

Company Registration No. 46694

HM PUBLISHERS HOLDINGS LIMITED

Consolidated Report and Financial Statements

31 December 2010



CONSOLIDATED REPORT AND FINANCIAL STATEMENTS 2010

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HM PUBLISHERS HOLDINGS LIMITED

GENERAL INFORMATION

DIRECTORS

Dr S von Holtzbrinck
W H Farries
C E Fleming
Dr J Gutbrod
Dr A Reich
J Sargent
J H Schwanewedel
Dr A C Thomas
Dr J M Wheeldon

Chairman

Alternate for Dr A C Thomas

Alternate for Dr S von Holtzbrinck

SECRETARY

C E Fleming

REGISTERED OFFICE

Brunel Road
Houndmills
Basingstoke
Hampshire RG21 6XS

BANKERS

National Westminster Bank plc
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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

Company Registration No. 46694

The directors present their annual report, the Group and Company financial statements for the year ended 31 December 2010

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 in the publishing sector

Business review and future developments

The Group had a successful year despite continuing difficult trading conditions in a number of key markets. 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 8% to £1,028m (2009 £952m) with continuing growth occurring in the STM business generated by Nature and its sister publications whilst the Group's Academic, Education, Trade and Publishing Services businesses also experienced turnover increases. The US Trade and College divisions had a successful year. Operating profit of £103.6m was slightly down on the figure of £107.8m achieved in 2009. Results in East and West Africa were adversely impacted by the debarring of the Group from participating in World Bank deals (see note 21). Operating profits were also impacted by substantial bad debt write-offs in the retail Trade sector in the US, Canada and Australia. Overall these results represent a creditable achievement in the current economic climate.

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 continues to take 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. During the year there was rapid expansion of electronic means of delivery of content in the retail publishing sector, especially in the US, and the Group has taken a number of new initiatives in this area. The Group continues to invest for the future in the development of online content delivery in the International Education markets as the technology adoption evolves in each market.

Whilst the Group remains committed to further developing technology-based products and services, it recognises that 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, customers 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 very successful year despite continuing weakness in library markets particularly in the US. Revenue in sterling terms was 6.6% ahead of last year at £45.4m (2009 £42.6m). College sales into the UK and European markets showed steady growth on 2009 whilst other export markets remained flat. Sales into overseas markets of the Bedford Freeman Worth list, where Palgrave Macmillan acts as distributor into non-US markets, had a more difficult year. Sales of the Group's Scholarly and Reference list performed extremely well. A strong publishing programme and an encouraging performance in the developing academic electronic books market boosted sales and margins. Stringent cost control measures remained in place across the division in response to the difficult economic circumstances.

DIRECTORS' REPORT

Business review and future developments (continued)

STM

The Nature Publishing Group had another good year. Revenues increased by 19.1% to £174.4m (2009: £146.4m). Continuing growth in electronic subscriptions and site licence revenues from the Group's flagship Nature title and its associated sister journals resulted in healthy revenue growth and offset difficulties in the advertising markets and continuing long term structural decline in the print subscription market. The launch of new titles in the Nature stable of journals continued to drive growth, and developments in related publishing areas, such as Macmillan Medical Communications targeted at the custom publishing medical markets continue to show promise. In addition to this 2010 figures incorporated the Scientific American US business for the first time and results were encouraging. The Scientific American business achieved a substantial turn round in operating results as the Group took advantage of cost and marketing synergies with the Nature Publishing Group operations.

DIGITAL SCIENCE

During the year the Group extended its investment in the provision of digital services to the scientific community through a newly established Digital Science division. The Group sees this as a promising area for future growth in the longer term, building on the Group's existing relationships with the scientific community through its Nature Publishing Group division. Through a combination of early stage acquisitions, minority stakes, and organic investments in in-house development, the initial areas of focus are in the areas of text mining, provision of metrics data analysis and research tools for the scientific community. During the year the Group continued to invest in the development of the Surechem Inc business which was acquired in 2009 and made two further investments in the text mining sector, Biodata Limited and Labtiva Inc. Details of these investments are shown in note 12 of the accounts. Both acquisitions were made at the end of 2010 and had minimal impact on revenues and profits.

EDUCATION

The Group's Education business had a good year despite uncertainties in East & West Africa caused by the debarring of the Group from participating in World Bank contracts. The Group continues to exploit its geographical spread of businesses in overseas markets. Revenues increased by 2.5% to £230.5m (2009: £224.8m), and margins showed encouraging growth. The Group's businesses in Latin America, Europe, Middle East, Australia and India all had good results. Within Europe, the Spanish market performed particularly well despite difficult economic conditions in Spain. Results in East and West Africa were less encouraging for the reasons mentioned above. The South African group also suffered from delays in the implementation of anticipated Foundation stage curriculum changes in 2010. The application of stringent cost control measures and tight control of margins meant that the Education group performed creditably despite difficult conditions in some markets.

FICTION AND NON-FICTION – UK AND ROW

The Group's Fiction and Non Fiction publishing businesses continued to find trading conditions difficult in almost all markets. Despite this, revenues increased by 7.0% to £113.0m (2009: £105.6m). The UK retail market remains extremely competitive with pricing pressures continuing from ongoing concentration of the UK retail market into the hands of a decreasing number of major bookselling chains and supermarkets. Results in Australia were affected by a bad debt charge from the administration of the Redgroup. Despite this the Group's Trade businesses performed well in 2010. Sales of the Picador imprint performed well, benefiting from strong film tie in sales, whilst the rest of the Fiction list grew strongly, underpinned by the successful launch of the Mantle imprint. Non Fiction results were affected by high returns and lower backlist sales but performed well with some major new titles in the Autumn list. Children's titles performed well with strong picture book sales and growth in the backlist contributing strongly. The division responded quickly to take advantage of opportunities presented by the rapid growth in electronic means of content delivery in the UK market. Stringent cost control measures continued across the businesses to counteract the difficult trading conditions.

FICTION AND NON-FICTION - US

The US Fiction and Non-Fiction publishing businesses had a good year with eBook sales performing particularly well. Bad debt provisions following the collapse of Borders and H B Fenn had a negative impact on profitability. Revenues increased in sterling terms by 3.2% to £267.5m (2009: £259.2m). The corresponding growth in US dollars was 1.9%. The Group responded positively to take advantage of opportunities presented by the rapid growth in electronic means of content delivery in the US retail market. The Group continues to pursue its strategy of organic growth through development of new authors.

DIRECTORS' REPORT

Business review and future developments (continued)

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 15.1% to £164.3m (2009 £142.7m). The corresponding growth rate in US dollars was 13.1%. The Group's Bedford division had a good year with continuing strong sales in the English Composition discipline. Freeman Worth benefited from strong sales of College text new editions particularly in the Psychology and Chemistry disciplines. The division continues to invest in the development of electronic publishing content delivery in a rapidly changing marketplace.

PUBLISHING SERVICES

The Group continues to invest in the provision of services to the publishing industry. The India electronic data processing operation of MPS Limited continues to develop its range of services in a challenging economic climate. The strength of the Indian Rupee, continuing pressure on discounts and the drop in print programmes from client publishers with a switch to digital publications all combined to make 2010 a challenging year. The print buying operation of Macmillan Publishers Asia Limited was also affected by the lack of World Bank orders in 2010. Despite that the division produced very creditable results due to overhead and cost savings combined with the growth of third party sales. The distribution operation in the UK had a good year through improvement of its operating efficiencies.

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 decrease in cash and cash equivalents in the year ended 31 December 2010 of £6.1m (2009 increase of £26.0m). This figure is stated after payment of dividends to the Group's shareholders of £36.3m (2009 £50.0m).

At December 2010 the Group had net surplus funds on loan to fellow Group companies of £87.5m (2009 £49.6m). 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 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.

