Share Option Scheme:				
At 1 January	-	-	136,020	17.8227
Granted	-	-	-	-
Options modified to New Scheme (see note below)	-	-	(136,020)	17.8227
At 31 December	**-**	**-**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

	Number of options	Year ended 31 Dec 2014 Weighted average exercise price (pence)	Number of options	Year ended 31 Dec 2013 Weighted average exercise price (pence)
New Share Option Scheme:				
At 1 January	**4,070,269**	**5.88**	**-**	**-**
Options modified from Epic scheme (see note below)	-	-	787,952	1.88
Granted by Company	22,787,747	5.88	3,282,317	5.88
Forfeited	(10,455,564)	5.88	-	-
At 31 December	**16,402,452**	**5.88**	**4,070,269**	**5.88**

As part of its strategy for executive and key employee remuneration, the Company established on Admission to AIM, the New Share Option Scheme under which share options may be granted to officers and employees or members of the Group. Under the rules of the New Share Option Scheme, the Company may grant EMI Options and/or Unapproved 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 New Share Option Scheme do not comply with the ABI's guidelines on policies and practices in respect of executive remuneration.

The Company previously had in place the In-Deed Online Share Option Scheme which was adopted on 9 June 2011. However, all options granted under that scheme have either been waived or lapsed.

At the time of reverse takeover of Epic by LTG in November 2013, option holders in the Epic Share Option Scheme were able to either exercise their options or modify them into share options in the New Share Option Scheme. The number of such options and the exercise price of such options were determined by reference to the closing mid-market price of the Ordinary Shares on the day of Admission of 9.0 pence. The modification of these options as described had a neutral affect on the option holders immediately before and after the amendment of the options. These modifications are set out in the tables above.

(c) Sharesave option scheme

The Company established the 2014 Learning Technologies Group plc Sharesave Scheme in April 2014. 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. 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 pence per share (the 'Option Price'), being a discount of 20% on the share price as of 28 April 2014. At the end of three years, an employee may either opt to buy shares at the Option Price or take the savings in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

	Number of options	Year ended 31 Dec 2013 Weighted average exercise price (pence)
Sharesave Option Scheme:		
At 1 January	-	-
Granted by Company	5,042,363	16.25
Forfeited	(1,054,506)	16.25
At 31 December	**3,987,857**	**16.25**

At 31 December 2014, 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							
	Approved	Unapproved scheme	Sharesave Scheme	Exercise Price (pence)	Remaining vesting period	Fair value of options (pence)	Life (years)	Volatility
May 2012	9,274,014	400,000	-	5.88	-	12.52	10	45%
Jun 2013	2,575,758	-	-	5.88	-	11.96	10	45%
Nov 2013	7,399,138	-	-	5.88	-	10.46	10	45%
Feb 2014	-	8,001,226	-	5.88	Feb 2017	4.91	10	45%
Feb 2014	-	4,000,613	-	5.88	Feb 2017	3.28	10	45%
Feb 2014	-	4,000,613	-	5.88	Feb 2017	2.4	10	45%
Mar 2014	400,000	-	-	15.5	Mar 2015	8.76	10	45%
Mar 2014	400,000	-	-	15.5	Dec 2015	8.76	10	45%
Mar 2014	400,000	-	-	15.5	Dec 2016	8.76	10	45%
Mar 2014	400,000	-	-	15.5	Dec 2017	8.76	10	45%
Apr 2014	-	-	3,987,857	16.25	-	7.57	3	45%
Nov 2014	850,000	-	-	17.625	Nov 2015	9.96	10	45%
Nov 2014	250,000	-	-	17.625	Jan 2016	9.96	10	45%
Nov 2014	1,100,000	-	-	17.625	Jan 2017	9.96	10	45%
Nov 2014	1,100,000	-	-	17.625	Jan 2018	9.96	10	45%
Nov 2014	1,100,000	-	-	17.625	Jan 2019	9.96	10	45%
Totals	**25,248,910**	**16,402,452**	**3,987,857**					

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 of the EMI Option Scheme was £0.170 (2013: £0.140) and estimated fair value of each share option granted was £0.0964 (2013: £0.1046).

