HM PUBLISHERS HOLDINGS LIMITED

Company Registration No. 46694

HM PUBLISHERS HOLDINGS LIMITED

Consolidated Report and Financial Statements

31 December 2011

CONSOLIDATED REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS

CONTENTS (continued)

GENERAL INFORMATION

DIRECTORS

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

SECRETARY

C E Fleming

REGISTERED OFFICE

Brunel Road
Houndmills
Basingstoke
Hampshire RG21 6XS

BANKERS

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

SOLICITORS

Taylor Wessing
5 New Street Square
London
EC4A 3TW

AUDITORS

Ernst & Young LLP
Apex Plaza
Reading
RG1 1YE

DIRECTORS' REPORT

Company Registration No 46694

The directors present their annual report, the Group and Company financial statements for the year ended 31 December 2011

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 Key performance indicators for the group continue to be revenues and profit Revenue movements for the main business segments are discussed below Group revenues increased by 1 77% to £1,046m (2010 £1,028m) 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 £112 2m was slightly up on the figure of £103 6m achieved in 2010 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 further 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 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 17 6% ahead of last year at £53 4m (2010 £45 4m) College sales into the European markets showed steady growth on 2010, 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 (continued)

Business review and future developments (continued)

STM

The Nature Publishing Group had another good year Revenues increased by 6 3% to £185 5m (2010 £174 4m) Growth in institutional business and excellent author revenue lines from the Group's flagship Nature title and its associated sister journals resulted in healthy revenue growth offset continuing difficulties in the advertising markets Results for the Scientific American US business, incorporated into the figures for the first time in 2010, continue to be encouraging The launch of new titles in the Nature stable of journals continued to drive growth, together with developments in related publishing areas

DIGITAL SCIENCE

During the year the Group extended its investment in the provision of digital services to the scientific community through the expansion of its 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 Biodata Limited and Labtiva Inc businesses which were acquired in 2010 and made further investments with the acquisition of a controlling interest in Symplectic Limited Details of this investment is shown in note 12 of the accounts This acquisition was made at the end of 2011 and had minimal impact on revenues and profits In addition to this the acquisition of minority shareholdings in 1DegreeBio Inc and Research and Applications Financial Tracking Inc further enhanced the Digital Science portfolio

EDUCATION

The Group's Education business had a good year The Group continues to exploit its geographical spread of businesses in overseas markets Revenues increased by 1 8% to £234 8m (2010 £230 5m), and margins showed encouraging growth The Group's businesses in Latin America, Europe, Middle East, Asia and Southern Africa all had good results Within Europe, the Spanish market performed particularly well despite difficult economic conditions in Spain Results in Australia were adversely impacted by delays in the new curriculum at Secondary level Results in India were affected by the closure of the Schools Study Guide business 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 4 1% to £117 7m (2010 £113 0m) 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 Whilst the market for sales of physical books was subdued in 2011, digital sales showed strong growth The trend towards digital sales continues to put pressure on traditional high street retail outlets The Fiction big brand authors all exceeded prior year sales, whilst Children's titles also performed well, following strong supermarket sales of picture books Sales of non-fiction titles were down on the previous year with the key Christmas titles not performing as well as hoped Results in Australia were impacted by the knock-on effect of the closure of the Redgroup at the end of 2010, together with general weakness in the retail 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 Revenues decreased in sterling terms by 2 2% to £261 7m (2010 £267 5m) The corresponding growth in US dollars was 1 5% 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 Digital sales continued to show strong growth The Group continues to pursue its strategy of organic growth through development of new authors

US COLLEGE

The US College business had a successful year and continues to perform well in the competitive US College market Revenues decreased in sterling terms by 0 2% to £163 9m (2010 £164 3m) The corresponding growth rate in US dollars was 3 5% The division continues to invest in the development of electronic publishing content delivery in a rapidly changing marketplace

DIRECTORS' REPORT (continued)

Business review and future developments (continued)

