

HM PUBLISHERS HOLDINGS LIMITED

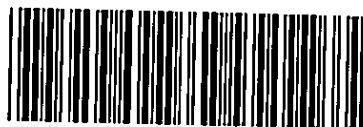
Company Registration No. 46694

HM PUBLISHERS HOLDINGS LIMITED

Consolidated Report and Financial Statements

31 December 2008

SATURDAY



AY9MZB9M

A08

04/07/2009

91

COMPANIES HOUSE

CONSOLIDATED REPORT AND FINANCIAL STATEMENTS 2008

CONTENTS	Page
General Information	1
Directors' Report	2
Statement of Directors' Responsibilities in relation to the Financial Statements	7
Independent Auditors' Report to the members of HM Publishers Holdings Limited	8
Consolidated HM Publishers Holdings Limited Financial Statements	
Consolidated Income Statement	9
Consolidated Balance Sheet	10
Consolidated Cash Flow	11
Consolidated Statement of Recognised Income and Expenditure	12
Notes to the Consolidated Financial Statements	
1. Authorisation of financial statements and statement of compliance with IFRS	13
2. Summary of significant accounting policies	13
3. Other financial information	22
4. Revenues and expenses	23
5. Staff costs and Directors' emoluments	24
6. Taxation	25
7. Profit attributable to members of parent company	27
8. Dividends paid	27
9. Property, plant and equipment	28
10. Intangible assets	29
11. Investment in associates	29
12. Business combinations	31
13. Impairment testing of goodwill with indefinite life	33
14. Employment benefits	35
15. Inventories	37
16. Trade and other receivables	37
17. Cash and cash equivalents	38
18. Issued share capital and reserves	38
19. Financial liabilities	42
20. Trade and other payables	42
21. Commitments and contingencies	43
22. Related party disclosures	44
23. Financial risk management objectives and policies	47
24. Financial instruments	49

HM PUBLISHERS HOLDINGS LIMITED

CONTENTS (continued)

HM Publishers Holdings Limited Company Financial Statements

Balance Sheet	52
Cash Flow	53
Statement of Changes in Equity	54
Notes to the Financial Statements	
25. Staff costs and Directors' emoluments	55
26. Deferred tax	55
27. Dividends paid	55
28. Property, plant and equipment	55
29. Investment in subsidiaries	56
30. Trade and other receivables	56
31. Cash and cash equivalents	56
32. Issued share capital	57
33. Financial liabilities	58
34. Trade and other payables	58
35. Commitments and contingencies	58
36. Related party disclosures	59

GENERAL INFORMATION

DIRECTORS

Dr S von Holtzbrinck	Chairman	
C J J Drinkall		(Resigned 1 October 2008)
W H Farries		
C E Fleming	Alternate for Dr A C Thomas	
Dr J Gutbrod		
R Nathan	Alternate for C J J Drinkall	(Resigned 1 October 2008)
	Alternate for J M Wheeldon	(Appointed 2 December 2008)
Dr A Reich	Alternate for Dr S von Holtzbrinck	
J Sargent		
J H Schwanewedel		(Appointed 1 November 2008)
Dr A C Thomas		
J M Wheeldon		(Appointed 1 October 2008)

SECRETARY

C E Fleming

REGISTERED OFFICE

Brunel Road
Houndmills
Basingstoke
Hampshire RG21 6XS

BANKERS

National Westminster Bank plc
3 London Street
Basingstoke
Hampshire RG21 7NS

SOLICITORS

Taylor Wessing
5 New Street Square
London
EC4A 3TW

AUDITORS

Ernst & Young LLP
Apex Plaza
Reading
RG1 1YE

DIRECTORS' REPORT

The directors present their report, the Group and Company financial statements for the year ended 31 December 2008.

Principal activities

The principal activities of the Company and its subsidiaries continued as the publishing of books and periodicals, and the provision of online and other services.

Business review and future developments

The Group had a successful year. Results were impacted following the global economic downturn towards the end of 2008 but the Group continues to benefit from the broad spread of its international business and the diversity of markets in which the Group operates. Group revenues increased by 13.3% to £819m (2007:£723m) with significant growth occurring in the STM business generated by Nature and its sister publications and the Group's International Education business. Operating profit of £70.1m was slightly down on the figure of £77.5m achieved in 2007 but remains very healthy in the current economic climate.

The 2007 figures reported in this year's financial statements have been restated from those disclosed last year due to a change in accounting policy relating to the Group's defined benefit pension plans. In accordance with IAS 19, the Group now fully recognises all actuarial gains and losses on the Balance Sheet. This replaces the "corridor" approach adopted previously. The change was adopted to come into line with the policy adopted by the Group's parent company.

The Group operates internationally in most countries in the world and as a consequence the Group is exposed to a wide variety of political and economic risks. The Group aims to spread these risks by a balanced approach to its overseas investments and adopts financial policies to minimise these. The Group however takes a long term view of these political and economic risks and is prepared to invest long term to maximise growth potential in both developing and developed markets.

The Group is exposed to risks and opportunities through the rapid development of electronic means of content delivery in the publishing and media markets. The Group has taken advantage of the opportunities presented by these developments in the STM market through its investment in online publishing within the Nature Publishing Group, and through the development of electronic content delivery in the Academic and College markets. The Group continues to invest for the future in the development of online content delivery in the Trade and Education markets.

The development of electronic publishing poses threats through the potential erosion of copyright and the unauthorised use of copyright material. The Group continues to defend vigorously its copyrights and takes action to oppose unauthorised use of copyright material.

The Group continues to place its highest priority on the publication of quality material in the diverse publishing markets which it serves. The Group continues to emphasise and invest in the development of its relationships with its authors, contributors and employees to ensure this.

Key factors in the main business sectors in which the Group operates were as follows:

ACADEMIC

The Palgrave Macmillan business had a steady year. Revenue in sterling terms was 8% ahead of last year at £39m (2007:£36.1m). The College market was relatively strong but revenues in the US Academic market were slightly behind expectations. The business continues to invest in internal development in its periodicals business which is seen as a strong market with significant growth possibilities. The business continues to generate healthy margins and is strongly cash positive.

STM

The Nature Publishing Group had another very good year. Revenues increased by 16.5% to £127.2m (2007:£109.2m). Results for the year benefitted from the release of archives of the Nature titles in electronic format. Growth in electronic subscriptions and site licences to Academic institutions worldwide continued and this is expected to be a continued area of future growth. The global recession meant that advertising revenues came under pressure in the year. Both international display advertising and classified job advertising through the Naturejobs.com website were impacted by this. The business continues to develop its range of titles, exploiting the Nature brand name and further expansion is planned for the future. The business continues to generate healthy margins and remains strongly cash positive.

DIRECTORS' REPORT**Business review and future developments (continued)****EDUCATION**

The Group had an excellent year and continued to exploit its unrivalled geographical spread of businesses in overseas markets. Revenues increased by 24% to £215m (2007: £173m). The Macmillan Oxford educational business continued to grow and reported excellent results in Europe, Asia and Africa and a performance ahead of expectations in its Latin American Businesses. Joint venture activities in China performed well again in the year. The Education business in India performed well, with an encouraging performance from Frank Brothers which was acquired in 2007. Markets in Southern Africa showed excellent growth. Prospects remain encouraging for the future and the business is well placed to exploit future growth. The Education businesses in Australia and New Zealand had a difficult year in depressed market conditions. In Ireland the Gill & Macmillan Education business also had a difficult trading year. The Campus English Language Teaching website continues to expand its customer base. The Group continues to regard Education as a significant growth area and continues to invest in development of targeted overseas markets. The business is exploring options to take advantage of developments in electronic delivery of content in International Educational markets.

In November 2007 the Group acquired an 80% interest in the Indian curriculum publisher Frank Brothers & Company (Publishers) Limited, with a commitment to acquire the remaining 20% at an agreed price in 2009. In March 2009, the Group increased its percentage shareholding in Macmillan Publishers India Ltd, the Group's demerged unlisted Indian publishing subsidiary to 88.1%. This gives the Group a market leading position in India in the non Government schools publishing market and positions the Group for further growth in the rapidly expanding Indian Educational, Academic and Professional Publishing markets.

FICTION AND NON-FICTION – UK AND ROW

The Group's Fiction and Non-Fiction publishing operations had a difficult year reflecting difficult trading conditions in the key selling season at the end of 2008. Revenues decreased by 3% to £98m (2007: £101m). Results for the year were adversely impacted by bad debt write offs in the UK. The UK retail market remains extremely competitive with pricing pressures continuing from the ongoing concentration of the UK retail market into the hands of the major bookselling chains and supermarkets. The Pan Australia and Pan New Zealand local publishing operations had a difficult year in depressed market conditions. Pan South Africa had an excellent year, achieving record sales performance.

FICTION AND NON-FICTION - US

The US Fiction and Non-Fiction publishing business had a difficult year particularly in the main selling season at the end of 2008 due to the general economic downturn. Revenues decreased in US dollar terms but due to the strengthening of the US dollar, increased in sterling terms by 7.9% to £195m (2007:£180m). The Group continues to pursue its strategy of organic growth through development of new authors. Results in the year were adversely affected by bad debt write-offs.

US COLLEGE

The US College business had a successful year and continues to perform well in the competitive US college market. Revenues increased in sterling terms by 18.7% to £113m (2007:£95m). The division continued to respond successfully to the challenges of pricing pressures in the US market caused by the continuing pressures of the US textbook secondhand market. The US university and college market is going through a rapid period of change with the increasing development of online publishing material and services for this new and growing market. Investments over the last few years in sales, marketing and new media have proven successful in both the revenue and income growth experienced during the year.

In July 2008 the Group acquired book rights and the associated assets to several history and college success titles from Cengage Learning Inc. through its subsidiary Bedford, Freeman & Worth LLC, which helped boost revenues in the year.

PUBLISHING SERVICES

The Group continues to invest in the provision of services to the publishing industry. The electronic data processing operation of Macmillan India Limited continues to develop its services, particularly the provision of back office and other electronic services to periodical publishers. Macmillan Production Asia had an excellent year, helped by substantial growth in sales to Macmillan Education markets in Africa, including South Africa. The distribution business in the UK, Australia, the US and Ireland had a more difficult year in 2008 following reductions in third party income. In the UK the slightly delayed move to the new Swansea warehouse also led to cost over-runs.

DIRECTORS' REPORT

Business review and future developments (continued)

Liquidity and capital resources

The financial position of the Group remains strong and the Group continues to be cash generative.

The consolidated cash flow statement shows a net increase in cash and cash equivalents in the year ended 31 December 2008 of £7.1m (2007: decrease of £15.7m). This figure is stated after payment of dividends to the Group's shareholders of £23.0m (2007: £21.0m).

At December 2008 the Group had net surplus funds on loan to fellow Group companies of £67.7m (2007: £100.4m). These funds are loaned to Group companies at market rates of interest and are included within amounts due from related parties in the consolidated balance sheet and cash flow statements and are as disclosed in note 22 to the accounts.