The weighted average share price of the options granted during the year in the Unapproved Share Option Scheme was £0.180 (2013:£0.140) and estimated fair value of each share option granted was £0.03875 (2013: £0.1046).

The weighted average share price at grant date of the Sharesave Scheme was £0.195 and the estimated fair value of each share option was £0.0757. It is assumed that 75% of members will remain in the Group after three years.

The weighted average share price at the date of exercise of options under the EMI Share Option Scheme was £0.1876.

A 1.78% (2013: 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. In the absence of a liquid market for the share capital of the Group, the expected volatility of its share price is difficult to calculate. Therefore the Directors have considered the expected volatility used by listed entities in similar operating environments to calculate the expected volatility.

The expense and equity reserve arising from share-based payment transactions recognised in the year ended 31 December 2014 was £583,000 (year ended 31 December 2013: £528,000), summarised as follows:

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Recognised within:		
Reverse acquisition transaction costs	-	355
Other expenses	583	173
	583	528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

23. Subsidiaries of the Group

The principal subsidiaries of the Group, all of which are private companies limited by shares, as at 31 December 2014 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 Inc	USA	Bespoke e-learning	100%
Preloaded Limited	England and Wales	Educational Games	100%

The accounting reference date of each of the subsidiaries is co-terminus with that of the Company.

24. 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 capital redemption reserve represented the aggregate nominal value of all the ordinary shares repurchased and cancelled by Epic Group Limited and was eliminated on reverse acquisition in November 2013.

The merger relief 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 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 year end at fair value (see Note 22).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

25. Related party transactions

	31 Dec 2014 £'000	31 Dec 2013 £'000
Amount owing (to) joint venture:		
Current		
Non-trade balances	-	30

The amounts owing to related parties were unsecured, interest-free and repayable on demand. The amounts owing at 31 December 2013 were settled in cash during the year ended 31 December 2014.

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

The remuneration, interests and related party transactions with the Directors of the Company, considered to be the key management personnel of the entity, are disclosed in Note 7.

Transactions with joint venture

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

26. Dividends paid

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Interim dividend paid	107	300

27. 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 *(continued)*

For the year ended 31 December 2014

The carrying amounts of the Group's foreign currency denominated monetary 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 2014					
Financial assets	1,078	16	19	70	1,183
Financial liabilities	238	-	-	193	431
31 December 2013					
Financial assets	122	-	-	-	122
Financial liabilities	11	30	-	-	41

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 Dec 2014 increase/(decrease) £'000	Proforma 31 Dec 2013 increase/(decrease) £'000
Effects on profit after taxation/equity		
United States Dollar		
- Strengthened by 10%	84	10
- Weakened by 10%	(84)	(10)
Brazilian Real		
- Strengthened by 10%	15	(7)
- Weakened by 10%	(15)	7
Euro		
- Strengthened by 10%	2	-
- Weakened by 10%	(2)	-
Swiss Franc		
- Strengthened by 10%	(12)	-
- Weakened by 10%	12	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

(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

As the Group has no third party borrowings, a 100 basis points strengthening/weakening of the interest rate as at the end of each year would have immaterial impact on profit after taxation and/or equity. This assumes that all other variables remain constant.

(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

Apart from one customer at 31 December 2014, which constituted approximately 14% (2013: 20%) of the Group's trade receivables at that date, the Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines major credit risk as exposure to a concentration exceeding 10% of a total class of such asset.

Exposure to credit risk

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

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

	31 Dec 2014 £'000	31 Dec 2013 £'000
United Kingdom	2,463	1,136
United States	291	55
Europe	18	56
Allowance for impairment losses	(10)	(10)
	2,762	1,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

Ageing analysis

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

	31 Dec 2014 £'000	Proforma 31 Dec 2013 £'000
Not past due	1,246	797
Past due:		
- Less than three months	1,287	427
- Three to six months	239	23
Gross amount	**2,772**	**1,247**

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 past default experience.