PUBLISHING SERVICES

The India electronic data processing operation of MPS Limited was sold in October 2011 and results of this operation were incorporated until the date of sale Details of the disposal are disclosed in note 12 to the accounts The print buying operation of Macmillan Publishers Asia Limited 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, resulting from the investment in new warehousing facilities in the UK

WORLD BANK INVESTIGATION

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 fully co-operated with the World Bank and took 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, 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 In July 2011 the Group and the Serious Fraud Office agreed a civil recovery order of £11 2m, which brought to a conclusion a co-operative period of investigation into issues identified by both parties Concerns arising from this matter were confined to a limited part of the Education business and there were no indications that the Group's other principal businesses were affected The Group has taken 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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 4 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described below In addition, notes 23 to 24 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

The Group has considerable financial resources together with well established business relationships across different geographic areas and sectors As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Liquidity and capital resources

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

The consolidated cash flow statement shows a net increase in cash and cash equivalents in the year ended 31 December 2011 of £33 5m (2010 decrease of £6 1m) This figure is stated after payment of dividends to the Group's shareholders of £53 4m (2010 £36 3m)

At December 2011 the Group had net surplus funds on loan to fellow Group companies of £71 5m (2010 £87 5m) 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 (continued)

Business review and future developments (continued)

Asset and capital structure

Equity and gearing
The Group's capital structure is as follows

	Note	2011 £'000	2010 £'000
Cash and cash equivalents	17	57,709	51,161
Interest-bearing loans and borrowings	19	(95,192)	(102,085)
Net debt		(37,483)	(50,924)
Total equity		(324,449)	(351,041)
Total capital employed		(361,932)	(401,965)
Gearing		11 6%	14 5%

The gearing percentages are within the Group's target levels

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

		2011 £'000	2010 £'000
Current			
Obligations under finance leases and hire purchase contracts	19	809	953
Bank overdrafts	19	12,070	36,937
Other loans	19	-	864
		12,879	38,754
Non-current			
Obligations under finance leases and hire purchase contracts	19	1,615	2,135
Other loans	19	80,698	61,196
		82,313	63,331
		95,192	102,085

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 The Group also operates within borrowing limits imposed by banking covenants by the main lenders to the UK and US sub groups

Income Tax

An analysis of the income tax charge is set out in note 6 to the consolidated financial statements The income tax charge as a percentage of profit on ordinary activities before income tax was 36% in the current year and 31% in the previous year

Dividends

An interim ordinary dividend of £53 4m has been paid for the year to 31 December 2011 (2010 £36 3m) The directors do not recommend the payment of a final dividend

Events since the balance sheet date

Subsequent to the balance sheet date the Group has entered into a property lease commitment for a period of 15 years The cost of this commitment is expected to be approximately £3 4m per annum

DIRECTORS' REPORT (continued)

Business review and future developments (continued)

Contingent Liabilities

During the year various governmental and regulatory bodies in the US and Europe have commenced investigations into the Group together with certain other major publishers over agency arrangements related to sales of e-books The European investigation is on-going and the Group is cooperating fully with the enquiry In April 2012 the US Department of Justice and 16 US States filed lawsuits against a subsidiary company together with certain other major publishers and Apple in the US The number of states included in the state lawsuit has now increased to 33 At the same time a subsidiary company and certain other major publishers and Apple have been sued in a private class action law suit in the US The plaintiffs in that suit seek damages, injunctive relief and legal fees The Group is defending itself in those actions and believes that it was fully compliant with all applicable laws

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)
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 2006 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 decreased from 9,027 in 2010 to 8,050 in 2011 The disposal of the Indian publishing services business, MPS Limited, accounted for 888 of this reduction

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

DIRECTORS' REPORT (continued)

Business review and future developments (continued)

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 £298,151 (2010 £22,235) The donations were predominantly directed towards cancer research and children's charities as well as medical and welfare organisations A donation of £238,500 was made to the Oxford Bodleian Library 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