The main source of long term funding for the business is a multicurrency term facility with a consortium of banks arranged by the ultimate holding company. Details of the terms of these borrowings are disclosed in note 19 of the accounts.

Asset and capital structure

Equity and gearing

The Group's capital structure is as follows:

	Note	2008 £'000	2007 £'000
Cash and cash equivalents	17	28,978	22,029
Interest-bearing loans and borrowings	19	(110,122)	(65,866)
Net debt		(81,144)	(43,837)
Total equity	18	(343,503)	(309,022)
Total capital employed		(424,647)	(352,859)
Gearing		23.6%	14.2%

Profile of debt

The profile of the Group's debt finance is as follows:

		2008 £'000	2007 £'000
Current:			
Obligations under finance leases and hire purchase contracts	19	563	524
Bank overdrafts	19	41,255	35,396
Other loans	19	735	3,161
		42,553	39,081
Non-current:			
Obligations under finance leases and hire purchase contracts	19	1,822	754
Other loans	19	65,747	26,031
		67,569	26,785
		110,122	65,866

Group policy is to arrange longer term Group borrowing requirements through the Group's immediate and ultimate holding companies. The Group operates within borrowing limits imposed by the banking covenants at the level of the Group's ultimate holding company.

DIRECTORS' REPORT

Business review and future developments (continued)

Income Tax

An analysis of the income tax charge is set out in note 6 to the consolidated financial statements. The income tax charge as a percentage of profit on ordinary activities before income tax was 36% in the current year and 26% in the previous year.

Dividends

An interim ordinary dividend of £23m has been paid for the year to 31 December 2008 (2007: £21.0m). The directors do not recommend the payment of a final dividend.

Directors and their interests

The directors holding office at the year end are shown below. None of the directors held interests in ordinary shares of the Group companies.

The Company

Fully paid £1 ordinary shares:

W H Farries
C E Fleming – Alternate to Dr A C Thomas
Dr J Gutbrod (Germany)
Dr S von Holtzbrinck (Germany)
R Nathan – Alternate for J M Wheeldon
Dr A Reich (Germany) – Alternate for Dr S von Holtzbrinck
J Sargent (USA)
J H Schwanewedel (Germany)
Dr A C Thomas
J M Wheeldon

The Company has indemnified one or more directors of HM Publishers Holdings Limited against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the Directors' Report.

Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

Financial instruments

The Group's financial risk management objectives and policies are discussed in note 23.

Employees

The average monthly number of employees in the Group decreased from 9,035 in 2007 to 9,017 in 2008.

Employee involvement

Joint consultative committees meet on a regular basis so that employees or their representatives are kept fully informed of the Group's progress and may express views on matters likely to affect their interests.

Training and development

The Group is committed to the continuous improvement of employee performance by developing skills and expertise through training and development.

DIRECTORS' REPORT

Disabled Persons

The Group recognises a duty towards the disabled by taking opportunities to employ suitably qualified disabled people. Arrangements are made to encourage their participation in training and career development.

Political and Charitable Contributions

During the year charitable contributions totalled £19,403 (2007: £20,170). No political contributions were made.

Corporate Social Responsibility

The Group recognises its responsibilities towards the communities in which the business operates worldwide and takes a responsible attitude to compliance with local laws, regulations and customs. The Company places emphasis on ensuring that its employees operate within an environment which recognises equal opportunities for development of all employees. The Group recognises its responsibility towards protecting the environment. The Group has a policy of using paper from renewable resources where possible and works with its suppliers to encourage the use of paper produced following these principles. The Group expects high standards of corporate responsibility from its business partners, and has commenced a programme of audit inspections to verify that appropriate standards are adhered to by its suppliers. The Group has appointed a Director of Corporate Social Responsibility to oversee policies and practices in these areas and the role will include responsibility for pursuing good practice in environmental matters including energy use, carbon emissions and the use of non-renewable resources.

Auditors

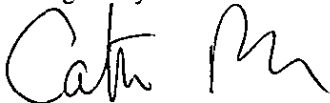
A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the forthcoming Annual General Meeting.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 5. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors
and signed by order of the Board



C. E. Fleming
Secretary

11 June 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- State that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HM PUBLISHERS HOLDINGS LIMITED

We have audited the Group and Parent Company financial statements (the "financial statements") of Holtzbrinck Publishers Holdings Limited for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Recognised Income and Expenditure and Parent Company Statement of Change in Shareholders' Equity and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein. 1

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors are responsible for preparing the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

We also report to you whether, in our opinion, the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008.
- The financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- The information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor

Ernst & Young LLP

Date:

11 June 2009

HM PUBLISHERS HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2008

	Note	2008 £'000	2007 restated (Note 2) £'000
Continuing operations			
Revenue	3	818,955	723,080
Other income	4	14,845	3,773
Cost of sales		(322,224)	(279,423)
Gross profit		511,576	447,430
Employee benefits expense	5	(201,744)	(176,377)
Depreciation and amortisation expense	4	(17,598)	(14,723)
Other expenses	4	(222,127)	(178,848)
Operating profit		70,107	77,482
Finance revenue	4	6,373	6,713
Finance costs	4	(7,995)	(6,294)
Other finance income – pensions	14	445	432
		(1,177)	851
Profit before tax		68,930	78,333
Income tax expense	6	(25,064)	(20,364)
Profit after tax		43,866	57,969
Share of profit of associates		36	16
Profit for the year		43,902	57,985
Profit for the year attributable to:			
Equity holders of the parent		33,019	44,815
Minority interests		10,883	13,170
		43,902	57,985

CONSOLIDATED BALANCE SHEET
as at 31 December 2008

ASSETS	Note	2008 £'000	2007 restated (Note 2) £'000
Non-current assets			
Property, plant and equipment	9	61,824	53,577
Intangible assets	10	106,233	92,829
Investment in associates	11	99	63
Pension asset	14	-	169
Income tax receivable		943	414
Deferred tax assets	6	26,352	19,371
Other non-current assets	16	24,633	15,773
		<u>220,084</u>	<u>182,196</u>
Current assets			
Inventories	15	160,909	115,775
Trade and other receivables	16	492,033	444,274
Cash and cash equivalents	17	28,978	22,029
		<u>681,920</u>	<u>582,078</u>
TOTAL ASSETS		<u>902,004</u>	<u>764,274</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	18	772	772
Share premium	18	76,788	76,788
Capital redemption reserve	18	51	51
Other reserves	18	32,694	24,838
Retained earnings	18	145,500	142,561
		<u>255,805</u>	<u>245,010</u>
Minority interests	18	87,698	64,012
TOTAL EQUITY		<u>343,503</u>	<u>309,022</u>
Non-current liabilities			
Financial liabilities	19	67,569	26,785
Defined benefit pension plan deficit	14	41,440	31,865
Deferred income tax liabilities	6	6,179	4,864
Other non-current liabilities	20	12,858	10,536
		<u>128,046</u>	<u>74,050</u>
Current liabilities			
Trade and other payables	20	379,055	329,714
Financial liabilities	19	42,553	39,081
Income tax payable		8,847	12,407
		<u>430,455</u>	<u>381,202</u>
TOTAL LIABILITIES		<u>558,501</u>	<u>455,252</u>
TOTAL EQUITY AND LIABILITIES		<u>902,004</u>	<u>764,274</u>

These financial statements were approved by the Board of Directors on 11 June 2009.

Signed on behalf of the Board of Directors.

Dr A C Thomas
Director

CONSOLIDATED CASH FLOW
for the year ended 31 December 2008

	Note	2008 £'000	2007 restated (Note 2) £'000
Cash flows from operating activities			
Operating profit		70,107	77,482
Increase in inventories		(14,458)	(8,326)
Decrease/ (increase) in accounts receivable		4,404	(75,110)
(Decrease)/ increase in accounts payable less than one year		(11,423)	64,355
(Decrease)/increase in accounts payable over one year		(1,481)	1,960
Movement in pensions		553	(578)
Loss/ (profit) on sale of fixed assets		270	(236)
Depreciation and amortisation charges		17,598	14,723
Foreign exchange movements		-	(1,171)
Income tax paid		(30,034)	(23,112)
Net cash flow from operating activities		35,536	49,987
Cash flows used in investing activities			
Interest received		6,373	6,713
Proceeds from disposal of property, plant and equipment		1,100	1,562
Proceeds from disposal of intangible assets		10	425
Purchase of property, plant and equipment		(9,580)	(17,542)
Purchase of intangible assets		(2,255)	(1,489)
Acquisition of trade/ assets and subsidiaries		(9,055)	(38,431)
Investment in associates		(36)	10
Income from associates		36	16
Movement in investment securities		279	(111)
Net cash flows used in investing activities		(13,128)	(48,847)
Cash flows used in financing activities			
Interest paid		(7,394)	(5,782)
Interest element of finance leases		(156)	(80)
Payment of finance lease liabilities		(1,278)	(34)
Proceeds from borrowings		23,780	21,814
Dividends paid to equity holders of the parent		(23,000)	(21,000)
Payments to minority interests		(7,224)	(11,709)
Net cash flows used in financing activities		(15,272)	(16,791)
Net increase/ (decrease) in cash and cash equivalents		7,136	(15,651)
Net foreign exchange difference		(3,717)	1,118
Cash and cash equivalents at 1 January	17	(16,431)	(1,898)
Cash and cash equivalents at 31 December	17	(13,012)	(16,431)

HM PUBLISHERS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENDITURE
for the year ended 31 December 2008

	2008	2007
	£'000	£'000
<i>Income and expenditure recognised directly in equity</i>		
Loss on cash flow hedges taken to equity	(19,445)	(1,896)
Exchange differences on retranslation of foreign operations	41,159	6,523
Actuarial losses on defined benefit plans	(10,689)	(3,562)
	<u>11,025</u>	<u>1,065</u>
Transfers to the income statement of cash flow hedges previously taken to equity	1,896	(1,434)
Tax on items taken directly to or transferred from equity (note 6)	7,905	1,230
	<u>20,826</u>	<u>861</u>
Profit for the year	<u>43,902</u>	<u>57,985</u>
Total recognised income for the year	<u><u>64,728</u></u>	<u><u>58,846</u></u>
Attributable to:		
Equity holders of the parent	33,760	45,129
Minority interests	30,968	13,717
	<u><u>64,728</u></u>	<u><u>58,846</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Authorisation of financial statements and statement of compliance with IFRS

The Group and Company financial statements of HM Publishers Holdings Limited for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 14 May 2009. HM Publishers Holdings Limited is a limited company incorporated and domiciled in England.

The Group financial statements of HM Publishers Holdings Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company's financial statements have been prepared in accordance with IFRS and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

2. Summary of significant accounting policies

Statement of compliance

The Group's accounts have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which have been measured at fair value.