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 substantially 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 the 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.

(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 2014 the Group undertook a share placing of £8 million primarily in order to part finance the acquisition of LINE and Preloaded. The Group has no external debt finance and is not subject to any external capital requirements.

During the year LEO Learning Limited and Preloaded Limited made dividend distributions to the Company. The Company made a maiden dividend distribution of 0.03 pence per share to shareholders during the year.

Total equity increased from £1.5 million to £13.9 million during the year and net funds increased from £1.2 million to £4.4 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

(c) Classification of financial instruments

	31 Dec 2014 £'000	31 Dec 2013 £'000
Financial assets		
Loans and receivables financial assets		
Trade receivables	2,762	1,237
Amounts recoverable on contracts	1,806	947
Other receivables, deposits and prepayments	337	86
Cash and bank balances	4,358	1,170
	9,263	**3,440**
Financial liabilities		
At amortised cost		
Trade and other payables	6,344	2,206
Corporation tax	352	87
Amount owing to related parties	-	30
Provisions	49	30
	6,745	**2,353**

(d) Fair values of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

28. Commitments

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

	31 Dec 2014 land and buildings £000	31 Dec 2013 land and buildings £000
Operating leases which expire:		
Within one year	312	145
In the second to fifth years inclusive	455	363
Over five years	-	-
Aggregate amounts payable	**767**	**508**

Payments recognised as an expense under these operating leases were as follows:

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Minimum lease payments	**365**	**126**

29. Acquisitions

LINE Communications Holding Limited

On 7 April 2014, the Company acquired 100% of the issued share capital of LINE Communications Holdings Limited ('LINE'), a company engaged in the design of fully blended e-learning solutions. The investment was made in order to enable LTG to combine LINE with its existing company Epic to create a European leader in the e-learning custom content market ('LEO').

The consideration paid comprised £5,130,000 in cash and £3,870,000 in the form of 24,187,500 newly issued LTG shares. There is no deferred consideration payable. Acquisition costs of £206,000 were expensed in the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

	Book value £000	Fair value £000
Consideration		
Cash		5,130
Equity instruments (24,187,500 Ordinary Shares)		3,870
Total consideration		**9,000**
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	1,258	1,258
Property, plant and equipment	110	110
Gross trade and other receivables	2,546	2,546
Deferred tax assets	70	70
Trade and other payables	(2,728)	(2,728)
Borrowings	(465)	(465)
Deferred tax liabilities	-	(206)
Intangible assets identified on acquisition	-	980
Total identifiable net assets	**791**	**1,565**
Goodwill		**7,435**
Total		**9,000**

The goodwill arising is attributable to the acquired workforce, anticipated future profit from expansion opportunities and synergies of the business. Fair value adjustments have been recognised for acquisition-related intangible assets and related deferred tax and in alignment of accounting policies.

Acquisition-related intangible assets of £1.0 million relates to the valuation of the customer relationships and software and will be amortised over a period of two to five years.

A deferred tax liability of £0.2 million in respect of the acquisition-related intangible assets was established on acquisition (refer to Note 17).

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

The trade and other receivable amounts acquired, noted in the table above, are before allowance for any uncollectable amounts. The Directors do not consider any such allowance is needed.

Following the integration of LINE with Epic to form LEO, goodwill arising from the acquisition has been allocated to the LEO CGU.

LINE is estimated to have contributed £5.1 million of revenue for the period between the date of acquisition and the balance sheet date and £0.4 million of profit before tax. If the acquisition

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

of LINE had been completed on the first day of the financial year, Group revenues would have been £2.3 million higher and group profit attributable to equity holders of the parent would have been £0.1 million higher.

Preloaded Limited

On 12 May 2014, the Company acquired 100% of the issued share capital of Preloaded Limited ('Preloaded'), a company engaged in the design of educational games. As a result of the acquisition, the Group is expected to increase its presence in this market.