DIRECTORS' REPORT

Business review and future developments (continued)

Asset and capital structure

Equity and gearing

The Group's capital structure is as follows

	Note	2010 £'000	2009 £'000
Cash and cash equivalents	17	51,161	49,921
Interest-bearing loans and borrowings	19	(102,085)	(94,390)
Net debt		(50,924)	(44,469)
Total equity		(351,041)	(321,821)
Total capital employed		(401,965)	(366,290)
Gearing		14.5%	13.8%

The gearing percentages are within the Group's target levels

Profile of debt

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

		2010 £'000	2009 £'000
Current			
Obligations under finance leases and hire purchase contracts	19	953	722
Bank overdrafts	19	36,937	32,488
Other loans	19	864	617
		38,754	33,827
Non-current			
Obligations under finance leases and hire purchase contracts	19	2,135	1,994
Other loans	19	61,196	58,569
		63,331	60,563
		102,085	94,390

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 banking covenants at the level of the Group's ultimate holding company.

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 31% in the current year and 31% in the previous year.

Dividends

An interim ordinary dividend of £36.3m has been paid for the year to 31 December 2010 (2009: £50m). The directors do not recommend the payment of a final dividend.

DIRECTORS' REPORT

Business review and future developments (continued)

Contingent Liabilities

As set out in note 21, in December 2009 the Group was put on notice, following a visit by the police, that the World Bank was investigating the possibility of corruption in parts of the Macmillan Education business. The Group is fully co-operating with the World Bank and has taken appropriate steps to investigate the matter. In April 2010 Macmillan Publishers Limited voluntarily referred to the Serious Fraud Office its concerns over the matter, and Macmillan Limited, the parent company of Macmillan Publishers Limited, has reached a civil settlement agreement with the World Bank over allegations that improper and unauthorised payments had been made to public officials in Southern Sudan in an unsuccessful bid to secure a contract funded by the World Bank. As part of that agreement, Macmillan Limited and its subsidiaries are debarred from participating in World Bank contracts for a period of between 3 and 6 years.

The internal investigation is ongoing and is being conducted with the agreement of both the World Bank and the Serious Fraud Office. Its conclusions will not be available until the investigation is complete which is not expected to be before autumn 2011.

Concerns arising from this matter are confined to a limited part of the Education business and there are no indications that the Group's other principal businesses are affected. The Group is taking the situation very seriously and is committed to achieving the highest standards of corporate governance and ethical behaviour and has put in place stringent anti-bribery and corruption measures on an ongoing basis.

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.

W H Farries
C E Fleming – Alternate for Dr A C Thomas
Dr J Gutbrod (Germany)
Dr S von Holtzbrinck (Germany)
R Nathan (resigned 15 March 2010) – Alternate for Dr J M Wheeldon
Dr A Reich (Germany) – Alternate for Dr S von Holtzbrinck
J Sargent (USA)
J H Schwanewedel (Germany)
Dr A C Thomas
Dr 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.

Details of directors' emoluments are contained in note 5 of the accounts.

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 increased from 8,954 in 2009 to 9,027 in 2010.

DIRECTORS' REPORT

Business review and future developments (continued)

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

The Macmillan Information and Consultation National Forum supplements the work of the various Joint consultative committees. The Forum is comprised of elected employee representatives from across the Company. The Forum meets with Macmillan management on a regular basis to discuss issues facing the Company that could have an impact on employees.

Training and development

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

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 £22,235 (2009 £18,053). The donations were predominantly directed towards cancer research and children's charities as well as medical and welfare organisations. 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.

Auditors

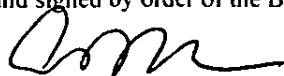
A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the forthcoming Annual General Meeting.

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 6. 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



Dr A C Thomas
Director

28 April 2011

HM PUBLISHERS HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS

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

Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance,
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group 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 of HM Publishers Holdings Limited for the year ended 31 December 2010, which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Parent Company Balance sheet, Consolidated Statement of Changes in Equity, Parent Company Statement of Changes in Equity, Consolidated Cash Flow, Parent Company Cash Flow and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Director's Responsibilities Statement, set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

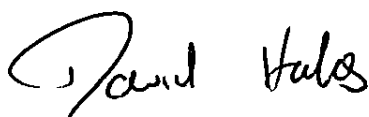
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

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

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



David Hales (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

28 April 2011

HM PUBLISHERS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Continuing operations			
Revenue	3	1,028,067	952,119
Other income	4	6,888	8,511
Cost of sales		(385,827)	(368,891)
Gross profit		649,128	591,739
Employee benefits expense	5	(263,503)	(240,471)
Depreciation and amortisation expense	4	(22,102)	(19,761)
Other expenses	4	(259,934)	(223,659)
Operating profit		103,589	107,848
Finance revenue	4	3,238	2,759
Finance costs	4	(5,606)	(6,649)
Other finance expense – pensions	14	(3,775)	(1,856)
		(6,143)	(5,746)
Profit before tax		97,446	102,102
Income tax expense	6	(29,848)	(31,887)
Profit after tax		67,598	70,215
Share of profit of associates	11	210	19
Profit for the year		67,808	70,234
Profit for the year attributable to			
Owners of the parent		50,572	50,894
Non-controlling interest		17,236	19,340
Other comprehensive income			
Net gain on hedge of net investment		3,667	1,137
Exchange differences on translation of foreign enterprises		17,406	(8,297)
Loss on cash flow hedges taken to equity	24	(4,764)	(3,032)
Actuarial losses on defined benefit plan		(2,392)	(29,997)
Transfer to the income statement of cash flow hedges previously taken to equity	24	3,032	19,445
Income tax relating to the components of other comprehensive income	6	(594)	3,375
Other comprehensive income for the year, net of tax		16,355	(17,369)
Total comprehensive income for the year, net of tax		84,163	52,865
Total comprehensive income for the year attributable to:			
Owners of the parent		63,648	41,843
Non-controlling interest		20,515	11,022

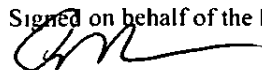
HM PUBLISHERS HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2010

ASSETS	Note	2010 £'000	2009 £'000
Non-current assets			
Property, plant and equipment	9	58,140	56,635
Intangible assets	10	92,385	96,599
Investment in associates	11	327	118
Pension asset	14	136	83
Income tax receivable		1,371	1,512
Deferred tax assets	6	38,264	34,573
Other non-current assets	16	42	40
		<u>190,665</u>	<u>189,560</u>
Current assets			
Inventories	15	160,205	150,197
Trade and other receivables	16	552,767	506,900
Cash and cash equivalents	17	51,161	49,921
		<u>764,133</u>	<u>707,018</u>
TOTAL ASSETS		<u>954,798</u>	<u>896,578</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	18	772	772
Share premium		76,788	76,788
Capital redemption reserve		51	51
Other reserves		60,285	44,906
Retained earnings		137,113	125,131
		<u>275,009</u>	<u>247,648</u>
Non-controlling interests		76,032	74,173
TOTAL EQUITY		<u>351,041</u>	<u>321,821</u>
Non-current liabilities			
Financial liabilities	19	63,331	60,563
Defined benefit pension plan deficit	14	61,052	67,747
Deferred income tax liabilities	6	6,365	5,756
Other non-current liabilities	20	18,848	15,268
		<u>149,596</u>	<u>149,334</u>
Current liabilities			
Trade and other payables	20	403,093	376,095
Financial liabilities	19	38,754	33,827
Income tax payable		12,314	15,501
		<u>454,161</u>	<u>425,423</u>
TOTAL LIABILITIES		<u>603,757</u>	<u>574,757</u>
TOTAL EQUITY AND LIABILITIES		<u>954,798</u>	<u>896,578</u>

These financial statements were approved by the Board of Directors on 28 April 2011