The consolidated financial statements are presented in GBP sterling which is the Group's presentation currency, and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of HM Publishers Holdings Limited and its subsidiaries drawn up to 31 December each year. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights, or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

Changes in accounting policy

In accordance with a policy change adopted by the Group's parent company, the "corridor" mechanism for recognising actual gains and losses was replaced by full recognition in the Balance Sheet as permitted by IAS19. Comparative amounts have been restated on the same basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

The impact of this change in accounting policy on the comparative figures was as follows:

	2007 as previously reported £'000	2007 restated £'000
Profit for the year	57,148	57,985
Pension asset	6,424	169
Deferred tax assets	11,300	19,371
Retained earnings	169,530	142,561
Other reserves	24,926	24,837
Minority interests	64,962	64,012
Defined benefit pension plan deficit	2,042	31,865

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures. The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the Group are identical and use consistent accounting policies.

The investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the share of the results of operations of the associates after tax. Where there has been a change recognised directly in the associates' equity, the Group recognises its share of any changes and discloses this when applicable in the statement of changes in equity.

The Company's investments in subsidiaries

In its separate financial statements the Company recognises its investments in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of the investment.

Foreign currency translation

Group

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings which provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

The functional currencies of the overseas subsidiaries correspond to the respective subsidiaries' currency of operation. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of HM Publishers Holdings Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation of the net investment in overseas subsidiaries are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Company

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings which provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)**Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at cost less any depreciation and impairment in value. Depreciation of property, plant and equipment is calculated on cost at rates considered appropriate for the class and estimated useful life of the assets concerned.

Land and Buildings	0% to 10% on a straight line basis or on book written down value.
Plant and equipment	10% to 33% on a straight line basis or on book written down value.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which it is derecognised.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 1 January 2005 is not amortised and goodwill already carried in the balance sheet is not amortised after 1 January 2005. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets*Acquired both separately and from a business combination*

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value at the date of acquisition. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Following initial recognition, the intangible assets are valued at cost less any accumulated amortisation and impairment losses. The useful lives of these intangible assets are assessed to be either finite or indefinite.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are tested for impairment annually either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)*Development costs*

Development expenditure incurred on an individual project is carried forward when its technical feasibility and commercial viability can reasonably be regarded as assured. Following the initial recognition, development expenditure is valued at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future economic benefits from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	Trade names, publishing and other rights	Development costs
Useful lives	Finite	Finite
Method used	Straight line over expected economic life of relevant asset varying from 5 to 20 years.	Straight line over expected economic life of relevant assets varying from 3 to 5 years.
Internally generated or acquired	Acquired	Internally generated
Impairment testing/ recoverable amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year end

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Recoverable amounts of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Investments

All investments are recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment less provision for impairment.

Inventories

Paper and book stocks are valued at the lower of cost and net realisable value. Cost of books comprises mainly the cost of paper and the charges from outside printers and other suppliers. Stock of books is valued on a first-in, first-out basis. The administrative and other overheads of book publishing subsidiaries are not considered to be appropriate for inclusion in the value of inventories. Back numbers of journals are not valued.

Net realisable value is based on the estimated selling price less any further costs expected to be incurred to completion and disposal.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Author advances

Advances to authors in respect of publication rights acquired are recognised and carried at cost less an allowance for amounts estimated to be irrecoverable against future royalty earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of financial liabilities are recognised respectively in finance income or finance expense.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Where a legal right of set off exists, cash and borrowings with the same counter-party have been netted off.

Pensions and other post-employment benefits

The Group operates two main defined benefit pension schemes, the assets of which are held separately from those of the Group. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or expense.

As permitted by IAS 19, actuarial gains and losses have been fully recognised in the Balance Sheet.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Leases

Group as a lessee

Assets held under finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Group as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Revenue

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from sale of print and online periodical subscriptions is recognised on a pro rata basis over the period of the subscription.

Sale of goods and services

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from sale of print and online periodical subscriptions is recognised on a pro rata basis over the period of the subscription.

Subsidiary rights

Royalty income from sub-licence of publishing rights is recognised on a cash receipts basis.

Property rental income

Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

Interest

Revenue is recognised as the interest accrues on a time proportion basis, taking into account the effective yield on the asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)**Income tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with IAS 23.

Derivative financial instruments and hedging

The Group uses foreign currency contracts to hedge its risk associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

From 1 January 2005, the fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Future changes in accounting policies**New Standards and Interpretations not applied**

IASB have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS / IFRSs)	Effective date
IAS 1 Presentation of Financial Standards- Revised	1 January 2009
IAS 23 Borrowing Costs- Revised	1 January 2009
IAS 27 Consolidation and Separate Financial Statements- Revised	1 January 2009
IAS 32 Financial Instruments: Presentation and Disclosure- Revised	1 January 2009
IFRS 1 First Time Adoption of International Financial Reporting Standards- Revised	1 January 2009
IFRS 2 Share Based Payments- Revised	1 January 2009
IFRS 8 Operating segments	1 January 2009
Annual Improvements to IFRSs	1 January 2009
IAS 27 Consolidation and Separate Financial Statements- Revised	1 July 2009
IAS 32 Financial Instruments: Presentation and Disclosure- Revised	1 July 2009
IFRS 3 Business Combinations- Revised	1 July 2009

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

The principal effect of some of the more relevant changes is as follows:

IAS 23 Borrowing Costs

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group expects that this revised standard will have no impact on the Group's financial statements as no qualifying assets exist.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

New Standards and Interpretations not applied (continued)

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 1 Revised Presentation of Financial Statements

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Other financial information

The total Group turnover for the year represents the value of sales of books, periodicals, publishing and on-line services and subsidiary rights to external customers and excludes value added tax and sales taxes.

(a) Analysis of revenue:

	2008	2007
	£'000	£'000
Sales of goods	740,601	650,954
Rendering of services	78,354	72,126
Sales to external customers	818,955	723,080
Finance revenue	6,373	6,713
Total revenue	825,328	729,793

No revenue was derived from exchanges of goods or services (2007: £nil)

	By business division	
	2008	2007
	£'000	£'000
Primary:		
Continuing operations:		
Academic	39,631	36,054
Scientific, Technical & Medical	127,217	109,186
Education	215,483	173,374
Fiction and Non-Fiction – UK and Rest of the World	97,975	101,246
Publishing Services and Other	31,050	27,694
Fiction and Non-Fiction – US	194,540	180,279
US College	113,059	95,247
	818,955	723,080

		By destination	
	Note	2008	2007
		£'000	£'000
Secondary:			
Continuing operations:			
Europe including UK		200,827	186,466
North America		379,030	335,825
Africa		60,862	48,389
Asia Pacific		109,587	95,121
Rest of the World		68,649	57,279
Sales to external customers		818,955	723,080
Sales to related parties	22	1,800	655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses

Other income

	Note	2008 £'000	2007 £'000
Gain on disposal of property, plant, equipment and intangibles		55	236
Rental income (of which £8,000 is with a related party 2007: £6,000)		332	312
Gain from currency translation		12,158	-
Other		2,300	3,225
		<u>14,845</u>	<u>3,773</u>
Income from related parties	22	<u>53</u>	<u>1,419</u>

Depreciation and amortisation expense

		2008 £'000	2007 £'000
Depreciation of tangible fixed assets	9	(9,495)	(8,739)
Amortisation of intangible assets	10	(8,103)	(5,984)
		<u>(17,598)</u>	<u>(14,723)</u>

Other expenses

		2008 £'000	2007 £'000
Advertising and distribution expenses		(85,607)	(79,886)
Administration expenses		(88,005)	(74,824)
Rent and lease expenses		(19,090)	(16,580)
Expenses with related parties	22	(14,186)	(574)
Loss from currency translation		-	(636)
Other		(15,239)	(6,348)
		<u>(222,127)</u>	<u>(178,848)</u>

Finance revenue

		2008 £'000	2007 £'000
Bank interest receivable		960	1,185
Interest receivable from related parties	22	5,343	5,435
Other interest income		70	93
Total finance revenue		<u>6,373</u>	<u>6,713</u>

Finance costs

		2008 £'000	2007 £'000
Bank loans and overdrafts		(6,518)	(4,194)
Finance charges payable under finance leases and hire purchase contracts		(156)	(80)
Interest payable to related parties	22	(783)	(1,721)
Other interest expense		(538)	(299)
Total finance costs		<u>(7,995)</u>	<u>(6,294)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses (continued)

Group operating profit is stated after charging:

	2008 £'000	2007 £'000
Changes in inventory reserve	(27,747)	(15,453)
Operating lease payments – minimum lease payments	(17,242)	(14,975)
Pension net benefit expense	(2,220)	(4,663)

The Group paid the following amounts to its principal auditors in respect of the audit of financial statements and for other services provided to the Group.

Audit of the Group financial statements	(85)	(82)
Other fees to auditors:		
Local statutory audit for subsidiaries	(1,099)	(990)
Taxation services	(31)	(30)
Audit of the Group pension schemes	(2)	(3)
Other services	(9)	(264)

5. Staff costs and Directors' emoluments

(a) Directors' emoluments

	2008 £'000	2007 £'000
Directors' emoluments	(2,138)	(2,273)

	2008 No.	2007 No.
Number of directors accruing benefits under:		
Defined benefit pension schemes	2	3
Defined contribution pension schemes	4	3

	2008 £'000	2007 £'000
Company contributions paid to defined contribution pension schemes	(28)	(46)

The amounts in respect of the highest paid director are as follows:

	2008 £'000	2007 £'000
Emoluments	(1,026)	(1,059)
Accrued pension at the year end under defined benefit scheme	-	(38)
Company contributions paid to defined contribution pension schemes	(5)	(26)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Staff costs and Directors' emoluments (continued)

(b) Employee benefits expense, including directors

	2008	2007
	£'000	£'000
Wages and salaries	(167,771)	(145,007)
Social security costs	(25,519)	(21,085)
Pension costs	(6,500)	(9,226)
Severance payments	(1,954)	(1,059)
	<u>(201,744)</u>	<u>(176,377)</u>

The Group paid contributions to a money purchase pension plan and a group personal pension plan. Contributions were as follows:

	2008	2007
	£'000	£'000
For directors	28	46
For other staff	1,831	4,542
	<u>1,859</u>	<u>4,588</u>

The average monthly number of persons employed by the Group during the year:

Europe including UK	1,872	1,763
North America	1,886	1,692
Africa	479	560
Asia Pacific	467	471
India	3,379	3,642
Rest of the World	934	907
	<u>9,017</u>	<u>9,035</u>

6. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement:

	2008	2007
	£'000	restated (Note 2) £'000
Current income tax:		
Current income tax charge	(25,022)	(20,060)
Adjustments in respect of current income tax of previous years	334	356
Total current income tax	<u>(24,688)</u>	<u>(19,704)</u>
Deferred tax:		
Relating to origination and reversal of temporary differences	(376)	(660)
Total deferred income tax	<u>(376)</u>	<u>(660)</u>
Tax charged in the income statement	<u>(25,064)</u>	<u>(20,364)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation (continued)

(a) Tax on profit on ordinary activities (continued)

	2008	2007 restated (Note 2)
	£'000	£'000
Tax credited in the statement of equity:		
Tax on 2009 (2008) foreign exchange contracts	4,973	569
Tax on retranslation of foreign operations	205	-
Tax on actuarial losses	2,727	661
	<u>7,905</u>	<u>1,230</u>

(b) Reconciliation of the total tax charge

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007 restated (Note 2)
	£'000	£'000
Accounting profit before income tax	68,930	78,333
At UK statutory income tax rate of 28.5% (2007: 30%)	19,645	23,500
Income not subject to corporation tax	(922)	(2,284)
Foreign subsidiaries subject to lower tax rate	(1,024)	(1,159)
Foreign subsidiaries subject to higher tax rate	3,016	2,396
Expenses not deductible for tax purposes	5,081	2,520
Prior year adjustments	(961)	(502)
Changes in tax losses carry forward	980	484
Changes in temporary differences	(492)	136
Tax loss carry forward used not previously recognised	(308)	(126)
Other	49	(4,601)
At effective income tax rate of 36% (2007: 26%)	<u>25,064</u>	<u>20,364</u>

Factors that may affect future tax charges:

No deferred income tax is recognised on the unremitted earnings of overseas subsidiaries, as the Group considers that no temporary difference exists on which a liability may be provided.