30 May 2012

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 ("IFRS") as adopted by the European Union

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

- select suitable accounting policies in accordance with IAS8 "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 entity'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
- make judgements and estimates that are reasonable and prudent

The Directors are responsible for keeping proper accounting records which 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 audıted the Group and Parent company financıal statements of HM Publıshers Holdıngs Lımıted for the year ended 31 December 2011, whıch comprıse the Consolıdated Statement of Comprehensıve Income, Consolıdated Balance Sheet, Parent Company Balance sheet, Consolıdated Statement of Changes ın Equıty, Parent Company Statement of Changes In Equıty, Consolıdated Cash Flow, Parent Company Cash Flow and the related notes 1 to 36 The financıal reportıng framework that has been applıed ın theır preparatıon ıs applıcable law and Internatıonal Fınancıal Reportıng Standards (IFRSs) as adopted by the European Unıon and, as regards the Parent company financıal statements, as applıed ın accordance wıth the provısıons of the Companıes Act 2006

Thıs report ıs made solely to the Company's members, as a body, ın accordance wıth Chapter 3 of Part 16 of the Companıes Act 2006 Our audıt work has been undertaken so that we mıght state to the Company's members those matters we are requıred to state to them ın an audıtor's report and for no other purpose To the fullest extent permıtted by law, we do not accept or assume responsıbılıty to anyone other than the Company and the Company's members as a body, for our audıt work, for thıs report, or for the opınıons we have formed

Respectıve responsıbılıtıes of Dırectors and Audıtors

As explaıned more fully ın the Dırector's Responsıbılıtıes Statement, set out on page 8, the Dırectors are responsıble for the preparatıon of the financıal statements and for beıng satısfied that they gıve a true and faır vıew Our responsıbılıty ıs to audıt and express an opınıon on the financıal statements ın accordance wıth applıcable law and Internatıonal Standards on Audıtıng (UK and Ireland) Those standards requıre us to comply wıth the Audıtıng Practıces Board's Ethıcal Standards for Audıtors

Scope of the audıt of the financıal statements

An audıt ınvolves obtaınıng evıdence about the amounts and dısclosures ın the financıal statements sufficıent to gıve reasonable assurance that the financıal statements are free from materıal mısstatement, whether caused by fraud or error Thıs ıncludes an assessment of whether the accountıng polıcıes are approprıate to the Group's and the Parent Company's cırcumstances and have been consıstently applıed and adequately dısclosed, the reasonableness of sıgnıficant accountıng estımates made by the Dırectors, and the overall presentatıon of the financıal statements In addıtıon, we read all the financıal and non-financıal ınformatıon ın the consolıdated report and financıal statements to ıdentıfy materıal ınconsıstencıes wıth the audıted financıal statements If we become aware of any apparent materıal mısstatements or ınconsıstencıes we consıder the ımplıcatıons for our report

Opinion on financial statements

In our opınıon

- the financıal statements gıve a true and faır vıew of the state of the Group's and of the Parent Company's affaırs as at 31 December 2011 and of the Group's profit for the year then ended,
- the Group financıal statements have been properly prepared ın accordance wıth IFRSs as adopted by the European Unıon,
- the Parent Company financıal statements have been properly prepared ın accordance wıth IFRSs as adopted by the European Unıon and as applıed ın accordance wıth the provısıons of the Companıes Act 2006, and
- the financıal statements have been prepared ın accordance wıth the requırements of the Companıes Act 2006

Opinion on other matters prescrıbed by the Companıes Act 2006

In our opınıon the ınformatıon gıven ın the Dırectors' Report for the financıal year for whıch the financıal statements are prepared ıs consıstent wıth the financıal statements