Signed on behalf of the Board of Directors



Dr A C Thomas
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

Attributable to equity holders of the parent

	Issued capital (Note 18) £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Capital contribution (Note 18) £'000	Associates (Note 18) £'000	Foreign currency translation reserves (Note 18) £'000	Net unrealised gains reserve (Note 18) £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
As at 1 January 2009	772	76,788	51	145,500	35,360	244	12,417	(15,327)	255,805	87,698	343,503
Profit for the period	-	-	-	50,875	-	19	-	-	50,894	19,340	70,234
Other comprehensive income	-	-	-	(21,244)	-	-	(951)	13,144	(9,051)	(8,318)	(17,369)
Total comprehensive income	-	-	-	29,631	-	19	(951)	13,144	41,843	11,022	52,865
Dividends	-	-	-	(50,000)	-	-	-	-	(50,000)	(19,954)	(69,954)
Change in non-controlling interest percentage	-	-	-	-	-	-	-	-	-	(4,593)	(4,593)
At 31 December 2009	772	76,788	51	125,131	35,360	263	11,466	(2,183)	247,648	74,173	321,821
Profit for the period	-	-	-	50,362	-	210	-	-	50,572	17,236	67,808
Other comprehensive income	-	-	-	(2,093)	-	-	16,416	(1,247)	13,076	3,279	16,355
Total comprehensive income	-	-	-	48,269	-	210	16,416	(1,247)	63,648	20,515	84,163
Dividends	-	-	-	(36,287)	-	-	-	-	(36,287)	(20,971)	(57,258)
Change in non-controlling interest percentage	-	-	-	-	-	-	-	-	-	10	10
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	2,305	2,305
At 31 December 2010	772	76,788	51	137,113	35,360	473	27,882	(3,430)	275,009	76,032	351,041

HM PUBLISHERS HOLDINGS LIMITED

CONSOLIDATED CASH FLOW
for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Operating profit		103,589	107,848
(Increase) / decrease in inventories		(1,181)	1,691
(Increase) in accounts receivable		(24,021)	(22,485)
Increase in accounts payable less than one year		13,736	25,298
Increase in accounts payable over one year		2,484	3,206
Movement in pensions		(9,449)	(3,005)
Loss on sale of fixed assets		1,190	36
Depreciation and amortisation charges		22,102	19,761
Goodwill impairment		3,026	-
Income tax paid		(37,365)	(32,442)
Net cash flow from operating activities		74,111	99,908
Cash flows used in investing activities			
Interest received		3,236	2,759
Proceeds from disposal of property, plant and equipment		2,489	693
Proceeds from disposal of intangible assets		341	4
Purchase of property, plant and equipment		(12,208)	(3,572)
Purchase of intangible assets		(4,729)	(5,474)
Acquisition of trade / assets and subsidiaries		(2,876)	(365)
Disposal of trade/ assets and subsidiaries		881	-
Movement in investment securities		-	144
Buy-out of non-controlling interest		-	(4,258)
Net cash flows used in investing activities		(12,866)	(10,069)
Cash flows used in financing activities			
Interest paid		(9,131)	(8,300)
Interest element of finance leases		(248)	(205)
Payment of finance lease liabilities		(722)	(2,385)
(Repayment of loans)/ proceeds from borrowings		(4)	17,016
Dividends paid to equity holders of the parent		(36,287)	(50,000)
Payments to non-controlling interests		(20,971)	(19,954)
Net cash flows used in financing activities		(67,363)	(63,828)
Net (decrease)/ increase in cash and cash equivalents		(6,118)	26,011
Net foreign exchange difference		2,662	3,817
Cash and cash equivalents at 1 January	17	16,816	(13,012)
Cash and cash equivalents at 31 December	17	13 360	16,816

HM PUBLISHERS HOLDINGS LIMITED

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 2010 were authorised for issue in accordance with a resolution of the directors on 28 April 2011. 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), as adopted by the European Union and also IFRS as issued by the International Accounting Standards Board.

The Company's financial statements have been prepared in accordance with IFRS and as applied in accordance with the provisions of the Companies Act 2006. 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 2006 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), as adopted by the European Union and also IFRS as issued by the International Standards Accounting Board.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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 2004 is not amortised and goodwill already carried in the balance sheet is not amortised after 1 January 2004. 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 where arising 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 3 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.

New Standards Adopted in the Period

The Group has adopted the following new and amended IFRS and IFRIC standards and interpretations during the year, mandatory as at 1 January 2010 unless otherwise stated. Where relevant the impact is described below.

IFRS 2 Group Cash-settled Share-based Payment Arrangements

IFRS 3 Business Combinations – Revised

IAS 39 Amendment – Eligible Hedged Items

IFRIC 12 Service Concession Arrangements

IFRIC 15 Agreements for the Construction of Real Estate

IFRI 17 Distribution of Non-Cash Assets to owners

IFRIC 18 Transfer of Assets from Customers

Adoption of these revised standards and interpretations did not have any impact on the classification or measurement of the Group's assets and liabilities, nor has it resulted in any additional disclosure, except as noted below.

IFRS 3 Business Combinations – Revised

The revised standard increases the number of transactions to which it might be applied including business combinations of mutual entities and combinations without consideration. IFRS 3 (revised) introduces significant changes in the accounting for business combinations such as valuation of non-controlling interest, business combinations achieved in stages, the initial recognition and subsequent measurement of contingent consideration and the accounting for transaction costs. These changes will have a significant impact on profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and profit or loss reported in future periods.

IAS 39 Amendment – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Standard or interpretation	Title
Effective from 1 February 2010	
IAS 32	Amendment to IAS 32 – Classification of Rights Issues
Effective from 1 July 2010	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRS 1	Amendment to IFRS 1 – Limited exemption from additional IFRS 7 disclosures
Effective from 1 January 2011	
IFRIC 14	Amendment - Prepayments of a Minimum Funding Requirement
IAS 24	Related Party Disclosures
Effective from 1 January 2013	
IFRS 9	Financial Instruments – Classification and measurement

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 effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the group's discretion to early adopt standards.

HM PUBLISHERS HOLDINGS LIMITED

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:

	2010	2009
	£'000	£'000
Sales of goods	924,999	860,224
Rendering of services	103,068	91,895
Sales to external customers	1,028,067	952,119
Finance revenue	3,238	2,759
Total revenue	1,031,305	954,878

No revenue was derived from exchanges of goods or services (2009 £nil)

	By business division	
	2010	2009
	£'000	£'000
Primary:		
Continuing operations		
Academic	45,421	42,552
Scientific, Technical & Medical	174,396	146,402
Digital Science	25	-
Education	230,518	224,771
Fiction and Non-Fiction – UK and Rest of the World	113,016	105,556
Publishing Services and Other	32,810	31,020
Fiction and Non-Fiction – US	267,546	259,167
US College	164,335	142,651
	1,028,067	952,119

		By destination	
	Note	2010	2009
		£'000	£'000
Secondary:			
Continuing operations			
Europe including UK		223,658	214,683
North America		528,579	483,299
Africa		46,264	54,264
Asia Pacific		142,189	122,834
Rest of the World		87,377	77,039
Sales to external customers		1,028,067	952,119
Sales to related parties	22	3,179	1,971

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses

Other income

	Note	2010 £'000	2009 £'000
Rental income		576	876
Income from related parties	22	3,930	5,461
Other		2,382	2,174
		<u>6,888</u>	<u>8,511</u>

Depreciation and amortisation expense

		2010 £'000	2009 £'000
Depreciation of tangible fixed assets	9	(10,190)	(10,570)
Amortisation of intangible assets	10	(11,912)	(9,191)
		<u>(22,102)</u>	<u>(19,761)</u>

Other expenses

		2010 £'000	2009 £'000
Advertising and distribution expenses		(97,547)	(90,323)
Administration expenses		(104,695)	(93,050)
Rent and lease expenses		(23,602)	(22,267)
Expenses with related parties	22	(4,800)	(123)
Loss from currency translation		(1,010)	(4,922)
Goodwill impairment	10	(3,026)	-
Other		(25,254)	(12,974)
		<u>(259,934)</u>	<u>(223,659)</u>

Finance revenue

		2010 £'000	2009 £'000
Bank interest receivable		1,015	847
Interest receivable from related parties	22	1,796	1,383
Other interest income		427	529
		<u>3,238</u>	<u>2,759</u>

Finance costs

		2010 £'000	2009 £'000
Bank loans and overdrafts		(4,543)	(5,716)
Finance charges payable under finance leases and hire purchase contracts		(248)	(205)
Interest payable to related parties	22	(344)	(323)
Other interest expense		(471)	(405)
		<u>(5,606)</u>	<u>(6,649)</u>

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses (continued)

Group operating profit is stated after charging:

	Note	2010 £'000	2009 £'000
Changes in inventory reserve		(23,869)	(22,912)
Operating lease payments – minimum lease payments		(21,707)	(20,244)
Pension net benefit expense	14	200	(4,646)
Loss on sale of investment		(1,028)	-

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)	(85)
Other fees to auditors		
Local statutory audit for subsidiaries	(1,347)	(1,228)
Taxation services	(48)	(41)
Audit of the Group pension schemes	(2)	(2)
Other services	(88)	(47)

5. Staff costs and Directors' emoluments

(a) Directors' emoluments	2010 £'000	2009 £'000
Directors' emoluments	(3,734)	(3,088)

	2010 No.	2009 No.
--	-------------	-------------

Number of directors accruing benefits under

Defined benefit pension schemes	2	2
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Defined contribution pension schemes	4	4
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	2010 £'000	2009 £'000
Company contributions paid to defined contribution pension schemes	(48)	(74)

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

	2010 £'000	2009 £'000
Emoluments	(1,540)	(1,180)
Accrued pension at the year end under defined benefit scheme	-	(37)
Company contributions paid to defined contribution pension schemes	(5)	(45)

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Staff costs and Directors' emoluments (continued)

(b) Employee benefits expense, including directors

	2010 £'000	2009 £'000
Wages and salaries	(222,660)	(199,222)
Social security costs	(35,395)	(30,097)
Pension costs	(2,473)	(8,094)
Severance payments	(2,975)	(3,058)
	<u>(263,503)</u>	<u>(240,471)</u>

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

	2010 £'000	2009 £'000
For directors	48	74
For other staff	2,398	1,979
	<u>2,446</u>	<u>2,053</u>

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

	2010 No.	2009 No.
Europe including UK	1,858	1,882
North America	1,865	1,810
Africa	363	401
Asia Pacific	507	503
India	3,526	3,443
Rest of the World	908	915
	<u>9,027</u>	<u>8,954</u>

6. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement:

	2010 £'000	2009 £'000
Current income tax		
Current income tax charge	(32,758)	(32,637)
Adjustments in respect of current income tax of previous years	231	(1,229)
Total current income tax	<u>(32,527)</u>	<u>(33,866)</u>
Deferred tax		
Relating to origination and reversal of temporary differences	2,679	1,979
Total deferred income tax	<u>2,679</u>	<u>1,979</u>
Tax charged in the income statement	<u>(29,848)</u>	<u>(31,887)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation (continued)

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

	2010 £'000	2009 £'000
Tax relating to items charged or credited to equity:		
Tax on loss on cash flow hedges	1,334	849
Tax on reversal of 2009 (2008) loss on cash flow hedges	(849)	(5,542)
Tax on net (gain) on hedge of net investment	(1,027)	(324)
Tax on actuarial losses	(52)	8,392
	<u>(594)</u>	<u>3,375</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 2010 and 2009 is as follows

	2010 £'000	2009 £'000
Profit from continuing operations before taxation	97,446	102,102
At UK standard rate of income tax rate of 28% (2009 28%)	27,285	28,589
Income not subject to corporation tax	(3,440)	(2,877)
Foreign subsidiaries subject to lower tax rate	(1,386)	(1,571)
Foreign subsidiaries subject to higher tax rate	5,021	5,078
Expenses not deductible for tax purposes	5,714	8,488
Prior year adjustments	(1,102)	(4,559)
Changes in tax losses carry forward	1,224	1,489
Changes in temporary differences	375	524
Tax loss carry forward used not previously recognised	-	(34)
Other	(3,843)	(3,240)
At effective income tax rate of 31% (2009 31%)	<u>29,848</u>	<u>31,887</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

The 2010 UK Budget announced that the UK rate of Corporation Tax will reduce by 1% per year for the next 4 years from 28% to 24% for periods commencing 1 April 2011. The reduction in rate was to be enacted each financial year. As at the balance sheet date the reduction in rate from 28% to 27% had been enacted and as such the deferred tax asset has been calculated at 27%. The rate decrease from 27% to 26% enacted on 29 March 2011 was after the balance sheet date and therefore has no impact on the current year deferred tax asset.

The effect on the company of these further proposed changes of the UK tax system will be reflected in the company's financial statements in future years, as appropriate, once the proposals have been substantively enacted.

(c) Unrecognised tax losses

The Group has tax losses of approximately £1,495,000 (2009 £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 which have been dormant for some time.

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation (continued)

(d) Deferred income tax

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

	2010 £'000	2009 £'000
Deferred tax asset		
Depreciation in excess of capital allowances	1,339	1,494
Inventory valuation	7,684	6,492
Sales returns and allowances	10,145	6,791
Defined benefit pension schemes	16,272	18,580
Other timing differences	2,824	1,216
	<u>38,264</u>	<u>34,573</u>
Deferred tax liability		
Accelerated capital allowances	1,587	1,239
Inventory valuation	875	349
Sales returns and allowances	260	(343)
Other timing differences	3,643	4,511
	<u>6,365</u>	<u>5,756</u>

Temporary timing differences in relation to non-deductible stock and credit note provisions amounting to £2,045,000 (2009 £1,957,000) have not been recognised in deferred tax, due to doubts over their future recoverability

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

	2010 £'000	2009 £'000
Deferred tax in the income statement		
Depreciation in excess of capital allowances	(692)	155
Inventory valuation	463	1,168
Sales returns and allowances	2,367	414
Other timing differences	541	242
	<u>2,679</u>	<u>1,979</u>

7. Profit attributable to members of the Parent Company

The loss dealt with in the financial statements of the Parent Company is £1,042,000 (2009 profit £31,897,000)

8. Dividends paid

	2010 £'000	2009 £'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2010 £46.98 per share (2009 £64.74 per share)	<u>36,287</u>	<u>50,000</u>

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Property, plant and equipment

31 December 2010	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2010	62,160	80,262	142,422
Exchange adjustment	1,707	4,219	5,926
Additions	4,113	7,742	11,855
Disposals	(2,315)	(5,518)	(7,833)
At 31 December 2010	<u>65,665</u>	<u>86,705</u>	<u>152,370</u>
Accumulated depreciation			
At 1 January 2010	25,492	60,295	85,787
Exchange adjustment	731	2,697	3,428
Charge for year	3,327	6,863	10,190
Disposals	(1,125)	(4,050)	(5,175)
At 31 December 2010	<u>28,425</u>	<u>65,805</u>	<u>94,230</u>
Net book value			
At 31 December 2010	<u>37,240</u>	<u>20,900</u>	<u>58,140</u>
At 31 December 2009	<u>36,668</u>	<u>19,967</u>	<u>56,635</u>

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2010 is £3,111,000 (2009 £2,795,000). Additions during the year include £1,001,000 (2009 £736,000) 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.

There are no land and buildings subject to a first charge to secure the Group's bank loans (2009 carrying amount of £5,041,000).

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

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Intangible assets

	Development costs £'000	Trade names £'000	Publishing rights £'000	Other rights £'000	Goodwill £'000	Total £'000
31 December 2010						
Cost						
At 1 January 2010	16,355	18,371	73,083	2,524	44,444	154,777
Exchange adjustment	630	342	1,899	23	2,149	5,043
Additions	3,594	-	1,232	-	-	4,826
Acquisitions	-	-	3,030	-	-	3,030
Adjustment to deferred consideration	-	-	-	-	(141)	(141)
Reclassification	-	-	-	-	-	-
Disposals	(67)	-	(1,110)	-	-	(1,177)
At 31 December 2010	20,512	18,713	78,134	2,547	46,452	166,358
Accumulated amortisation						
At 1 January 2010	13,458	7,779	34,814	2,127	-	58,178
Exchange adjustment	456	162	971	5	-	1,594
Charge for the year	2,020	1,015	8,661	216	-	11,912
Reclassification	-	-	-	-	-	-
Impairment losses	4	-	-	-	3,026	3,030
Disposals	(61)	-	(680)	-	-	(741)
At 31 December 2010	15,877	8,956	43,766	2,348	3,026	73,973
Net book value						
At 31 December 2010	4,635	9,757	34,368	199	43,426	92,385
At 31 December 2009	2,897	10,592	38,269	397	44,444	96,599

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	
			2010	2009
Stockton Press Educational Publishers B V	Netherlands	Ordinary	40.00%	40.00%
Macmillan New Asia Publishers Ltd	Hong Kong	Ordinary	-	49.00%
College Press Publishers (Pvt) Ltd	Zimbabwe	Ordinary	48.91%	48.91%

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 College Press Publishers (Pvt) Limited and Macmillan New Asia Publishers Limited is that of publishing and distribution of books and periodicals.