(c) Unrecognised tax losses

The Group has tax losses of approximately £1,495,000 (2007: £1,495,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been dormant for some time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation (continued)

(d) Deferred income tax

The analysis by category of deferred tax included in the balance sheet is as follows:

	2008	2007 restated (Note 2)
	£'000	£'000
Deferred tax asset		
Depreciation in excess of capital allowances	1,165	1,442
Inventory valuation	7,018	4,568
Sales returns and allowances	6,132	4,090
Deferred benefit pension schemes	11,154	8,358
Other timing differences	883	913
	<u>26,352</u>	<u>19,371</u>
Deferred tax liability		
Accelerated capital allowances	1,315	993
Inventory valuation	1,180	895
Sales returns and allowances	(357)	(348)
Other timing differences	4,041	3,324
	<u>6,179</u>	<u>4,864</u>

Temporary timing differences in relation to non-deductible stock and credit note provisions amounting to £1,757,000 (2007: £1,253,000) have not been recognised in deferred tax, due to doubts over their future recoverability.

One-off contributions to the Macmillan Limited defined benefit pension scheme are being amortised for tax purposes in 2009. No deferred tax asset has been recognised in respect of these due to doubts over their future recoverability.

The deferred tax included in the Group income statement is as follows:

	2008	2007 restated (Note 2)
	£'000	£'000
Deferred tax in the income statement		
Depreciation in excess of capital allowances	(912)	20
Inventory valuation	729	645
Sales returns and allowances	359	(10)
Other timing differences	(552)	(1,315)
	<u>(376)</u>	<u>(660)</u>

7. Profit attributable to members of the Parent Company

The loss dealt with in the financial statements of the Parent Company is £555,000 (2007: profit £12,775,000).

8. Dividends paid

	2008 £'000	2007 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Interim dividend for 2008: £29.78 per share (2007: £27.19 per share)	<u>23,000</u>	<u>21,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Property, plant and equipment

31 December 2008	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2008	50,626	65,679	116,305
Exchange adjustment	8,394	10,931	19,325
Additions	3,547	8,017	11,564
Disposals	(61)	(3,156)	(3,217)
At 31 December 2008	62,506	81,471	143,977
Accumulated depreciation			
At 1 January 2008	17,027	45,701	62,728
Exchange adjustment	3,720	8,329	12,049
Charge for year	2,625	6,870	9,495
Disposals	(49)	(2,070)	(2,119)
At 31 December 2008	23,323	58,830	82,153
Net book value			
At 31 December 2008	39,183	22,641	61,824
At 31 December 2007	33,599	19,978	53,577

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2008 is £2,424,000 (2007: £1,396,000). Additions during the year include £1,733,000 (2007: £659,000) of plant and equipment held under finance leases and hire purchase contracts. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Land and buildings with a carrying amount of £6,224,000 (2007: £4,987,000) are subject to a first charge to secure the Group's bank loans (note 19).

Certain items of property, plant and equipment were carried in the balance sheet on the basis of valuations performed in 1994, prior to the Group adopting FRS15. As allowed under IFRS1, the Group elected not to incorporate those fair values as deemed cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Intangible assets

31 December 2008	Development costs £'000	Trade names £'000	Publishing rights £'000	Other rights £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2008	10,940	17,039	60,418	2,516	40,836	131,749
Exchange adjustment	2,649	3,200	5,601	26	5,430	16,906
Additions	1,541	-	55	-	-	1,596
Acquisitions	-	-	6,926	-	87	7,013
Reclassification	-	-	637	-	(637)	-
Disposals	(91)	-	(163)	-	-	(254)
At 31 December 2008	15,039	20,239	73,474	2,542	45,716	157,010
Accumulated amortisation						
At 1 January 2008	9,284	5,309	22,924	1,403	-	38,920
Exchange adjustment	2,165	935	870	3	-	3,973
Charge for the year	1,194	941	5,607	361	-	8,103
Reclassification	-	-	-	-	-	-
Disposals	(56)	-	(163)	-	-	(219)
At 31 December 2008	12,587	7,185	29,238	1,767	-	50,777
Net book value						
At 31 December 2008	2,452	13,054	44,236	775	45,716	106,233
At 31 December 2007	1,656	11,730	37,494	1,113	40,836	92,829

With effect from 1 January 2004, goodwill is no longer amortised and is annually tested for impairment (see Note 13).

11. Investment in associates

During the year the following publishing companies were considered to be associated undertakings of the Group:

	Country of Incorporation/ Registration	Class of share	Proportion of shares held by the Group as at 31 December	
			2008	2007
Stockton Press Educational Publishers B.V.	Netherlands	Ordinary	40.00%	40.00%
Macmillan New Asia Publishers Ltd	Hong Kong	Ordinary	49.00%	49.00%

All shares are held by subsidiary undertakings.

The principal activity of Stockton Press Educational Publishers B.V. is managing certain intellectual property rights. The principal activity of Macmillan New Asia Publishers Limited is the publishing and distribution of books and periodicals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investment in associates (continued)

The following tables illustrate summarised information of the investment in associates:

	2008 £'000	2007 £'000
Stockton Press Educational Publishers B.V.:		
Share of associate's balance sheet:		
Current assets	81	89
Non-current assets	208	368
Current liabilities	(190)	(394)
Net assets	<u>99</u>	<u>63</u>
Share of associate's profit:	<u>36</u>	<u>17</u>
Carrying amount of investment	<u>99</u>	<u>63</u>
Macmillan New Asia Publishers Ltd:		
Share of associate's balance sheet:		
Current assets	198	124
Current liabilities	(41)	(34)
Net assets	<u>157</u>	<u>90</u>
Share of associate's profit/ (loss):	<u>27</u>	<u>(46)</u>
Carrying amount of investment	<u>(363)</u>	<u>(291)</u>
Less provision	<u>363</u>	<u>291</u>
Carrying amount less provision	<u>-</u>	<u>-</u>
Cumulative losses of associate	<u>(301)</u>	<u>(328)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations

IFRS3 Business Combinations was not applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 January 2004.

Acquisitions in 2008:

On 16 July 2008 the Group purchased book rights and the associated assets pertaining to several history and college success titles in Cengage Learning, Inc. through its 66% owned US subsidiary, Macmillan Holdings LLC. The purchase price of £8,896,000 was financed by borrowings under existing credit lines. The Group also incurred £136,000 of outside professional services directly attributable to the acquisition. These professional costs are also included as part of the purchase price.

The fair value of the identifiable assets purchased from Cengage as of the date of acquisition and the corresponding carrying amounts before the acquisition were as follows:

	Previous Carrying Value £,000	Fair value recognised on acquisition £'000
Inventories	483	1,239
Prepublication costs	586	586
Other assets	-	281
	<hr/> 1,069	<hr/> 2,106
Trade and other payables	-	(136)
	<hr/> 1,069	<hr/> 1,970
Net assets acquired		6,926
Intangible arising on acquisition		<hr/> 8,896
Total consideration, satisfied by cash		<hr/> <hr/> 8,896
Cash flow on acquisition		<hr/> <hr/> (8,896)
Net cash outflow		<hr/> <hr/> (8,896)

The initial purchase price allocation is preliminary and may be adjusted for changes in estimates of the fair value of the assets acquired and liabilities assumed when finalised.

Since the acquisition date the net revenue and gross profit of the titles acquired are £1,778,000 and £1,377,000, respectively.

Acquisitions in 2007:

During 2007 the Group made four major acquisitions for a total consideration of £37.8m cash.

On 7 August 2007, the Group purchased 100% of the equity shares of the Argentinian educational publisher Angel Estrada Y Compania Sociedad Anonima. The results were consolidated into the Group financial statements and in 2007 the company has made a loss after tax of £818,000 from the date of consolidation. If the combination had taken place at the beginning of 2007, the consolidated profit after tax of the Group would have increased by £379,000 and revenue from continuing operations would have increased by £2,060,000.

On 1 October 2007, the Group purchased certain assets of the UK children's book publisher Kingfisher Publishers Limited. The results were consolidated into the Group financial statements. The business made an operating loss of £342,000 from the date of consolidation. As this was a list purchase, it is not possible to disclose the effect on revenue and profits if the combination had taken place at the beginning of 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations (continued)

Acquisitions in 2007 (continued):

On 30 November 2007, the Group purchased, through its 61.46% subsidiary Macmillan India Limited, the equity shares of the Indian educational publisher Frank Brothers and Company (Publishers) Limited. 80% of shares were purchased with an agreement to purchase the remaining 20% in 2009. The results were consolidated into the Group financial statements as a 100% subsidiary, with 20% treated as deferred consideration. The company made a profit after tax of £7,000 from the date of consolidation. If the combination had taken place at the beginning of 2007, the consolidated profit after tax of the Group would have increased by £135,000 and revenue from continuing operations would have increased by £3,450,000.

On 31 December 2007, the Group purchased through its 66.00% subsidiary Macmillan Holdings LLC, certain assets and liabilities of the American educational publisher Hayden McNeil Communications Inc.. As the acquisition took place on 31 December 2007, there was no effect on profit in 2007.