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

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

Ernst + Young LLP

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

30 May 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Continuing operations			
Revenue	3	1,046,283	1,028,067
Other income	4	4,523	6,888
Cost of sales		(374,537)	(385,827)
Gross profit		676,269	649,128
Employee benefits expense	5	(283,631)	(263,503)
Depreciation and amortisation expense	4	(20,546)	(22,102)
Other expenses	4	(259,875)	(259,934)
Operating profit		112,217	103,589
Finance revenue	4	4,014	3,238
Finance costs	4	(7,020)	(5,606)
Other finance expense – pensions	14	(2,693)	(3,775)
		(5,699)	(6,143)
Profit before tax		106,518	97,446
Income tax expense	6	(37,905)	(29,848)
Profit after tax		68,613	67,598
Share of (loss)/ profit of associates	11	(213)	210
Profit for the year		68,400	67,808
Profit for the year attributable to			
Owners of the parent		49,062	50,572
Non-controlling interest		19,338	17,236
Other comprehensive income			
Net (loss)/ gain on hedge of net investment		(3,490)	3,667
Exchange differences on translation of foreign enterprises		(10,739)	17,406
Gain/ (loss) on cash flow hedges taken to equity	24	1,723	(4,764)
Actuarial losses on defined benefit plan	14	(15,981)	(2,392)
Transfer to the income statement of cash flow hedges previously taken to equity	24	4,764	3,032
Income tax relating to the components of other comprehensive income	6	1,989	(594)
Other comprehensive (expense)/ income for the year, net of tax		(21,734)	16,355
Total comprehensive income for the year, net of tax		46,666	84,163
Total comprehensive income for the year attributable to.			
Owners of the parent		29,121	63,648
Non-controlling interest		17,545	20,515

CONSOLIDATED BALANCE SHEET
as at 31 December 2011

ASSETS	Note	2011 £'000	2010 £'000
Non-current assets			
Property, plant and equipment	9	50,843	58,140
Intangible assets	10	90,904	92,385
Investment in associates	11	2,981	327
Pension asset	14	35	136
Income tax receivable		770	1,371
Deferred tax assets	6	34,116	38,264
Other non-current assets	16	43	42
		179,692	190,665
Current assets			
Inventories	15	152,194	160,205
Trade and other receivables	16	560,707	552,767
Cash and cash equivalents	17	57,709	51,161
		770,610	764,133
TOTAL ASSETS		950,302	954,798
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		52,505	60,285
Retained earnings		120,599	137,113
		250,715	275,009
Non-controlling interests		73,734	76,032
TOTAL EQUITY		324,449	351,041
Non-current liabilities			
Financial liabilities	19	82,313	63,331
Defined benefit pension plan deficit	14	68,691	61,052
Deferred income tax liabilities	6	6,305	6,365
Other non-current liabilities	20	15,579	18,848
		172,888	149,596
Current liabilities			
Trade and other payables	20	426,469	403,093
Financial liabilities	19	12,879	38,754
Income tax payable		13,617	12,314
		452,965	454,161
TOTAL LIABILITIES		625,853	603,757
TOTAL EQUITY AND LIABILITIES		950,302	954,798

These financial statements were approved by the Board of Directors on 30 May 2012

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 2011

	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 2010	772	76,788	51	125,131	35,360	263	11,466	(2,183)	247,648	74,173	321,821
Profit/ (loss) for the period	-	-	-	50,362	-	210	-	-	50,572	17,236	67,808
Other comprehensive income/ (expense)	-	-	-	(2,093)	-	-	16,416	(1,247)	13,076	3,279	16,355
Total comprehensive income/ (expense)	-	-	-	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
Profit/ (loss) for the period	-	-	-	49,275	-	(213)	-	-	49,062	19,338	68,400
Other comprehensive income/ (expense)	-	-	-	(12,374)	-	-	(12,264)	4,697	(19,941)	(1,793)	(21 734)
Total comprehensive Income/ (expense)	-	-	-	36,901	-	(213)	(12,264)	4,697	29,121	17,545	46,666
Dividends	-	-	-	(53,415)	-	-	-	-	(53,415)	(17,578)	(70 993)
Change in non-controlling interest percentage	-	-	-	-	-	-	-	-	-	(4,012)	(4,012)
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	1,747	1,747
At 31 December 2011	772	76,788	51	120,599	35,360	260	15,618	1,267	250,715	73,734	324,449