The consideration paid comprised an initial consideration of £2,200,000 comprising £1,590,625 cash, of which £1,200,000 was paid immediately with the remaining £390,625 to be paid within 12 months, and £609,375 in newly issued LTG shares. In addition, contingent consideration of up to £3,400,000 is payable based on the achievement of revenue targets in 2014 and 2015. Contingent consideration has been reassessed to take account of any recent estimates in the contingent consideration and the other deferred consideration payments have been discounted using a discount factor of 10% and are held as liabilities on the balance sheet and are payable in cash or LTG shares at the option of LTG. A finance expense of £162,000 in the year reflects the prorated finance charge for the discounted element of the contingent deferred consideration. Acquisition costs of £90,000 were expensed in the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

	Book value £000	Fair value £000
Consideration		
Cash		1,200
Cash due during first 12 months		405
Equity instruments (3,125,000 ordinary shares)		609
Contingent consideration due in 2015		1,019
Contingent consideration due in 2016		1,405
Total consideration		**4,638**
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	1,236	1,236
Property, plant and equipment	27	27
Gross trade and other receivables	493	494
Trade and other payables	(152)	(152)
Deferred tax liabilities	-	(227)
Intangible assets identified on acquisition	-	1,080
Total identifiable net assets	**1,604**	**2,458**
Goodwill		**2,180**
Total		**4,638**

The goodwill arising is attributable to the acquired workforce, anticipated future profit from expansion opportunities and synergies of the business. Fair value adjustments have been recognised for acquisition-related intangible assets and related deferred tax and in alignment of accounting policies.

Acquisition related intangible assets of £0.9 million relate to the valuation of the customer relationships which are amortised over a period of two years and £0.2 million which relates to the value of the Preloaded brand and is amortised over five years.

A deferred tax liability of £0.2 million in respect of the acquisition-related intangible assets was established on acquisition (refer to Note 17). None of the goodwill is expected to be deductible for income tax purposes.

The trade and other receivable amounts acquired, noted in the table above, are before allowance for any uncollectable amounts. The Directors do not consider any such allowance is needed.

Goodwill arising from the acquisition has been allocated to the Preloaded CGU.

Preloaded contributed £1.5 million of revenue for the period between the date of acquisition and the balance sheet date and £0.5 million of profit before tax. If the acquisition of Preloaded had been completed on the first day of the financial year, Group revenues would have been £0.6 million higher and group profit attributable to equity holders of the parent would have been £0.1 million higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

30. Subsequent events

On 3 March 2015, the Group incorporated Learning Technologies Group (Trustee) Limited, a wholly owned subsidiary of Learning Technologies Group plc. 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. As at the date of this report the EBT had not entered into any transactions.

COMPANY STATEMENT OF FINANCIAL POSITION *(Registered no: 07176993)*

As at 31 December 2014

	Note	31 Dec 2014 £'000	31 Dec 2013 £'000
Fixed assets			
Investment in subsidiaries	3	17,482	3,901
		17,482	**3,901**
Current assets			
Debtors	4	2,123	6
Deferred tax	5	192	-
Cash and bank balances		31	59
		2,154	**65**
Creditors			
Amounts falling due within one year	8	1,393	1,667
		1,393	**1,667**
Net current assets/(liabilities)		**953**	**(1,602)**
Total assets less current liabilities		**18,435**	**2,299**
Creditors			
Amounts falling due after more than one year	9	1,498	-
Net assets		**16,937**	**2,299**
Capital and reserves			
Share capital	7	1,329	1,034
Share premium account	7	13,098	1,159
Share based payments reserve	7	847	547
Retained profits/(Accumulated losses)		1,663	(441)
Shareholders' funds		**16,937**	**2,299**

The Notes on pages 92 to 97 form an integral part of these Financial Statements.