The fair values of the identifiable assets and liabilities of Hayden McNeil Communications Inc. as at the date of acquisition were:

	Book value £'000	Fair value recognised on acquisition £'000
Property, plant and equipment	104	104
Inventories	611	611
Trade and other receivables	1,392	1,392
	<hr/>	<hr/>
	2,107	2,107
Trade and other payables	(2,294)	(2,294)
	<hr/>	<hr/>
Net assets acquired	(187)	(187)
Goodwill arising on acquisition		9,044
Intangible arising on acquisition		6,126
		<hr/>
Total consideration, satisfied by cash		14,983
		<hr/>
Cash flow on acquisition:		
Cash paid		(14,983)
		<hr/>
Net cash outflow		(14,983)
		<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations (continued)

The fair values of the identifiable assets and liabilities of all other acquisitions as at the date of acquisition were:

	Book value £'000	Fair value recognised on acquisition £'000
Property, plant and equipment	102	102
Inventories	3,256	3,256
Trade and other receivables	1,407	1,407
Cash and cash equivalents	(593)	(593)
	<hr/>	<hr/>
Trade and other payables	4,172	4,172
	(4,445)	(4,445)
	<hr/>	<hr/>
Net assets acquired	(273)	(273)
Goodwill	20	7,760
Intangibles	4,981	15,368
	<hr/>	<hr/>
Total Assets acquired	4,728	
	<hr/>	<hr/>
Total consideration satisfied by cash		22,855
		<hr/>
Cash flow on acquisition:		
Net cash acquired with the subsidiaries		(593)
Cash paid		(22,855)
		<hr/>
Net cash outflow		(23,448)
		<hr/>

13. Impairment testing of goodwill with indefinite life

Goodwill acquired through business acquisitions has been allocated to the main individual cash generating units for impairment testing as follows:

- Academic
- Scientific, Technical and Medical (STM)
- Education
- Fiction and Non-Fiction – UK and Rest of the World
- Publishing Services
- Fiction and Non-Fiction - US
- US College

The recoverable amount of each cash-generating unit has been determined based on its value in use. The recoverable amounts have also been compared to fair values using EBITDA multiples derived from recent comparable market transactions.

The value in use has been calculated based on cash flow projections from financial budgets as approved by senior management covering a five year period. Cash flows beyond the five year period are extrapolated assuming cash flow growth rates of 2% for subsequent periods in line with Group policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Impairment testing of goodwill with indefinite life (continued)**Carrying value of goodwill with indefinite life**

	2008	2007 restated
	£000	£000
Academic	-	-
Scientific, Technical and Medical (STM)	-	-
Education	20,180	19,517
Fiction and Non-Fiction – UK and Rest of the World	-	-
Publishing Services	3,373	2,683
Fiction and Non-Fiction - US	9,055	8,236
US College	13,109	10,400
Total	45,717	40,836

The comparative amounts have been restated between Fiction and Non-Fiction-US and US College to show a more representative allocation of goodwill.

Key assumptions used in value in use calculations

The following describe each key assumption on which management has based its calculations to undertake impairment testing of goodwill.

Value in use

Budgeted turnover – The basis used is to project future turnover taking account of planned strategic developments for the business and both anticipated and historic growth rates in the respective markets.

Budgeted gross margins – The basis used is to project future gross margins based on historic trends and taking account of projected changes in sales mix, in the case of books, between new and backlist titles. Stock depreciation and, where relevant, author advance write-offs are projected based on historic trends.

Budgeted net margins – The basis is used to project future net margins based on historic trends and taking account of projected development expenditure.

Discount factor – The basis used is to arrive at a pre-tax weighted average cost of capital based on the Group's cost of borrowing and the Group's shareholders' required return on equity. The discount factors used range from 7.90% to 11.30%. The required return on equity is risk adjusted for each cash-generating unit. These two factors are weighted in proportion to the Group's financing derived from each source based on the fair value of the Group's overall debt funding in relation to the Group's overall equity funding. All figures used are based on the relevant ratios in the consolidated accounts of the Group's ultimate holding company.

Sensitivity to changes in assumptions

Management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed the recoverable amount. The discount factor would have to increase to over 18% to result in an impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Employment benefits

Pensions and other post-employment benefit plans

The Group has two main defined benefit pension plans: one is operated in the United Kingdom and the other operates in the United States. The United Kingdom plan was closed to new entrants in 1995 and the United States plan was closed to new entrants in 2000. Both are final salary schemes and require contributions to be made to separately administered funds.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet for the respective plans.

	Pension Plans					
	UK Plan		US and other non-UK Plans		Total	
	2008	2007 restated (Note 2)	2008	2007 restated (Note 2)	2008	2007 restated (Note 2)
	£'000	£'000	£'000	£'000	£'000	£'000
Employee benefits expense:						
Current service cost	(1,160)	(1,390)	(1,490)	(1,328)	(2,650)	(2,718)
Past service cost	-	-	(14)	-	(14)	-
Effect of curtailment of benefits	-	-	-	(2,376)	-	(2,376)
Other finance costs:						
Interest cost on benefit obligation	(8,090)	(7,100)	(949)	(1,002)	(9,039)	(8,102)
Expected return on plan assets	8,650	7,420	833	1,113	9,483	8,533
Net benefit expense	(600)	(1,070)	(1,620)	(3,593)	(2,220)	(4,663)
Actual (loss)/ return on plan assets	(18,210)	3,810	(3,217)	813	(21,427)	4,623
Benefit asset/ (liability):						
Present value of defined benefit obligation	(121,610)	(136,250)	(22,107)	(20,999)	(143,717)	(157,249)
Plan assets:						
Equities	2,150	2,247	6,229	6,314	8,379	8,561
Debt	523	1,643	6,015	2,664	6,538	4,307
Properties	203	-	191	216	394	216
Cash	38,194	-	662	5,840	38,856	5,840
Target return funds	48,027	102,378	-	-	48,027	102,378
Other assets	83	2,392	-	1,859	83	4,251
Fair value of plan assets	89,180	108,660	13,097	16,893	102,277	125,553
Benefit (liability)	(32,430)	(27,590)	(9,010)	(4,106)	(41,440)	(31,696)
Pension asset					-	169
Defined benefit pension deficit					(41,440)	(31,865)
Net pension liability					(41,440)	(31,696)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Employment benefits (continued)

Movement in the benefit (liability) during the years to 31 December 2008 and 2007 is as follows:

	UK Plan		US and other non-UK Plans		Total	
	2008	2007 restated (Note 2)	2008	2007 restated (Note 2)	2008	2007 restated (Note 2)
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	(27,590)	(24,400)	(4,106)	(3,681)	(31,696)	(28,081)
Benefit expense	(7,670)	(6,530)	(5,239)	(2,280)	(12,909)	(8,810)
Contributions	2,830	3,340	2,411	1,930	5,241	5,270
Foreign exchange movement	-	-	(2,076)	(75)	(2,076)	(75)
	<u>(32,430)</u>	<u>(27,590)</u>	<u>(9,010)</u>	<u>(4,106)</u>	<u>(41,440)</u>	<u>(31,696)</u>

History of experience gains and losses

	UK Plan		US and other non-UK Plans		Total	
	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000
Difference between expected return and actual return on pension scheme assets	(26,860)	(3,610)	(4,050)	(300)	(30,910)	(3,910)
Experience gain/ (loss) arising on scheme liabilities	550	(1,850)	431	1,610	981	(240)
Total actuarial gain/ (loss)	<u>(26,310)</u>	<u>(5,460)</u>	<u>(3,619)</u>	<u>1,310</u>	<u>(29,929)</u>	<u>(4,150)</u>

The principal assumptions used in determining pension and post-employment benefit obligations for the Group's main plans are shown below:

	UK Plan		US Plan	
	2008	2007	2008	2007
	%	%	%	%
Discount rate	6.50	6.00	6.24	6.00
Expected rate of return on assets:				
Equities	7.80	8.00	5.00	8.00
Bonds and Gilts	6.50	6.00	5.00	8.00
Cash	3.80	4.50	-	-
Other	7.00	8.00	5.00	8.00
Future salary increases	3.90	4.20	5.38	5.00
Future pension increases	2.90	3.20	3.00	3.00
Inflation	2.90	3.20	2.85	2.85

Assumptions regarding post-retirement mortality of UK defined benefit pension scheme members are as follows. Similar appropriate assumptions have been made regarding members of the US defined benefit pension scheme.

	UK Plan	
	2008 Years	2007 Years
Current pensioners at 65 – male	19.4	19.4
Current pensioners at 65 – female	22.4	22.4
Future pensioners at 65 – male	19.8	21.0
Future pensioners at 65 – female	22.8	24.0

In the UK scheme the Group made funding contributions at a rate of 26% of pensionable salaries during the year to 29 February 2008. On 1 March 2008 a new schedule of contributions was agreed with the Trustees and a single payment for the year of £2.5 million was made in February 2008 in this respect. The new schedule of contributions is designed to pay off the deficit over a period of twelve years from the date of the valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Inventories

	2008	2007
	£'000	£'000
Raw materials	10,809	5,099
Work-in-progress	51,804	37,570
Finished goods	98,296	73,106
	<u>160,909</u>	<u>115,775</u>

16. Trade and other receivables

	Note	2008	2007
		£'000	£'000
Current			
Trade receivables		293,573	239,168
Author advances		84,141	62,668
Prepayments		8,987	4,163
Receivables from associates		29	23
Other related parties	22	84,166	117,597
Other debtors		21,137	20,655
		<u>492,033</u>	<u>444,274</u>
Non-current			
Author advances		24,434	15,444
Other debtors		199	329
		<u>24,633</u>	<u>15,773</u>

As at 31 December 2008, trade receivables at nominal value of £19,755,000 (2007: £11,845,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2008	2007
	£'000	£'000
At 1 January	(11,845)	(10,848)
Currency translation	(1,191)	19
Charge for the year	(8,605)	(2,548)
Utilised	1,762	1,384
Unused amounts reversed	124	148
At 31 December	<u>(19,755)</u>	<u>(11,845)</u>

As at 31 December, the ageing analysis of trade receivables before bad debt and returns provisions is as follows:

	Not past due			Past due		
	Total		<60	60-180	180-360	>360
	£'000	£'000	days	days	Days	days
	£'000	£'000	£'000	£'000	£'000	£'000
2008	388,387	304,129	52,198	25,028	3,503	3,529
2007	309,390	235,036	49,550	14,860	8,087	1,857

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Cash and cash equivalents

	2008	2007
	£'000	£'000
Cash at bank and in hand	23,734	14,168
Short-term deposits	5,244	7,861
	<u>28,978</u>	<u>22,029</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents are £28,978,000 (2007: £22,029,000).