CONSOLIDATED CASH FLOW
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Operating profit		112,217	103,589
Decrease/ (increase) in inventories		4,892	(1,181)
Decrease/ (increase) in accounts receivable		1	(24,021)
Increase in accounts payable less than one year		23,218	13,736
(Decrease)/ increase in accounts payable over one year		(1,368)	2,484
Movement in pensions		(8,257)	(9 449)
Loss on sale of fixed assets		2,265	1,190
Depreciation and amortisation charges		20,546	22,102
Goodwill impairment		-	3,026
Income tax paid		(34,118)	(37,365)
Net cash flow from operating activities		119,396	74,111
Cash flows used in investing activities			
Interest received		4,013	3,236
Proceeds from disposal of property, plant and equipment		1,312	2,489
Proceeds from disposal of intangible assets		1,666	341
Purchase of property, plant and equipment		(13,287)	(12,208)
Purchase of intangible assets		(12,544)	(4,729)
Acquisition of trade / assets and subsidiaries		(8,680)	(2,876)
Disposal of trade/ assets and subsidiaries		4,321	881
Net cash flows used in investing activities		(23,199)	(12,866)
Cash flows used in financing activities			
Interest paid		(9,486)	(9,131)
Interest element of finance leases		(226)	(248)
Payment of finance lease liabilities		(653)	(722)
Proceeds from borrowings/ (repayment of loans)		18,705	(4)
Dividends paid to equity holders of the parent		(53,415)	(36,287)
Payments to non-controlling interests		(17,578)	(20,971)
Net cash flows used in financing activities		(62,653)	(67,363)
Net Increase/ (decrease) in cash and cash equivalents		33,544	(6,118)
Net foreign exchange difference		(1,265)	2,662
Cash and cash equivalents at 1 January	17	13,360	16,816
Cash and cash equivalents at 31 December	17	45,639	13,360

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 2011 were authorised for issue in accordance with a resolution of the directors on 30 May 2012 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

Going Concern
The going concern basis of preparing the financial statements has been adopted as in the view of the directors, as set out in the Directors' report on page 4, the Group has adequate resources to continue in operational existence for the foreseeable future

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

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

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

Business combinations
Business combinations are accounted for using the acquisition method The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets Acquisition costs incurred are expensed and included in administrative expenses

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date This includes the separation of embedded derivatives in host contracts by the acquiree If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income If the contingent consideration is classified as equity, it will not be remeasured Subsequent settlement is accounted for within equity In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS

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

2. Summary of significant accounting policies (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Pensions and other post-employment benefits (contınued)

As permıtted by IAS 19, actuarıal gaıns and losses have been fully recognısed ın the Balance Sheet

The defined benefit pensıon asset or lıabılıty ın the balance sheet comprıses the total for each plan of the present value of the defined benefit oblıgatıon (usıng a dıscount rate based on hıgh qualıty corporate bonds), less any past servıce cost not yet recognısed and less the faır value of plan assets out of whıch the oblıgatıons are to be settled dırectly Faır value ıs based on market prıce ınformatıon and ın the case of quoted securıtıes ıs the publıshed bıd prıce

Contrıbutıons to defined contrıbutıon schemes are recognısed ın the ıncome statement ın the perıod ın whıch they become payable

Leases

Group as a lessee

Assets held under finance leases, whıch transfer to the Group substantıally all the rısks and rewards ıncıdental to ownershıp of the leased ıtem, are capıtalısed at the ınceptıon of the lease, wıth a correspondıng lıabılıty beıng recognısed for the faır value of the leased asset or, ıf lower, the present value of the mınımum lease payments Lease payments are apportıoned between the reductıon of the lease lıabılıty and finance charges ın the ıncome statement so as to achıeve a constant rate of ınterest on the remaınıng balance of the lıabılıty Assets held under finance leases are deprecıated over the shorter of the estımated useful lıfe of the asset and the lease term