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investment in associates (continued)

The following tables illustrate summarised information of the investment in associates

	2010 £'000	2009 £'000
Stockton Press Educational Publishers B.V.:		
Share of associate's balance sheet		
Current assets	102	98
Non-current assets	144	176
Current liabilities	(121)	(156)
Net assets	<u>125</u>	<u>118</u>
Share of associate's profit	<u>7</u>	<u>19</u>
Carrying amount of investment	<u>125</u>	<u>118</u>
Macmillan New Asia Publishers Ltd:		
Share of associate's balance sheet		
Current assets	-	171
Current liabilities	-	(23)
Net assets	<u>-</u>	<u>148</u>
Share of associate's profit/ (loss)	<u>-</u>	<u>7</u>
Carrying amount of investment	-	(320)
Less provision	-	320
Carrying amount less provision	<u>-</u>	<u>-</u>
Cumulative losses of associate	<u>-</u>	<u>(294)</u>
College Press Publishers (Pvt) Limited:		
Share of associate balance sheet		
Current assets	484	-
Non-current assets	12	-
Current liabilities	(293)	-
Net assets	<u>203</u>	<u>-</u>
Share of associates profit/ loss	<u>203</u>	<u>-</u>
Carrying amount of investments	<u>203</u>	<u>-</u>

The investment in Macmillan New Asia Publishers Limited was disposed of on 31 March 2010

For 2008 and 2009 the results for College Press Publishers (Pvt) Limited were not incorporated into the Group figures due to the hyper inflation rate in Zimbabwe. In 2010 the company's cumulative audited results for these years have been incorporated into the Group following the change in currency in Zimbabwe to US Dollars

HM PUBLISHERS HOLDINGS LIMITED

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 2010:

On 13 December 2010 the Group purchased a 59.29% share in Biodata Limited through its subsidiary company, Macmillan Digital Science Limited. The purchase price was £1,291,000 and was financed by borrowings under existing credit lines.

The fair value of the identifiable assets purchased at 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
Tangible assets	23	23
Trade receivables	24	24
Cash	2	2
	<hr/>	<hr/>
	49	49
Trade and other payables	(139)	(139)
	<hr/>	<hr/>
Net assets acquired	(90)	(90)
	<hr/>	<hr/>
Intangible arising on acquisition		1,381
		<hr/>
Total consideration		1,291
		<hr/>
Consideration payable		1,291
Cash		1,291
		<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations (continued)

Acquisitions in 2010 (continued):

On 22 December 2010 the Group purchased a 57.00% share in Labtiva Inc through its subsidiary company, Macmillan Digital Science Limited. The purchase price was £1,578,000 and was financed by borrowings under existing credit lines.

The fair value of the identifiable assets purchased at 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
Tangible assets	1	1
Cash	1	1
	<hr/>	<hr/>
	2	2
Trade and other payables	(73)	(73)
	<hr/>	<hr/>
Net assets acquired	(71)	(71)
	<hr/>	<hr/>
Intangible arising on acquisition		1,649
		<hr/>
Total consideration		1,578
		<hr/>
Consideration payable		
Cash		1,578
		<hr/>
		1,578
		<hr/>

The Group has elected to measure the non-controlling interests in Biodata Limited and Labtiva Inc at the proportionate share of the acquiree's identifiable net assets.

Transaction costs on acquisitions were immaterial and written off during the year.

From the date of acquisition to 31 December 2010, Biodata Limited contributed a £48,000 loss and Labtiva Inc £0 to the net profit of the Group. If the combination had taken place at the beginning of 2010, the profit before tax for the Group would have been £96,985,000 and revenue from continuing operations would have been £1,028,081,000.

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations (continued)

Acquisitions in 2009:

On 31 December 2009 the Group purchased Surechem Inc through its subsidiary company, Nature America Inc. The purchase price was £1,147,000 and was financed by borrowings under existing credit lines.

The fair value of the identifiable assets purchased at 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
Tangible assets	6	6
Trade receivables	38	38
Cash	27	27
	<u>71</u>	<u>71</u>
Trade and other payables	(579)	(579)
	<u>(508)</u>	<u>(508)</u>
Intangible arising on acquisition		1,655
Total consideration		<u>1,147</u>
Consideration payable		
On acquisition		365
Deferred payments		782
		<u>1,147</u>

No changes were made to the provisional fair values recorded as at 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)
Digital Science
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 1.5% for subsequent periods in line with Group policy.

Carrying value of goodwill with indefinite life

	2010	2009
	£000	£000
Academic	-	-
Scientific, Technical and Medical (STM)	-	-
Digital Science	-	-
Education	22,134	20,998
Fiction and Non-Fiction – UK and Rest of the World	-	-
Publishing Services	-	2,753
Fiction and Non-Fiction - US	9,062	8,764
US College	12,230	11,929
Total	<u>43,426</u>	<u>44,444</u>

Impairment of goodwill with indefinite life

Within the Publishing Services cash generating unit an impairment of goodwill £3,026,000 has been recognised in the year following the downturn in trading results of one of the businesses in this sector.

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.

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 7.0% to 9.6%. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 need to increase to over 12% to result in an impairment.

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.

	UK Plan		Pension Plans US and other non-UK Plans		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Employee benefits expense:						
Current service cost	(756)	(951)	(1,779)	(1,839)	(2,535)	(2,790)
Past service cost	-	-	-	-	-	-
Effect of curtailment of benefits	1,989	-	4,521	-	6,510	-
Other finance costs:						
Interest cost on benefit obligation	(9,114)	(7,773)	(1,283)	(1,188)	(10,397)	(8,961)
Expected return on plan assets	5,546	6,263	1,076	842	6,622	7,105
Net benefit expense	<u>(2,335)</u>	<u>(2,461)</u>	<u>2,535</u>	<u>(2,185)</u>	<u>200</u>	<u>(4,646)</u>
Actual return / (loss) on plan assets	<u>10,589</u>	<u>9,226</u>	<u>1,906</u>	<u>2,435</u>	<u>12,495</u>	<u>11,661</u>
Benefit asset/ (liability):						
Present value of defined benefit obligation	(167,622)	(158,036)	(25,011)	(24,583)	(192,633)	(182,619)
Plan assets						
Equities	36,604	10,731	12,606	9,240	49,210	19,971
Debt	41,883	36,401	7,272	6,241	49,155	42,642
Properties	4,456	-	64	33	4,520	33
Cash	5,717	3,721	306	445	6,023	4,166
Target return funds	22,809	48,143	-	-	22,809	48,143
Fair value of plan assets	<u>111,469</u>	<u>98,996</u>	<u>20,248</u>	<u>15,959</u>	<u>131,717</u>	<u>114,955</u>
Benefit (liability)	<u>(56,153)</u>	<u>(59,040)</u>	<u>(4,763)</u>	<u>(8,624)</u>	<u>(60,916)</u>	<u>(67,664)</u>
Pension asset					136	83
Defined benefit pension deficit					<u>(61,052)</u>	<u>(67,747)</u>
Net pension liability					<u>(60,916)</u>	<u>(67,664)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Employment benefits (continued)

Movement in the benefit (liability) during the years to 31 December 2010 and 2009 is as follows

	UK Plan		US and other non-UK Plans		Total	
	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	(59,040)	(32,430)	(8,624)	(9,010)	(67,664)	(41,440)
Net benefit expense	(2,335)	(2,461)	2,535	(2,185)	200	(4,646)
Actuarial losses	(1,794)	(29,215)	(598)	(782)	(2,392)	(29,997)
Contributions	7,016	5,066	2,233	2,588	9,249	7,654
Foreign exchange movement	-	-	(309)	765	(309)	765
	<u>(56,153)</u>	<u>(59,040)</u>	<u>(4,763)</u>	<u>(8,624)</u>	<u>(60,916)</u>	<u>(67,664)</u>