For the purposes of the consolidated cash flow, cash and cash equivalents comprise the following at 31 December:

	Note	2008	2007
		£'000	£'000
Cash at bank and in hand		23,734	14,168
Short-term deposits		5,244	7,861
Bank overdrafts	19	(41,990)	(38,460)
		<u>(13,012)</u>	<u>(16,431)</u>

18. Issued share capital and reserves

Authorised:	Number	£'000
Ordinary shares of £1 each	10,000,000	10,000
	<u>Number</u>	<u>US\$'000</u>
Ordinary shares of US\$1 each	200,000	200
Allotted, called up and fully paid:	Number	£'000
31 December 2008		
Ordinary shares of £1 each		
At 1 January and 31 December 2008	<u>772,376</u>	<u>772</u>
31 December 2007		
Ordinary shares of £1 each		
At 1 January 2007	595,987	596
Shares issued	<u>176,389</u>	<u>176</u>
At 31 December 2007	<u>772,376</u>	<u>772</u>
Ordinary shares of US\$1 each		
At 1 January and 31 December 2007	176,389	100
Shares purchased	<u>(176,389)</u>	<u>(100)</u>
At 31 December 2007	<u>-</u>	<u>-</u>
Total at 31 December 2007	<u>772,376</u>	<u>772</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Issued share capital and reserves (continued)

Reconciliation of movements in equity

	Attributable to equity holders of the parent					Total attributable to equity holders of parent £'000
	Issued Capital £'000	Share premium £'000	Capital Redemption Reserve £'000	Retained earnings £'000	Other Reserves £'000	
At 1 January 2007						
As previously stated	696	76,455	51	146,977	21,261	245,440
Adjustment re change in IAS 19 accounting policy (note 2)	-	-	-	(24,464)	(95)	(24,559)
At 1 January 2007 (restated)	696	76,455	51	122,513	21,166	220,881
Currency translation	-	-	-	-	6,417	6,417
Increase in share capital	176	76,304	-	-	-	76,480
Decrease in share capital	(100)	(75,971)	-	(409)	-	(76,480)
Total recognised income and expense for the year	-	-	-	41,457	(2,745)	38,712
Equity dividends (note 8)	-	-	-	(21,000)	-	(21,000)
At 31 December 2007 (restated)	772	76,788	51	142,561	24,838	245,010
Currency translation	-	-	-	-	20,396	20,396
Change in minority interest percentages	-	-	-	35	-	35
Buy out of minorities	-	-	-	-	-	-
Total recognised income and expense for the year	-	-	-	25,904	(12,540)	13,364
Equity dividends	-	-	-	(23,000)	-	(23,000)
At 31 December 2008	772	76,788	51	145,500	32,694	255,805

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Issued share capital and reserves (continued)

	Total attributable to equity holders of parent £'000	Minority interests £'000	Total Equity £'000
At 1 January 2007			
As previously stated	245,440	63,395	308,835
Adjustment re change in IAS 19 accounting policy (note 2)	(24,559)	(1,391)	(25,950)
At 1 January 2007 (restated)	220,881	62,004	282,885
Currency translation	6,417	106	6,523
Increase in share capital	76,480	-	76,480
Decrease in share capital	(76,480)	-	(76,480)
Total recognised income and expense for the year	38,712	13,611	52,323
Equity dividends (note 8)	(21,000)	(11,709)	(32,709)
At 31 December 2007 (restated)	245,010	64,012	309,022
Currency translation	20,396	20,968	41,364
Change in minority interest percentages	35	(35)	0
Buy out of minorities	-	(24)	(24)
Total recognised income and expense for the year	13,364	10,000	23,364
Equity dividends	(23,000)	(7,223)	(30,223)
At 31 December 2008	255,805	87,698	343,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Issued share capital and reserves (continued)

Other reserves

	Capital contribution £'000	Associates £'000	Foreign currency translation reserves £'000	Net unrealised gains reserve £'000	Total £'000
At 1 January 2007					
As previously stated	35,360	192	(15,725)	1,434	21,261
Adjustment re change in IAS 19 accounting policy (note 2)	-	-	(95)	-	(95)
At 1 January 2007 (restated)	35,360	192	(15,820)	1,434	21,166
Currency translation	-	-	6,417	-	6,417
Total recognised income and expense for the year	-	16	-	(2,761)	(2,745)
At 31 December 2007 (restated)	35,360	208	(9,403)	(1,327)	24,838
Currency translation	-	-	21,820	(1,424)	20,396
Total recognised income and expense for the year	-	36	-	(12,576)	(12,540)
At 31 December 2008	35,360	244	12,417	(15,327)	32,694

Nature and purpose of other reserves

Capital contribution

In 1999 the US book publishing operations of HM Publishers Holdings Limited were combined with Georg von Holtzbrinck GmbH & Co.'s directly held US book publishing operations to form Macmillan Holdings LLC.

The excess of the fair value of the Group's share of net assets received over the share of net assets swapped, amounting to £35,360,000, has been treated as a capital contribution, and included in reserves.

Associates

This reserve records the consolidated profits of the Group's associated undertakings.

Foreign currency translation reserves

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the foreign exchange differences after net investments in these subsidiaries.

Net unrealised gain reserve

This reserve records the consolidated gains/(losses) from the revaluation of the Group's effective hedging contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Financial liabilities

	Effective interest rate %	2008 £'000	2007 restated £'000
Current			
Obligations under finance leases and hire purchase contracts (note 21)	1.21 – 16.00	563	524
Bank overdrafts		41,255	35,396
Secured bank loan		684	3,064
Other loan		51	97
		<u>42,553</u>	<u>39,081</u>
Non-current			
Obligations under finance leases and hire purchase contracts (note 21)	1.21 – 16.00	1,822	754
Secured bank loan		684	996
Unsecured bank loan		65,063	25,035
		<u>67,569</u>	<u>26,785</u>

£684,000 (2007: £3,064,000) of the Group's current bank loans, loan notes and overdrafts are secured on properties, book debts and other assets.

Secured bank loan

A subsidiary undertaking has bank loans secured on properties, repayable in instalments until 2010. The amounts falling due after more than one year are £684,000 (2007: £996,000) bearing interest of 8.67%.

Non-current unsecured bank loan

A subsidiary undertaking has a multicurrency term, revolving and swingline facilities agreement with a consortium of banks arranged by the ultimate holding company Georg von Holtzbrinck GmbH & Co KG. As part of this arrangement the subsidiary undertaking borrowed US\$95m repayable in 2012 with the issuing bank Landesbank Baden-Württemberg. The outstanding balance bears interest at 4.08% (2007: 5.605%). These borrowings are guaranteed by the ultimate holding company.

20. Trade and other payables

	Note	2008 £'000	2007 £'000
Current			
Trade payables		87,692	57,003
Royalties payable		72,082	58,851
Other payables and accruals		111,821	131,822
Deferred income		90,279	63,465
Other related parties	22	17,181	18,573
		<u>379,055</u>	<u>329,714</u>
Non-current			
Royalties payable		66	57
Other payables		11,159	8,897
Deferred income		1,633	1,582
		<u>12,858</u>	<u>10,536</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Commitments and contingencies

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain land and buildings, motor vehicles and items of small machinery where it is not in the best interests of the Group to purchase these assets. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2008	2007
	£'000	£'000
Within one year	18,292	14,234
After one year but not more than five years	65,071	48,382
More than five years	64,689	61,403
	<u>148,052</u>	<u>124,019</u>

Operating lease commitments – Group as lessor

The Group has a policy to sub-let its surplus office buildings.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2008	2007
	£'000	£'000
Within one year	332	312
After one year but not more than five years	776	875
More than five years	437	545
	<u>1,545</u>	<u>1,732</u>

Finance lease and hire purchase commitments – Group as lessee

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have no terms of renewal or purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2008		2007	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Within one year	720	563	601	524
After one year but not more than five years	2,130	1,822	852	754
Total minimum lease payments	2,850	2,385	1,453	1,278
Less amounts representing finance charges	(465)	-	(175)	-
Present value of minimum lease payments	<u>2,385</u>	<u>2,385</u>	<u>1,278</u>	<u>1,278</u>

Capital commitments

At 31 December 2008, the Group has commitments of £364,000 (2007: £190,000) contracted for but not provided in the financial statements.

Contingent liabilities

HM Publishers Holdings Limited has the following contingent liabilities at 31 December 2008:

Other guarantees £5,718,000 (2007: £3,330,000)

There are no uncertainties or possibility of re-imbursement of guarantees.

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures

The consolidated financial statements include the financial statements of HM Publishers Holdings Limited and the subsidiaries listed in the following table:

	Note	Country of incorporation/ registration	Class of share	Proportion of voting rights held by the Group	
				2008	2007
Macmillan Limited	1	England and Wales	Ordinary	100.00%	100.00%
Macmillan Publishers Limited		England and Wales	Ordinary	100.00%	100.00%
Macmillan Publishers Holdings Limited		England and Wales	Ordinary	100.00%	100.00%
Macmillan Financing Limited	1/4	England and Wales	Ordinary	100.00%	100.00%
Naturejobs.com Limited	2/4	England and Wales	Ordinary	33.00%	33.00%
Gill and Macmillan Limited	3	Ireland	Ordinary	50.00%	50.00%
Macmillan Iberia S.A.		Spain	Ordinary	100.00%	100.00%
Nature Publishing Group Iberoamerica S.L.		Spain	Ordinary	100.00%	100.00%
Macmillan (Hellas) Publishers S.A.		Greece	Ordinary	100.00%	100.00%
Macmillan Armenia J.V. C.J.S.C.		Armenia	Ordinary	70.00%	70.00%
Macmillan Polska Sp. Z.o.o.		Poland	Ordinary	100.00%	100.00%
Macmillan Romania Srl		Romania	Ordinary	100.00%	100.00%
Stockton Press Netherlands B.V.		Netherlands	Ordinary	100.00%	100.00%
Macmillan Publishers Inc.		USA	Ordinary	100.00%	100.00%
SMP (1952), Inc.		USA	Ordinary	100.00%	100.00%
Macmillan Holdings, LLC		USA	Ordinary	66.00%	66.00%
Henry Holt and Company, LLC		USA	Ordinary	66.00%	66.00%
St Martin's Press, LLC		USA	Ordinary	66.00%	66.00%
Bedford, Freeman & Worth Publishing Group, LLC		USA	Ordinary	66.00%	66.00%
Tom Doherty Associates, LLC		USA	Ordinary	66.00%	66.00%
Farrar, Straus & Giroux, LLC		USA	Ordinary	66.00%	66.00%
Holtzbrinck Publishers, LLC		USA	Ordinary	66.00%	66.00%
Hayden-McNeil, LLC		USA	Ordinary	66.00%	66.00%
Nature America, Inc.		USA	Ordinary	100.00%	100.00%
Macmillan Academic Publishing Inc.		USA	Ordinary	100.00%	100.00%
ICC Macmillan Inc.		USA	Ordinary	61.58%	61.46%
Gamsberg Macmillan Publishers (Pty) Limited		Namibia	Ordinary	95.00%	95.00%
Macmillan Boleswa Publishers (Pty) Limited		Swaziland	Ordinary	100.00%	100.00%
Clever Books (Pty) Limited		South Africa	Ordinary	100.00%	100.00%
Pan Macmillan South Africa (Pty) Limited		South Africa	Ordinary	100.00%	100.00%
Macmillan South Africa (Pty) Limited		South Africa	Ordinary	100.00%	100.00%
Macmillan Mozambique Lda		Mozambique	Ordinary	97.50%	97.50%
College Press Publishers (Pvt) Limited		Zimbabwe	Ordinary	50.00%	50.00%
Macmillan Kenya (Publishers) Limited		Kenya	Ordinary	90.04%	90.04%
Macmillan Uganda Limited		Uganda	Ordinary	80.00%	80.00%
Macmillan Malawi Limited		Malawi	Ordinary	85.70%	85.70%
Macmillan Aidan Limited		Tanzania	Ordinary	80.00%	80.00%
Macmillan Publishers Cameroon Limited		Cameroon	Ordinary	60.00%	60.00%
Macmillan Publishers (Zambia) Limited		Zambia	Ordinary	100.00%	100.00%
Unimax Macmillan Limited		Ghana	Ordinary	65.00%	65.00%
Macmillan Rwanda Publishers Limited		Rwanda	Ordinary	100.00%	100.00%
Northern Nigerian Publishing Company Limited		Nigeria	Ordinary	65.00%	65.00%
Macmillan Publishers Australia Pty Limited		Australia	Ordinary	100.00%	100.00%
Pan Macmillan Australia Pty Limited		Australia	Ordinary	100.00%	100.00%
Macmillan Publishers New Zealand Limited		New Zealand	Ordinary	100.00%	100.00%
Macmillan India Limited	1	India	Ordinary	61.46%	61.46%
MPS Technologies Limited		India	Ordinary	61.46%	61.46%
Macmillan ICC Publishing Solutions Private Limited		India	Ordinary	61.46%	61.46%
Macmillan Publishers India Limited		India	Ordinary	61.58%	-
Frank Brothers and Company (Publishers) Limited		India	Ordinary	61.58%	61.46%
Macmillan Publishers (China) Limited		Hong Kong	Ordinary	100.00%	100.00%
Macmillan Language House Limited		Japan	Ordinary	100.00%	100.00%
Nature Japan K.K.		Japan	Ordinary	100.00%	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