The Financial Statements on pages 90 to 97 were authorised for issue by the Board of Directors on 27 March 2015 and were signed on its behalf by Neil Elton, Group Finance Director

COMPANY RECONCILIATION OF SHAREHOLDERS' FUNDS

For the year ended 31 December 2014

	Note	Share capital £'000	Share premium £'000	Share based payments reserve £'000	Retained profits £'000	Total shareholders funds £'000
At 1 April 2013		**77**	**1,218**	**-**	**35**	**1,330**
Loss for the year		-	-	-	(601)	(601)
Issue of shares	6	957	23	-	-	980
Costs of issuing shares		-	(82)	-	-	(82)
Share-based payment charge credited to equity	11	-	-	672	-	672
Transfer on exercise and lapse of options		-	-	(125)	125	-
At 31 December 2013		**1,034**	**1,159**	**547**	**(441)**	**2,299**
Profit for the year		-	-	-	2,211	2,211
Issue of shares	6	295	12,211	-	-	12,506
Costs of issuing shares		-	(272)	-	-	(272)
Payment of dividends		-	-	-	(107)	(107)
Share-based payment charge credited to equity	11	-	-	583	-	583
Transfer on exercise and lapse of options		-	-	(283)	-	(283)
At 31 December 2014		**1,329**	**13,098**	**847**	**1,663**	**16,937**

Statement of total recognised gains and losses

A statement of total recognised gains and losses is not included in these Financial Statements as there are no recognised gains or losses in either the current financial year or previous financial year other than the results reported above.

There is no difference between the profit as disclosed in the profit and loss account and the profit on a historical cost basis.

The Notes on pages 92 to 97 form an integral part of these Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. 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 Company's Financial Statements were previously prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. Following the Company's acquisition of Epic Group Limited in November 2013, the Directors have continued to apply IFRS in the preparation of the Consolidated Financial Statements of the Group but adopted Generally Accepted Accounting Practice in the United Kingdom for the preparation of the Company's Financial Statements. This change has had an impact on share premium whereby the reverse acquisition of Epic Group Limited has been accounted for at par value with no share premium. Under IFRS the acquisition is accounted for at the fair value of the consideration paid as described in Note 2 (a) to the Consolidated Financial Statements.

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 (October 2009). It is considered appropriate to continue to prepare the Financial Statements on a going concern basis.

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 2014 is £2,211,000 (year ended 31 December 2013: loss of £601,000).

(b) Revenue recognition

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

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

(c) Interest revenue

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

(d) Fixed asset investments

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

(e) Foreign currencies

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

(f) Cash and cash equivalents

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

Deferred tax is recognised, with discounting, 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, except as otherwise required by FRS 19.

(h) Pensions

Defined contribution plans

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

(i) Related parties

A party is related to the Company if:

(i) Directly, or indirectly through one or more intermediaries, the party:

- Controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries);
- Has an interest in the Company that gives it significant influence over the Company; or
- Has joint control over the Company;

(ii) The party is an associate of the Company;

(iii) The party is a joint venture in which the Company is a venturer;

(iv) The party is a member of the key management personnel of the Company or its parent;

(v) The party is a close member of the family of any individual referred to in (i) or (iv);

(vi) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Company.

(j) 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 22 to the Consolidated Financial Statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the entity's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the entity revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

2. Segment reporting

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 Directors consider this to consummate one reportable segment.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

3. Investment in subsidiaries

	31 Dec 2014 £'000	31 Dec 2013 £'000
Cost		
At 1 January	**3,901**	**1,525**
Additions	13,581	3,901
Disposals	-	(1,525)
At 31 December	**17,482**	**3,901**
Amortisation/impairment:		
At 1 January	**-**	**1,525**
Provision for impairment	-	-
Disposals	-	(1,525)
At 31 December	**-**	**-**
Net Book Value	**17,482**	**3,901**

Details of the Company's acquisitions during the year ended 31 December 2014 are set out in Note 29 to the Consolidated Financial Statements.

On 14 May 2012, the Company acquired 100% of the issued share capital of Xanther Limited in exchange for an initial consideration of £225,000. Xanther Limited owned 100% of the issued share capital of Runnett & Co Limited, a company engaged in the provision of conveyancing services. Both companies were incorporated in England and Wales.