History of experience gains and losses

	UK Plan		US and other non-UK Plans		Total	
	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000
Difference between expected return and actual return on pension scheme assets	5,043	2,963	830	1,593	5,873	4,556
Experience gain/ (loss) arising on scheme liabilities	1,620	258	(1,428)	(2,375)	192	(2,117)
Total actuarial gain/ (loss)	<u>6,663</u>	<u>3,221</u>	<u>(598)</u>	<u>(782)</u>	<u>6,065</u>	<u>2,439</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	
	2010	2009	2010	2009
	%	%	%	%
Discount rate	5.50	5.90	6.00	6.53
Expected rate of return on assets				
Equities	6.50	7.00	6.00	6.00
Corporate Bonds	5.40	5.60	6.00	6.00
Gilts	3.50	4.00	6.00	6.00
Property	5.50	6.00	-	-
Other	7.15	3.60	6.00	6.00
Future salary increases	3.85	4.40	3.50	4.00
Future pension increases				
For service 1 March 1997 to 5 April 2005	3.70	3.70		
For all other periods of service	3.00	3.00		
Inflation	3.35	3.40		

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	
	2010	2009
	Years	Years
Current pensioners at 65 – male	22.7	22.2
Current pensioners at 65 – female	23.7	23.6
Future pensioners at 65 – male	24.5	23.0
Future pensioners at 65 – female	25.7	24.4

On 31 March 2011 a new schedule of contributions was agreed with the Trustees. A contribution payment of £5.0m was made on February 2010 under the previous schedule and a further voluntary contribution of £2.0m was made in December 2010 bringing the total for 2010 to £7.0m. Under the new schedule it is intended that the deficit will be paid off by March 2019.

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Inventories

	2010	2009
	£'000	£'000
Raw materials	9,449	5,571
Work-in-progress	53,728	54,716
Finished goods	97,028	89,910
	<u>160,205</u>	<u>150,197</u>

16. Trade and other receivables

	Note	2010	2009
		£'000	£'000
Current			
Trade receivables		308,224	305,070
Author advances		103,674	102,083
Prepayments		10,012	8,626
Receivables from associates		129	155
Other related parties	22	111,475	74,463
Other debtors		19,253	16,503
		<u>552,767</u>	<u>506,900</u>
Non-current			
Other debtors		42	40

As at 31 December 2010, trade receivables at nominal value of £30,317,000 (2009 £18,995,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows

	2010	2009
	£'000	£'000
At 1 January	(18,995)	(19,755)
Currency translation	(350)	381
Charge for the year	(16,493)	(5,323)
Utilised	5,053	5,342
Unused amounts reversed	468	360
At 31 December	<u>(30,317)</u>	<u>(18,995)</u>

As at 31 December, the ageing analysis of trade receivables after 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
2010	308,224	257,504	21,439	21,792	5,211	2,278
2009	305,070	249,936	39,852	11,290	1,514	2,478

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Cash and cash equivalents

	2010	2009
	£'000	£'000
Cash at bank and in hand	33,196	36,118
Short-term deposits	17,965	13,803
	<u>51,161</u>	<u>49,921</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 £51,161,000 (2009 £49,921,000).

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

	Note	2010	2009
		£'000	£'000
Cash at bank and in hand		33,196	36,118
Short-term deposits		17,965	13,803
Bank overdrafts and loans	19	(37,801)	(33,105)
		<u>13,360</u>	<u>16,816</u>

18. Issued share capital and reserves

	Number	£'000
Authorised:		
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:	<u>Number</u>	<u>£'000</u>
31 December 2010		
Ordinary shares of £1 each		
At 1 January and 31 December 2010	772,376	772
31 December 2009		
Ordinary shares of £1 each		
At 1 January and 31 December 2009	772,376	772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Issued share capital and reserves (continued)

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

Net unrealised gain reserve

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

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Financial liabilities

	Effective interest rate %	2010 £'000	2009 restated £'000
Current			
Obligations under finance leases and hire purchase contracts (note 21)	1.39 to 16.00	953	722
Bank overdrafts		36,937	32,488
Secured bank loan		864	617
		<u>38,754</u>	<u>33,827</u>
Non-current			
Obligations under finance leases and hire purchase contracts (note 21)	1.39 to 16.00	2,135	1,994
Unsecured bank loan		61,196	58,569
		<u>63,331</u>	<u>60,563</u>

£864,000 (2009 £617,000) of the Group's current bank loans, loan notes and overdrafts are secured on properties, book debts and other assets

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 0.86% (2009 0.98%). These borrowings are guaranteed by the ultimate holding company.

After the year end date the Group has committed to a Private Placement in the US with Prudential Investment Management Inc, or its affiliates, with funds of \$125m expected to be drawn down in May 2011. This facility is unsecured and will rank pari passu with other Group borrowing facilities. The amounts are expected to be paid back in instalments with \$40m due 9 years into the agreement, \$45m due 10 years into the agreement with the residual \$40m due 11 years into the agreement. The interest rate will be 5.562% and will accrue semi-annually in arrears.

The funds will be used to repay the \$95m facility referred to above with the residual used to settle intercompany payables within the Group.

20. Trade and other payables

	Note	2010 £'000	2009 £'000
Current			
Trade payables		80,664	81,412
Royalties payable		79,128	74,639
Other payables and accruals		113,957	103,963
Deferred income		105,319	91,246
Other related parties	22	24,025	24,835
		<u>403,093</u>	<u>376,095</u>
Non-current			
Other payables		9,159	6,152
Deferred income		9,689	9,116
		<u>18,848</u>	<u>15,268</u>

HM PUBLISHERS HOLDINGS LIMITED

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

	2010	2009
	£'000	£'000
Within one year	21,695	19,346
After one year but not more than five years	69,711	67,688
More than five years	33,300	47,866
	<u>124,706</u>	<u>134,900</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

	2010	2009
	£'000	£'000
Within one year	576	876
After one year but not more than five years	1,636	1,538
More than five years	-	292
	<u>2,212</u>	<u>2,706</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

	2010		2009	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Within one year	1,151	953	892	722
After one year but not more than five years	2,335	2,124	2,248	1,994
More than five years	11	11	-	-
	<u>3,497</u>	<u>3,088</u>	<u>3,140</u>	<u>2,716</u>
Total minimum lease payments	3,497	3,088	3,140	2,716
Less amounts representing finance charges	(409)	-	(424)	-
	<u>3,088</u>	<u>3,088</u>	<u>2,716</u>	<u>2,716</u>

Capital commitments

At 31 December 2010, the Group has commitments of £1 535,000 (2009 £96,000) contracted for but not provided in the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contingent liabilities

At the 31 December 2010 the Group had other guarantees of £7,707,000 (2009 £5,960,000) relating to various subsidiaries

In December 2009 the Group was put on notice, following a visit by the police, that the World Bank was investigating the possibility of corruption in parts of the Macmillan Education business. The Group is fully co-operating with the World Bank and has taken appropriate steps to investigate the matter. In April 2010 Macmillan Publishers Limited voluntarily referred to the Serious Fraud Office its concerns over the matter, and Macmillan Limited, the parent company of Macmillan Publishers Limited, has reached a civil settlement agreement with the World Bank over allegations that improper and unauthorised payments had been made to public officials in Southern Sudan in an unsuccessful bid to secure a contract funded by the World Bank. As part of that agreement, Macmillan Limited and its subsidiaries are debarred from participating in World Bank contracts for a period of between 3 and 6 years.

The internal investigation is being conducted with the agreement of both the World Bank and the Serious Fraud Office. Its conclusions will not be available until the investigation is complete which is not expected to be before autumn 2011.

Provisions have been made of £3.7 million for legal and other costs pertaining to the ongoing internal investigation, which represents the best estimate of those costs to which the Group were committed relating to the investigation. Further costs may be incurred as the investigation continues, and will be expensed when committed.