	Country of incorporation/ registration	Class of share	Proportion of voting rights held by the Group	
			2008	2007
Editorial Macmillan de Mexico, S.A. de C.V.	Mexico	Ordinary	100.00%	100.00%
Ediciones Castillo S.A. de C.V.	Mexico	Ordinary	100.00%	100.00%
Macmillan do Brasil Ltda	Brazil	Ordinary	100.00%	100.00%
Macmillan Publishers, S.A.	Peru	Ordinary	95.00%	95.00%
Macmillan Publishers S.A.	Argentina	Ordinary	100.00%	100.00%
Editorial Puerto de Palos S.A.	Argentina	Ordinary	100.00%	100.00%
Editorial Estrada S.A.	Argentina	Ordinary	100.00%	100.00%
Macmillan Publishers Egypt Limited	Egypt	Ordinary	100.00%	100.00%
Kawkab Distribution Limited	Egypt	Ordinary	98.00%	98.00%
Macmillan Korea Publishers Limited	South Korea	Ordinary	100.00%	100.00%
Pan Macmillan India Limited	India	Ordinary	100.00%	-

Notes

- 1 Shares held directly by the Company. All other shares are held wholly or partly by subsidiary undertakings.
- 2 The directors consider Naturejobs.com Limited to be a subsidiary company. A Group company has a participating interest and the directors are of the opinion that the company falls within the definition of dominant influence. The directors are of the opinion that this will be evidenced by the manner in which Naturejobs.com Limited conducts its business, in accordance with the best interests of the Group.
- 3 Subsidiary undertaking by exercise of dominant influence.
- 4 Macmillan Financing Limited and Naturejobs.com Limited were in liquidation as at 31 December 2008.

The Company's immediate parent undertaking is Holtzbrinck Publishers Holdings Limited. It has included the Company in its Group financial statements, copies of which are available from its registered office.

The Company's ultimate parent undertaking and controlling party is Georg von Holtzbrinck GmbH & Co. KG, a German partnership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year:

<i>Related party</i>		Income from related parties £'000	Expenses with related parties £'000	Interest received from related parties £'000	Interest paid to related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Ultimate parent company:							
Georg von Holtzbrinck GmbH & Co. KG	2008	-	-	1,884	-	30,295	-
	2007	-	-	1,729	-	55,077	-
Immediate holding company:							
Holtzbrinck Publishers Holdings Limited	2008	53	(13,969)	2,616	(4)	30,718	8,077
	2007	1,419	-	1,789	-	37,198	47
Associate:							
Stockton Press Educational Publishers B.V.	2008	-	(217)	-	(5)	-	667
	2007	-	(206)	-	-	-	1,047
Fellow undertakings:							
Verlagsgruppe Georg von Holtzbrinck GmbH	2008	-	-	267	-	22,344	-
	2007	-	(368)	263	-	7,034	367
Holtzbrinck Publishers Holdings LP	2008	-	-	576	(774)	445	8,437
	2007	-	-	1,654	(1,721)	18,169	17,112
Verlagsgruppe Droemer GmbH & Co. KG	2008	1,800	-	-	-	359	-
	2007	655	-	-	-	119	-
Experteer GmbH & Co. KG	2008	-	-	-	-	5	-
	2007	-	-	-	-	-	-
Total:							
	2008	<u>1,853</u>	<u>(14,186)</u>	<u>5,343</u>	<u>(783)</u>	<u>84,166</u>	<u>17,181</u>
	2007	<u>2,074</u>	<u>(574)</u>	<u>5,435</u>	<u>(1,721)</u>	<u>117,597</u>	<u>18,573</u>

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlements occur in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2008, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2007: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

In addition a foreign currency swap transaction was entered into and matured during the year between the immediate parent company and a subsidiary company. The effect was to eliminate foreign exchange volatility on certain intercompany receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

The ultimate parent

Georg von Holtzbrinck GmbH & Co. KG

Georg von Holtzbrinck GmbH & Co. KG owns 100% of the ordinary shares in Holtzbrinck Publishers Holdings Limited, the immediate holding company of HM Publishers Holdings Limited (2007: 100%).

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100.00% of the ordinary shares in HM Publishers Holdings Limited (2007: 100%).

Associates

Stockton Press Educational Publishers B.V.

The Group has a 40.00% interest in Stockton Press Educational Publishers B.V. (2007: 40.00%).

Macmillan New Asia Publishers Limited

The Group has a 49.00% interest in Macmillan New Asia Publishers Limited (2007: 49.00%).

23. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group also enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and commodity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price arising from all financial instruments. The magnitude of this risk that has arisen over the year is discussed below. The Group's accounting policies in relation to derivatives are set out in note 2.

Foreign currency risk

The Group is exposed to foreign exchange risk in a number of currencies, principally the US Dollar and the Euro. Other exposures exist in the countries in which the Group operates, of which the principal currencies involved are the Australian Dollar, New Zealand Dollar, South African Rand, Hong Kong Dollar, Mexican Peso and the Japanese Yen.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Financial risk management objectives and policies (continued)

The Group operates within foreign currency management policies agreed with the Group's ultimate holding company. The key points of these policies are as follows:

Balance sheet exposure

Group policy is to minimise Group balance sheet exposure by arranging borrowings within the respective overseas company taking into account relevant tax, exchange control and commercial factors. Balance Sheet hedging transactions with regard to Macmillan Publishers Inc. and its subsidiary companies in the United States are hedged at the level of the Group's immediate holding company and the Group's ultimate holding company.

Transaction exposure

Group policy is to hedge transaction exposures arising in all major currencies on a twelve-month forward basis. The twelve-month basis is assessed to cover the time period over which key commercial pricing decisions are taken. Group policy is to hedge forecast foreign cash transactions on a 100% basis. Exceptions to this rule and to the twelve-month cover period are subject to agreement with the Group's ultimate holding company. Foreign currency cover is generally arranged through the mechanism of foreign currency contracts but currency options may be used in some cases. Foreign currency cover in relation to the US Dollar and the Euro is arranged through the Group's ultimate holding company. Other foreign currency hedges are arranged by the Group within guidelines agreed with the Group's ultimate holding company.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ decrease in US\$ rate	Increase/ (decrease) in PBT £'000	Increase/ (decrease) in equity £'000
2007	+5%	(2,670)	(8,738)
	-5%	2,952	9,659
2008	+5%	(2,003)	(12,930)
	-5%	2,215	14,295

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations. The majority of the Group's long term debt obligations are funded through the Group's ultimate holding company. Banking facilities at the level of the Group and its subsidiaries are arranged mainly by means of 365-day committed credit facilities in order to manage the Group's working capital funding requirements. Management of the interest rate exposure on long term debt obligations is undertaken at the level of the Group's ultimate holding company.

The sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Group's profit before tax (through the impact of floating rate borrowings) has been tested, but as the effect was immaterial this has not been disclosed.

Commodity price risk

The Group is exposed to commodity price risk, primarily in the area of paper purchasing. The Group monitors movements in paper prices and adjusts book prices where commercially possible to take account of this. To a limited extent the Group anticipates price increases by buying forward paper to cover for expected paper requirements. It is not Group policy to speculate in movements in future paper prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Financial risk management objectives and policies (continued)*Credit risk*

The Group is exposed to credit risk in its dealings with major customers in each of the countries in which the Group's subsidiary companies operate. Due to the increasing concentration of the book retail market, exposure in most countries is increasingly concentrated in a small number of major customers. In addition the Group exports to a variety of overseas customers. Group credit policy is managed in each country in line with credit policies agreed by the Board of each respective subsidiary company. Formal credit limits are in place for all major customers. It is not the Group's policy to enter into credit insurance arrangements due mainly to restrictions on countries covered and the cost of arranging insurance cover. The Group has a long history of dealing with most of its major customers and historic bad debt experience has been low. The directors consider that adequate provision has been made for credit risk.

There are no significant concentrations of credit risk within the Group. Credit risks arising from acting as guarantor are disclosed in note 21.

Liquidity risk

Long term Group financing facilities are arranged at the level of the Group's ultimate holding company. The Group maintains adequate short and medium term credit facilities with its banks to fund forecast working capital requirements.

24. Financial Instruments**Fair values**

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements other than at fair values.

	Carrying amount		Fair value	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
<i>Financial liabilities</i>				
Fixed rate borrowings				
Bayerische Hypo-Und Vereinsbank AG				
7.64% and 8.67% Mortgage loans	<u>1,369</u>	<u>4,060</u>	<u>1,519</u>	<u>4,234</u>

The fair values have been determined based on the borrowing rates available to the Group under their existing revolving credit arrangements with the finance providers at the Balance Sheet date.