Leases where the lessor retaıns substantıally all the rısks and benefits of ownershıp of the asset are classıfied as operatıng leases and rentals payable are charged ın the ıncome statement on a straıght lıne basıs over the lease term

Group as a lessor

Assets leased out under operatıng leases are ıncluded ın property, plant and equıpment and deprecıated over theır estımated useful lıves Rental ıncome, ıncludıng the effect of lease ıncentıves, ıs recognısed on a straıght lıne basıs over the lease term

Revenue

Revenue ıs recognısed when the sıgnıficant rısks and rewards of ownershıp of the goods have passed to the buyer and the amount of revenue can be measured relıably Revenue from sale of prınt and onlıne perıodıcal subscrıptıons ıs recognısed on a pro rata basıs over the perıod of the subscrıptıon

Sale of goods and servıces

Revenue ıs recognısed when the sıgnıficant rısks and rewards of ownershıp of the goods have passed to the buyer and the amount of revenue can be measured relıably Revenue from sale of prınt and onlıne perıodıcal subscrıptıons ıs recognısed on a pro rata basıs over the perıod of the subscrıptıon

Subsıdıary rıghts

Royalty ıncome from sub-lıcence of publıshıng rıghts ıs recognısed on a cash receıpts basıs

Property rental ıncome

Rental ıncome ıs accounted for on a straıght-lıne basıs over the lease term on ongoıng leases

Interest

Revenue ıs recognısed as the ınterest accrues on a tıme proportıon basıs, takıng ınto account the effectıve yıeld on the asset

Dıvıdends

Revenue ıs recognısed when the shareholders' rıght to receıve the payment ıs establıshed

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

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 2011 unless otherwise stated Where relevant the impact is described below

IAS 24 Related party disclosures

IAS 32 Financial instruments Presentation

IFRIC 14 Prepayments of a minimum funding requirement

IFRIC 19 Extinguishing financial liabilities with equity instruments

Improvements to IFRS's (May 2010)

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

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 July 2011	
IFRS 7	Financial Instruments Disclosures (Amendment)
Effective from 1 January 2012	
IAS12	Income taxes (Amendment) – Deferred Taxes Recovery of Underlying Assets
IAS 1	Presentation of items of Other Comprehensive Income – Amendments to IAS 1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

New Standards Adopted in the Period (continued)

Standard or interpretation	Title
Effective from 1 January 2013	
IFRS 9	Financial Instruments – Classification and measurement
IFRS 10	Consolidated financial statements
IAS 27	Separate financial statements
IFRS 11	Joint arrangements
IAS 28	Investments in associates and joint ventures
IFRS 12	Disclosure of interests in other entities
IAS 19	Employee Benefits (Revised)
IFRS 13	Fair value 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

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:

	2011 £'000	2010 £'000
Sales of goods	934,182	924,999
Rendering of services	112,101	103,068
Sales to external customers	1,046,283	1,028,067
Finance revenue	4,014	3,238
Total revenue	1,050,297	1,031,305

No revenue was derived from exchanges of goods or services (2010 £Nil)

Primary:	**By business division** 2011 £'000	2010 £'000
Continuing operations		
Academic	53,408	45,421
Scientific, Technical & Medical	185,452	174,396
Digital Science	156	25
Education	234,848	230,518
Fiction and Non-Fiction – UK and Rest of the World	117,681	113,016
Publishing Services and Other	29,180	32,810
Fiction and Non-Fiction – US	261,671	267,546
US College	163,887	164,335
	1,046,283	1,028,067

Secondary:	**Note**	**By destination** 2011 £'000	2010 £'000
Continuing operations			
Europe including UK		225,175	223,658
North America		531,578	528,579
Africa		47,773	46,264
Asia Pacific		131,236	142,189
Rest of the World		110,521	87,377
Sales to external customers		1,046,283	1,028,067
Sales to related parties	22	3,256	3,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses

Other income

	Note	2011 £'000	2010 £'000
Gain on disposal of property, plant and equipment		249	-
Rental income		823	576
Income from related parties	22	1,261	3,930
Other		2,190	2,382
		4,523	6,888

Depreciation and amortisation expense

	Note	2011 £'000	2010 £'000
Depreciation of tangible fixed assets	9	(9,844)	(10,190)
Amortisation of intangible assets		(10,702)	(11,912)
		(20,546)	(22,102)

Other expenses

	Note	2011 £'000	2010 £'000
Advertising and distribution expenses		(96,343)	(97,547)
Administration expenses		(110,348)	(104,695)
Rent and lease expenses		(23,949)	(23,602)
Expenses with related parties	22	(1,557)	(4,800)
Loss from currency translation		(3,858)	(1,010)
Goodwill impairment	10	-	(3,026)
Other		(23,820)	(25,254)
		(259,875)	(259,934)

Finance revenue

	Note	2011 £'000	2010 £'000
Bank interest receivable		1,610	1,015
Interest receivable from related parties	22	2,042	1,796
Other interest income		362	427
Total finance revenue		4,014	3,238

Finance costs

	Note	2011 £'000	2010 £'000
Bank loans and overdrafts		(3,200)	(4,543)
Finance charges payable under finance leases and hire purchase contracts		(226)	(248)
Interest payable to related parties	22	(556)	(344)
Other interest expense		(3,038)	(471)
Total finance costs		(7,020)	(5,606)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses (continued)

Group operating profit is stated after charging:

	Note	2011 £'000	2010 £'000
Changes in inventory reserve		(24,511)	(23,869)
Operating lease payments – minimum lease payments		(22,525)	(21,707)
Pension net benefit (expense)/ income	14	(3,587)	200
Loss on sale of investment		(2,514)	(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

	2011	2010
Audit of the Group financial statements	(85)	(85)
Other fees to auditors		
Local statutory audit for subsidiaries	(1,453)	(1,347)
Taxation services	(46)	(48)
Audit of the Group pension schemes	(2)	(2)
Other services	(63)	(88)

5. Staff costs and Directors' emoluments

(a) Directors' emoluments

	2011 £'000	2010 £'000
Directors' emoluments	(4,226)	(3,734)

	2011 No.	2010 No.
Number of directors accruing benefits under		
Defined benefit pension schemes	2	2
Defined contribution pension schemes	4	4

	2011 £'000	2010 £'000
Company contributions paid to defined contribution pension schemes	(50)	(48)

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

	2011 £'000	2010 £'000
Emoluments	(1,983)	(1,540)
Accrued pension at the year end under defined benefit scheme	-	-
Company contributions paid to defined contribution pension schemes	(5)	(5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Staff costs and Directors' emoluments (continued)

(b) Employee benefits expense, including directors

	2011 £'000	2010 £'000
Wages and salaries	(234,639)	(222,660)
Social security costs	(39,097)	(35,395)
Pension costs	(7,799)	(2,473)
Severance payments	(2,096)	(2,975)
	(283,631)	(263,503)

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

	2011 £'000	2010 £'000
For directors	50	48
For other staff	8,486	7,805
	8,536	7,853

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

	2011 No.	2010 No
Europe including UK	1,980	1,858
North America	1,921	1,865
Africa	347	363
Asia Pacific	484	507
India	2,484	3,526
Rest of the World	834	908
	8,050	9,027

6. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement:

	2011 £'000	2010 £'000
Current income tax		
Current income tax charge	(31,729)	(32,758)
Adjustments in respect of current income tax of previous years	(478)	231
Total current income tax	(32,207)	(32,527)
Deferred tax		
Relating to origination and reversal of temporary differences	(5,623)	2,714
Relating to change in tax rates	(75)	(35)
Total deferred income tax	(5,698)	2,679
Tax charged in the income statement	(37,905)	(29,848)