The potential penalties for corrupt acts include confiscation under proceeds of crime legislation and a fine, the amount of which would be at the discretion of the authorities. The directors believe it is too soon to make a reliable estimate of the amount of any penalty because there remains a range of possible outcomes.

The directors consider that disclosure of further information regarding this matter could be seriously prejudicial to the position of the company, and accordingly no further information is given regarding the potential financial effect.

The directors believe that concerns arising from this matter are confined to a limited part of the Education business and there are no indications that the Group's other principal businesses are affected. The Group is taking the situation very seriously and is committed to achieving the highest standards of corporate governance and ethical behaviour and has put in place stringent anti-bribery and corruption measures on an ongoing basis.

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	
				2010	2009
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 Digital Science Limited		England and Wales	Ordinary	100 00%	-
Gill and Macmillan (UK) Limited		England and Wales	Ordinary	100 00%	-
Gill and Macmillan Limited	2	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%
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%
MPS Content Services Inc		USA	Ordinary	61 46%	61 46%
SureChem Inc		USA	Ordinary	100 00%	100 00%
Labtiva Inc		USA	Ordinary	56 62%	-
Macmillan Education Namibia Publishers (Pty) Limited		Namibia	Ordinary	100 00%	100 00%
Macmillan Boleswa Publishers (Pty) Limited		Swaziland	Ordinary	100 00%	100 00%
Clever Books (Pty) Limited		South Africa	Ordinary	75 00%	75 00%
Pan Macmillan South Africa (Pty) Limited		South Africa	Ordinary	75 00%	75 00%
Macmillan South Africa (Pty) Limited		South Africa	Ordinary	100 00%	100 00%
Macmillan Educacao Mozambique Lda		Mozambique	Ordinary	80 00%	80 00%
Editora Nacional de Mocambique		Mozambique	Ordinary	80 00%	80 00%
Macmillan Kenya (Publishers) Limited		Kenya	Ordinary	-	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%
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%
MPS Limited		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%
MPS Limited		India	Ordinary	88 10%	88 10%
Frank Brothers and Company (Publishers) Limited		India	Ordinary	88 10%	88 10%
Macmillan Publishers (China) Limited		Hong Kong	Ordinary	100 00%	100 00%

HM PUBLISHERS HOLDINGS LIMITED

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	
			2010	2009
Macmillan Language House Limited	Japan	Ordinary	100 00%	100 00%
Nature Japan K K	Japan	Ordinary	100 00%	100 00%
Macmillan Publishers S A	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 Books India Private Limited	India	Ordinary	100 00%	100 00%
Biodata Limited	Israel	Ordinary	59 29%	-

Notes

- 1 Shares held directly by the Company All other shares are held wholly or partly by subsidiary undertakings
- 2 Subsidiary undertaking by exercise of dominant influence

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	2010	-	-	284	-	45,569	-
	2009	-	-	321	-	30,458	-
Immediate holding company:							
Holtzbrinck Publishers Holdings Limited	2010	86	(2,076)	1,474	(178)	39,039	8,577
	2009	5,149	-	962	(265)	38,643	4,797
Associate:							
Stockton Press Educational Publishers B V	2010	-	(70)	-	-	-	541
	2009	-	(123)	-	-	-	621
Fellow undertakings:							
Verlagsgruppe Georg von Holtzbrinck GmbH	2010	-	-	38	(4)	25,790	-
	2009	-	-	100	-	4,932	-
Holtzbrinck Publishers Holdings LP	2010	3,844	(2,443)	-	(162)	475	14,907
	2009	-	-	-	(58)	4	19,417
Verlagsgruppe Droemer GmbH & Co KG	2010	1,898	-	-	-	320	-
	2009	1,601	-	-	-	241	-
Spektrum der Wissenschaft Verlagsgesellschaft mbH	2010	320	(211)	-	-	124	-
	2009	-	-	-	-	-	-
Euroscript Delt Luxembourg S A	2010	822	-	-	-	103	-
	2009	636	-	-	-	162	-
HGV Hanseatische Gesellschaft Fuer Verlagsservice GmbH	2010	31	-	-	-	6	-
	2009	46	-	-	-	23	-
Prensa Cientifica S A	2010	108	-	-	-	49	-
	2009	-	-	-	-	-	-
Total:	2010	<u>7,109</u>	<u>(4,800)</u>	<u>1,796</u>	<u>(344)</u>	<u>111 475</u>	<u>24,025</u>
	2009	<u>7,432</u>	<u>(123)</u>	<u>1,383</u>	<u>(323)</u>	<u>74,463</u>	<u>24,835</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

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 2010, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2009: £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.

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 (2009: 100%).

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100.00% of the ordinary shares in HM Publishers Holdings Limited (2009: 100%).

Associates

Stockton Press Educational Publishers B.V.

The Group has a 40.00% interest in Stockton Press Educational Publishers B.V. (2009: 40.00%).

College Press Publishers (Pvt) Limited

The Group has a 48.91% interest in College Press Publishers (Pvt) Limited (2009: 48.91%).

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
2009	+5%	(2,552)	(10,175)
	-5%	2,823	11,238
2010	+5%	(2,505)	(10,678)
	-5%	2,769	11,795

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 3 year 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.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments. Interest on bank loans is variable and has therefore been excluded from the balances.

Year ended 31 December 2010	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Non-derivative financial liabilities				
Finance leases and hire purchase	1,151	2,335	11	3,497
Bank loan	864	61,196	-	62,060
Overdraft	36,937	-	-	36,937
Guarantees	7,707	-	-	7,707
Trade and other payables	297,774	9,159	-	306,933
Total	344,433	72,690	11	417,134
Year ended 31 December 2009				
Non-derivative financial liabilities				
Finance leases and hire purchase	892	2,248	-	3,140
Bank loan	617	58,569	-	59,186
Overdraft	32,488	-	-	32,488
Guarantees	5,960	-	-	5,960
Trade and other payables	284,849	6,152	-	291,001
Total	324,806	66,969	-	391,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
<i>Financial liabilities</i>				
Fixed rate borrowings				
Bayerische Hypo-Und Vereinsbank AG				
7 64% and 8 67% Mortgage Loans	-	616	-	690

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

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

All financial instruments recorded in the balance sheet are Level 2 in the hierarchy

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Instruments (continued)

Hedging activities

Cash flow hedges

Recognised through equity

At 31 December 2010, 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 2010 have been recognised through equity in the current year and will be recognised through the income statement in 2011.

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2010 £'000	Gain/(loss) recognised through equity £'000
<i>Sell currency/ buy Sterling</i>					
Australian Dollars	15,081	Jan-Dec 2011	1.72	9,857	(953)
New Zealand Dollars	510	Jan-Jun 2011	2.38	254	(40)
Japanese Yen	2,600,000	Jan-Aug 2011	137.38	20,597	(1,690)
<i>Buy currency/ sell Sterling</i>					
Euro	11,184	Jan 2011	1.16	9,627	26
Hong Kong Dollars	96,000	Jan-Dec 2011	12.02	7,954	(4)
US Dollars	7,755	Jan 2011	1.55	5,020	(24)
<i>Sell currency/ buy Australian Dollars</i>					
Euro	2,428	Jan 2011	1.32	2,090	4
Total					<u>(2,681)</u>

At 31 December 2010 the Group had entered into the following foreign exchange contracts with the Group's ultimate holding company to hedge expected cash flows in Euro which are expected to occur in 2011. 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 2010 have been recognised through equity in the current year and will be recognised through the income statement in 2011.