All other borrowings are at floating rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Instruments (continued)

Hedging activities

Cash flow hedges

Recognised through equity

At 31 December 2008, the Group had entered into the following foreign exchange contracts to hedge future expected cash flows in foreign currencies. These contracts are due to mature over the periods shown. Where more than one contract has been taken out in a particular currency the figures in the foreign exchange rate column represent the average exchange rate at which these contracts have been taken out. The gains or losses on these contracts measured as the difference between the original forward deal rate and the corresponding forward deal rate at 31 December 2008 have been recognised through equity in the current year and will be recognised through the income statement in 2009.

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2008 £'000	Gain/(loss) recognised through equity £'000
<i>Sell currency/ buy Sterling</i>					
Australian Dollars	12,109	Jan-Nov 2009	2.26	5,685	(389)
New Zealand Dollars	1,300	Jan-Dec 2009	2.72	512	(28)
Japanese Yen	2,350,000	Jan-Oct 2009	201.38	17,803	(6,935)
South African Rand	68,000	Jan-Dec 2009	16.59	4,956	-(690)
<i>Buy currency/ sell Sterling</i>					
US Dollars	8,000	Jan 2009	1.45	5,475	(32)
Euro	10,000	Jan 2009	1.04	9,525	(92)
Hong Kong Dollars	140,000	Jan-Dec 2009	12.49	12,367	1,198
Total					<u>(6,968)</u>

At 31 December 2008 the Group had entered into the following foreign exchange contracts with the Group's ultimate holding company to hedge expected cash flows in the US Dollar and Euro which are expected to occur in 2009. The gains or losses on these contracts measured as the difference between the original forward deal rate and the corresponding forward deal rate at 31 December 2008 have been recognised through equity in the current year and will be recognised through the income statement in 2009.

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2007 £'000	Gain/(loss) recognised through equity £'000
<i>Sell currency/ buy Sterling</i>					
US Dollars	30,000	Sep-Dec 2009	1.94	20,533	(5,072)
Euro	50,000	Mar-Dec 2009	1.25	47,624	(7,405)
Total					<u>(12,477)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Instruments (continued)*Recognised through income statement*

During the year ended 31 December 2008 gains/(losses) were removed from equity and recognised in profit and loss in relation to foreign exchange contracts with the Group's ultimate holding company in relation to cash flow hedges in the US Dollar and Euro which matured during the year as follows:

	Currency amount 000's	Maturity dates	Foreign exchange rate	Gain/(loss) recognised through income statement £'000
<i>Sell currency/ buy Sterling</i>				
US Dollars	30,000	Aug-Dec 2008	1.96	209
Euro	45,000	Mar-Dec 2008	1.45	(2,105)
				<u>(1,896)</u>

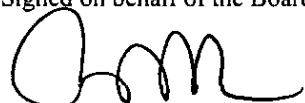
HM PUBLISHERS HOLDINGS LIMITED

BALANCE SHEET as at 31 December 2008

ASSETS	Note	2008 £'000	2007 £'000
Non-current assets			
Property	28	17,007	17,276
Investment in subsidiaries	29	102,893	105,254
		<u>119,900</u>	<u>122,530</u>
Current assets			
Trade and other receivables	30	43,750	61,203
Cash and cash equivalents	31	27	118
Income tax receivable		998	3,002
		<u>44,775</u>	<u>64,323</u>
TOTAL ASSETS		<u>164,675</u>	<u>186,853</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	32	772	772
Share premium		76,788	76,788
Capital redemption reserve		48	48
Retained earnings		59,888	83,443
TOTAL EQUITY		<u>137,496</u>	<u>161,051</u>
Non-current liabilities			
Deferred income tax liabilities	26	643	473
Current liabilities			
Trade and other payables	34	8,776	1,160
Financial liabilities	33	17,760	24,169
		<u>26,536</u>	<u>25,329</u>
TOTAL LIABILITIES		<u>27,179</u>	<u>25,802</u>
TOTAL EQUITY AND LIABILITIES		<u>164,675</u>	<u>186,853</u>

These financial statements were approved by the Board of Directors on 11 June 2009.

Signed on behalf of the Board of Directors.



Dr A C Thomas
Director

CASH FLOW

for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Operating loss		(87)	(48)
Decrease in accounts receivable		17,453	22,908
Increase in accounts payable less than one year		7,616	344
Decrease in accounts payable over one year		-	(135)
Depreciation charges		1,097	820
Income tax received/ (paid)		1,168	(2,060)
Net cash flow from operating activities		<u>27,247</u>	<u>21,829</u>
Cash flows (used in)/ from investing activities			
Interest received		3,008	3,332
Dividends received from subsidiaries		326	942
Investment in subsidiary undertaking		(6)	-
Purchase of property		(828)	(6,734)
Net cash flows (used in)/ from investing activities		<u>2,500</u>	<u>(2,460)</u>
Cash flows used in financing activities			
Interest paid		(429)	(374)
Dividends paid to equity holders of the parent		(23,000)	(21,000)
Net cash flows used in financing activities		<u>(23,429)</u>	<u>(21,374)</u>
Net decrease in cash and cash equivalents		6,318	(2,005)
Cash and cash equivalents at 1 January	31	(24,051)	(22,046)
Cash and cash equivalents at 31 December	31	<u>(17,733)</u>	<u>(24,051)</u>

/

HM PUBLISHERS HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2008

	Attributable to equity holders of the parent				Total attributable to equity holders of parent £'000
	Issued Capital £'000	Share premium £'000	Capital Redemption Reserve £'000	Retained earnings £'000	
At 1 January 2007	696	76,455	48	92,077	169,276
Increase in share capital	176	76,304	-	-	76,480
Decrease in share capital	(100)	(75,971)	-	(409)	(76,480)
Profit for the year	-	-	-	12,775	12,775
Equity dividends (note 27)	-	-	-	(21,000)	(21,000)
At 31 December 2007	772	76,788	48	83,443	161,051
Loss for the year	-	-	-	(555)	(555)
Equity dividends (Note 27)	-	-	-	(23,000)	(23,000)
At 31 December 2008	772	76,788	48	59,888	137,496

NOTES TO THE FINANCIAL STATEMENTS

25. Staff costs and Directors' emoluments

The Company does not employ any staff or directors in its own right. Directors' remuneration is paid by another Group company.

26. Deferred Tax

The analysis by category of deferred tax included in the balance sheet is as follows:

	2008 £'000	2007 £'000
Deferred tax liability		
Accelerated capital allowances	643	473

27. Dividends paid

	2008 £'000	2007 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Interim dividend for 2008: £29.78 per share (2007: £27.19 per share)	23,000	21,000

28. Property, plant and equipment

31 December 2008	Land and buildings £'000
Cost	
At 1 January 2008	23,734
Additions	828
At 31 December 2008	24,562
Accumulated depreciation	
At 1 January 2008	6,458
Charge for year	1,097
At 31 December 2008	7,555
Net book value	
At 31 December 2008	17,007
At 31 December 2007	17,276

NOTES TO THE FINANCIAL STATEMENTS

29. Investments in subsidiaries

	2008 £'000	2007 £'000
Subsidiary undertakings:		
Shares at cost at 1 January	105,254	105,254
Additions	6	-
Impairment	(2,367)	-
	<u>102,893</u>	<u>105,254</u>
Shares at cost at 31 December		

See note 22 for list of subsidiaries.

30. Trade and other receivables

	Note	2008 £'000	2007 £'000
Current			
Other related parties	36	<u>43,750</u>	<u>61,023</u>

31. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	<u>27</u>	<u>118</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents £27,000 (2007: £118,000).

For the purposes of the Company Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	Note	2008 £'000	2007 £'000
Cash at bank and in hand		27	118
Bank overdrafts	33	<u>(17,760)</u>	<u>(24,169)</u>
		<u>(17,733)</u>	<u>(24,051)</u>

NOTES TO THE FINANCIAL STATEMENTS

32. Issued share capital

Authorised:

Ordinary shares of £1 each

Number	£'000
10,000,000	10,000

Ordinary shares of US\$1 each

Number	US\$'000
200,000	200

Allotted, called up and fully paid:

31 December 2008

Ordinary shares of £1 each

At 1 January and 31 December 2008

Number	£'000
772,376	772

31 December 2007

Ordinary shares of £1 each

At 1 January 2007

Shares issued

At 31 December 2007

595,987	596
176,389	176
772,376	772

Ordinary shares of US\$1 each

At 1 January 2007

Shares purchased

At 31 December 2007

176,389	100
(176,389)	(100)
-	-

Total at 31 December 2007

772,376	772
---------	-----

NOTES TO THE FINANCIAL STATEMENTS

33. Financial liabilities

	Note	2008 £'000	2007 £'000
Current			
Bank overdrafts		<u>17,760</u>	<u>24,169</u>

34. Trade and other payables

		2008 £'000	2007 £'000
Current			
Other related parties	36	8,076	47
Other payables and accruals		<u>700</u>	<u>1,113</u>
		<u>8,776</u>	<u>1,160</u>

The Company has made provision for office space that is vacant with regards to operating leases where it has a commitment.

35. Commitments and contingencies

Operating lease commitments – Company as lessee

The Company has entered into commercial leases on certain land and buildings, where it is not in the best interests of the Company to purchase these assets. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2008 £'000	2007 £'000
Within one year	1,763	1,762
After one year but not more than five years	7,150	7,171
More than five years	<u>8,394</u>	<u>10,065</u>
	<u>17,307</u>	<u>18,998</u>

Operating lease commitments – Company as lessor

The Company acts as the property holding company of the HM Publishers Holdings Group of publishing companies and sublets property at arms length terms to its UK subsidiaries and sublets its surplus office space to third parties.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2008 £'000	2007 £'000
Within one year	<u>4,496</u>	<u>3,991</u>

NOTES TO THE FINANCIAL STATEMENTS

35. Commitments and contingencies (continued)

Capital Commitments

At 31 December 2008, HM Publishers Holdings Limited has commitments of £nil (2007: £ nil) contracted for but not provided in the financial statements.

Guarantees

HM Publishers Holdings Limited has the following contingent liabilities at 31 December:

	2008	2007
	£'000	£'000
Bank facilities guaranteed	21,015	3,497

36. Related party disclosures

The principal subsidiaries at 31 December are detailed in note 22.

The Company's immediate parent undertaking is Holtzbrinck Publishers Holdings Limited. It has included the results of the Company in its Group financial statements, copies of which are available from its registered office.

The Company's ultimate parent undertaking and controlling party is Georg von Holtzbrinck GmbH & Co. KG, a German partnership.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year:

Related party		Amounts owed by related parties £'000	Amounts owed to related parties £'000
Immediate holding company:			
Holtzbrinck Publishers Holdings Limited			
	2008	-	8,076
	2007	-	47
Fellow undertakings:			
Macmillan Publishers Limited			
	2008	43,750	-
	2007	61,203	-
Total:			
	2008	43,750	8,076
	2007	61,203	47

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlements occur in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2008, the Company has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2007: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

NOTES TO THE FINANCIAL STATEMENTS

36. Related party disclosures (continued)

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100.00% of the ordinary shares in HM Publishers Holdings Limited (2007: 100.00%).