The investment was made to enable the Company to carry out conveyancing in-house as well as expanding its distribution to the estate agency network.

A contingent consideration of £1,300,000 required the Company to pay five times post tax profit to the vendors of Xanther Limited. The total value of payments was capped at £4 million.

Both subsidiaries were disposed of during the year ended 31 December 2013 for a consideration of £1 and effectively the transfer of intellectual property rights over the intangible assets. The contingent consideration was not payable and full provision for impairment was made at 31 March 2013.

Details of the Company's subsidiaries as at 31 December 2014 are set out in Note 23 to the Consolidated Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

4. Debtors

	31 Dec 2014 £'000	31 Dec 2013 £'000
Amounts due from subsidiary undertakings	2,079	-
Other debtors	44	6
	2,123	**6**

5. Deferred tax assets

	31 Dec 2014 £'000	31 Dec 2013 £'000
At 1 January	-	-
Deferred tax credit on share options in issue	192	-
	192	**-**

6. Share capital

Details of the Company's authorised, called-up and fully paid share capital are set out in Note 21 to the Consolidated Financial Statements.

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

7. Reserves

The share-based payment reserve arises from the requirement to value share options in existence at the year end at fair value.

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. In relation to the Company's reverse acquisition of Epic Group Limited, as the Company secured more than a 90% equity holding in Epic Group Limited on terms that the consideration for the shares allotted was provided by the transfer to the Company of equity shares in the Epic Group Limited, section 610 of the Companies Act 2006 does not apply to the premium on those shares. Accordingly, the share issue has been accounted for at par value with no share premium.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

8. Creditors: amounts falling due within one year

	31 Dec 2014 £'000	31 Dec 2013 £'000
Trade creditors	16	8
Amounts due to subsidiary undertakings	-	1,573
Other creditors and accruals	1,377	86
	1,393	**1,667**

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

	31 Dec 2014 £'000	31 Dec 2013 £'000
Other creditors and accruals	1,498	-

10. Related party transactions

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

The following transactions with subsidiaries occurred in the year:

	31 Dec 2014 £'000	31 Dec 2013 £'000
Opening amount due from related parties	(1,573)	2
Amounts advanced by/(repaid) from related parties	3,652	(1,575)
Closing amount due (to)/from related parties	**2,079**	**(1,573)**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

11. Share-based payments

The Company previously had in place the In-Deed Online Share Option Scheme which was adopted on 9 June 2011. However, all options granted under the scheme have either been waived or lapsed, as set out below. The Company established, on Admission to AIM, the New Share Option Scheme, details of which are disclosed in Note 22 to the Consolidated Financial Statements.

The expense and equity reserve arising from the New Share Option Scheme recognised in the year ended 31 December 2014 was £nil (year ended 31 December 2013: £nil). The share-based payments reserve relates to options over the Company's share capital held by employees of subsidiaries.

12. Dividends paid

	31 Dec 2014 £'000	31 Dec 2013 £'000
Interim dividend paid	107	300

13. Commitments

The Company had no commitments under non-cancellable operating leases at 31 December 2014 (year ended 31 December 2013: £nil).

Payments recognised as an expense under operating leases were as follows:

	Year ended 31 Dec 2014 £000	Year ended 31 Dec 2013 £000
Minimum lease payments	-	6

14. Subsequent events

Disclosures in relation to events subsequent to 31 December 2014 are shown in Note 30 to the Consolidated Financial Statements.

COMPANY INFORMATION

Directors

Andrew Brode
Non-executive Chairman

Jonathan Satchell
Chief Executive

Harry Hill
Non-executive Deputy Chairman

Piers Lea
Chief Strategy Officer

Neil Elton
Group Finance Director

Dale Solomon
Chief Operating Officer

Leslie-Ann Reed
Non-executive Director

Company Secretary

Neil Elton

Company number

07176993

Registered address

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Chartered Accountants and Statutory Auditors
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10 Salisbury Square
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Communications consultancy

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London
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Nominated adviser and broker

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Registrars

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