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2010 £'000	(Loss) recognised through equity £'000
<i>Sell currency/ buy Sterling</i>					
Euro	60,000	Jan-Dec 2011	1.21	51,644	(2,083)
Total					<u>(2,083)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Instruments (continued)

Recognised through income statement

At the 31 December 2010 the Group had entered into the following foreign exchange contracts to hedge future expected cash flows in foreign currencies in 2011. The Group failed to meet the minimum effective hedge criteria for South African Rand and US Dollars in 2010 and therefore these amounts have been recognised through the income statement

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2010 £'000	Gain/ (loss) recognised through income statement £'000
<i>Sell currency/ buy Sterling</i>					
South African Rand	55,700	Jan-Dec 2011	11.58	5,408	(501)
US Dollars	25,000	Oct-Dec 2011	1.49	16,104	570
					<u>69</u>

During the year ended 31 December 2010 gains/ (losses) were removed from equity and recognised in profit and loss in relation to foreign exchange contracts in relation to cash flow hedges which matured during the year as follows

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2009 £'000	Gain/ (loss) recognised through income statement £'000
<i>Sell currency/ buy Sterling</i>					
Australian Dollars	14,273	Jan-Nov 2010	2.01	7,930	(690)
New Zealand Dollars	1,998	Jan-Dec 2010	2.44	896	(66)
Japanese Yen	2,430,000	Jan-Nov 2010	141.98	16,200	884
South African Rand	84,500	Jan-Dec 2010	13.20	7,036	(396)
US Dollars	28,000	Feb-Dec 2010	1.65	17,262	(284)
Euro	55,000	Jan-Dec 2010	1.18	41,556	(2,068)
<i>Buy currency/ sell Sterling</i>					
Hong Kong Dollars	115,000	Jan-Dec 2010	12.00	9,141	(412)
					<u>(3,032)</u>

HM PUBLISHERS HOLDINGS LIMITED

BALANCE SHEET as at 31 December 2010

ASSETS	Note	2010 £'000	2009 £'000
Non-current assets			
Property	28	18,613	17,572
Investment in subsidiaries	29	39,205	39,205
		<u>57,818</u>	<u>56,777</u>
Current assets			
Trade and other receivables	30	60,419	80,739
Cash and cash equivalents	31	27	37
Income tax receivable		1,113	3,328
		<u>61,559</u>	<u>84,104</u>
TOTAL ASSETS		<u>119,377</u>	<u>140,881</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		4,456	41,785
TOTAL EQUITY		<u>82,064</u>	<u>119,393</u>
Non-current liabilities			
Deferred income tax liabilities	26	917	711
Current liabilities			
Trade and other payables	34	8,871	5,414
Financial liabilities	33	27,525	15,363
		<u>36,396</u>	<u>20,777</u>
TOTAL LIABILITIES		<u>37,313</u>	<u>21,488</u>
TOTAL EQUITY AND LIABILITIES		<u>119,377</u>	<u>140,881</u>

These financial statements were approved by the Board of Directors on 28 April 2011

Signed on behalf of the Board of Directors



Dr A C Thomas
Director

HM PUBLISHERS HOLDINGS LIMITED

CASH FLOW

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Operating (loss)/ profit		(181)	2,771
Decrease/ (increase) in accounts receivable		20,722	(38,496)
Increase/ (decrease) in accounts payable less than one year		3,457	(3,362)
Depreciation charges		1,349	1,609
Loss on sale of assets		206	-
Income tax received/ (paid)		1,872	(1,826)
Net cash flow from operating activities		<u>27,425</u>	<u>(39,304)</u>
Cash flows (used in)/ from investing activities			
Interest received		303	503
Dividends received from subsidiaries		142	98,705
Investment in subsidiary undertaking		-	(4,573)
Proceeds from disposal of property, plant & equipment		887	-
Purchase of property		(3,483)	(2,174)
Net cash flows (used in)/ from investing activities		<u>(2,151)</u>	<u>92,461</u>
Cash flows used in financing activities			
Interest paid		(1,159)	(750)
Dividends paid to equity holders of the parent		(36,287)	(50,000)
Net cash flows used in financing activities		<u>(37,446)</u>	<u>(50,750)</u>
Net (decrease)/ increase in cash and cash equivalents		(12,172)	2,407
Cash and cash equivalents at 1 January	31	<u>(15,326)</u>	<u>(17,733)</u>
Cash and cash equivalents at 31 December	31	<u><u>(27,498)</u></u>	<u><u>(15,326)</u></u>

HM PUBLISHERS HOLDINGS LIMITED

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2010

	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 2009	772	76,788	48	59,888	137,496
Profit for the year	-	-	-	31,897	31,897
Equity dividends (note 27)	-	-	-	(50,000)	(50,000)
At 31 December 2009	772	76,788	48	41,785	119,393
Profit for the year	-	-	-	(1,042)	(1,042)
Equity dividends (Note 27)	-	-	-	(36,287)	(36,287)
At 31 December 2010	772	76,788	48	4,456	82,064

HM PUBLISHERS HOLDINGS LIMITED

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. The fair value of the services provided to the Company cannot be reasonably estimated and are therefore not disclosed.

26. Deferred Tax

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

	2010 £'000	2009 £'000
Deferred tax liability		
Accelerated capital allowances	917	711

27. Dividends paid

	2010 £'000	2009 £'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2010 £46.98 per share (2009 £64.74 per share)	36,287	50,000

28. Property, plant and equipment

	Land and buildings £'000
31 December 2010	
Cost	
At 1 January 2010	26,736
Additions	3,483
Disposals	(2,024)
At 31 December 2010	28,195
Accumulated depreciation	
At 1 January 2010	9,164
Charge for year	1,349
Disposals	(931)
At 31 December 2010	9,582
Net book value	
At 31 December 2010	18,613
At 31 December 2009	17,572

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29. Investments in subsidiaries

	2010 £'000	2009 £'000
Subsidiary undertakings:		
Shares at cost at 1 January	39,205	102,893
Additions	-	4,573
Liquidation	-	(70,628)
Impairment written back	-	2,367
	<u>39,205</u>	<u>39,205</u>
Shares at cost at 31 December	<u>39,205</u>	<u>39,205</u>

See note 22 for list of subsidiaries

30. Trade and other receivables

	Note	2010 £'000	2009 £'000
Current			
Other related parties	36	<u>60,419</u>	<u>80,739</u>

31. Cash and cash equivalents

	2010 £'000	2009 £'000
Current		
Cash at bank and in hand	<u>27</u>	<u>37</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 (2009: £37,000).

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

	Note	2010 £'000	2009 £'000
Current			
Cash at bank and in hand	33	27	37
Bank overdrafts		<u>(27,525)</u>	<u>(15,363)</u>
		<u>(27,498)</u>	<u>(15,326)</u>

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

32. Issued share capital

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
	<u>Number</u>	<u>£'000</u>
Allotted, called up and fully paid:		
31 December 2010		
Ordinary shares of £1 each		
At 1 January and 31 December 2010	772,376	772
31 December 2009		
Ordinary shares of £1 each		
At 1 January and 31 December 2009	772,376	772

33. Financial liabilities

	Note	2010 £'000	2009 £'000
Current			
Bank overdrafts		27,525	15,363

34. Trade and other payables

		2010 £'000	2009 £'000
Current			
Other related parties	36	8,577	4,797
Other payables and accruals		294	617
		<u>8,871</u>	<u>5,414</u>

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

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

	2010	2009
	£'000	£'000
Within one year	1,822	1,866
After one year but not more than five years	6,433	7,157
More than five years	6,205	6,638
	<u>14,460</u>	<u>15,661</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

	2010	2009
	£'000	£'000
Within one year	4,949	4,710
After one year but not more than five years	433	253
	<u>5,382</u>	<u>4,963</u>

Capital Commitments

At 31 December 2010, HM Publishers Holdings Limited has commitments of £nil (2009: £nil) contracted for but not provided in the financial statements.

Guarantees

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

	2010	2009
	£'000	£'000
Bank facilities guaranteed	<u>18,422</u>	<u>19,666</u>

HM PUBLISHERS HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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.

		Amounts owed by related parties £'000	Amounts owed to related parties £'000
<i>Related party</i>			
Immediate holding company:			
Holtzbrinck Publishers Holdings Limited			
	2010	-	8,577
	2009	-	4,797
Fellow undertakings:			
Macmillan Publishers Limited			
	2010	60,419	-
	2009	80,739	-
Total:			
	2010	<u>60,419</u>	<u>8,577</u>
	2009	<u>80,739</u>	<u>4,797</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 2010, the Company has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2009: £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.

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100.00% of the ordinary shares in HM Publishers Holdings Limited (2009: 100.00%).