6. Taxation (continued)

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

	2011 £'000	2010 £'000
Tax relating to items charged or credited to equity·		
Tax on (gain)/ loss on cash flow hedges	(456)	1,334
Tax on reversal of 2010 (2009) loss on cash flow hedges	(1,334)	(849)
Tax on net loss/ (gain) on hedge of net investment	977	(1,027)
Tax on actuarial losses/ (gain)	2,802	(52)
	1,989	(594)

(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 2011 and 2010 is as follows

	2011 £'000	2010 £'000
Profit from continuing operations before taxation	106,518	97,446
At UK standard rate of income tax rate of 26 5% (2010 28%)	28,227	27,285
Income not subject to corporation tax	(4,967)	(3,440)
Foreign subsidiaries subject to lower tax rate	(931)	(1,386)
Foreign subsidiaries subject to higher tax rate	6,865	5,021
Expenses not deductible for tax purposes	9,771	5,714
Prior year adjustments	202	(1,102)
Changes in tax losses carry forward	1,779	1,224
Changes in temporary differences	1,489	375
Tax loss carry forward used not previously recognised	(17)	-
Other	(4,513)	(3,843)
At effective income tax rate of 36% (2010 31%)	37,905	29,848

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 2012 UK Budget announced that the UK rate of Corporation Tax will reduce by 1% per year for the next 3 years from 24% to 22% for periods commencing 1 April 2012 The reduction in rate is to be enacted each financial year As at the balance sheet date a reduction in rate to 25% had been enacted and as such the deferred tax asset has been calculated at 25% The rate decrease to 24% enacted on 1 April 2012 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 (2010 £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

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

	2011 £'000	2010 £'000
Deferred tax asset		
Depreciation in excess of capital allowances	(198)	1,339
Inventory valuation	8,281	7,684
Sales returns and allowances	7,534	10,145
Defined benefit pension schemes	17,092	16,272
Other timing differences	1,407	2,824
Deferred tax asset	34,116	38,264
Deferred tax liability		
Accelerated capital allowances	1,283	1,587
Inventory valuation	-	875
Sales returns and allowances	(593)	260
Other timing differences	5,615	3,643
Deferred tax liability	6,305	6,365

Temporary timing differences in relation to non-deductible stock and credit note provisions amounting to £2,045,000 (2010 £2,045,000) 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

	2011 £'000	2010 £'000
Deferred tax in the income statement		
Depreciation in excess of capital allowances	(1,794)	(692)
Inventory valuation	1,362	463
Sales returns and allowances	(1,717)	2,367
Other timing differences	(3,549)	541
Deferred income tax expense	(5,698)	2,679

7. Profit attributable to members of the Parent Company

The profit dealt with in the financial statements of the Parent Company is £204,736,000 (2010 loss £1,042,000)

8. Dividends paid

	2011 £'000	2010 £'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2011 £69 16 per share (2010 £46 98 per share)	53,415	36,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Property, plant and equipment

31 December 2011	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2011	65,665	86,705	152,370
Exchange adjustment	(565)	(2,297)	(2,862)
Additions	2,725	7,472	10,197
Disposals	(5,206)	(11,787)	(16,993)
At 31 December 2011	62,619	80,093	142,712
Accumulated depreciation			
At 1 January 2011	28,425	65,805	94,230
Exchange adjustment	(140)	(1,362)	(1,502)
Charge for year	3,453	6,391	9,844
Disposals	(1,845)	(8,858)	(10,703)
At 31 December 2011	29,893	61,976	91,869
Net book value			
At 31 December 2011	32,726	18,117	50,843
At 31 December 2010	37,240	20,900	58,140

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2011 is £2,522,000 (2010 £3,111,000) Additions during the year include £564,000 (2010 £1,001,000) 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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Intangible assets

31 December 2011	Development costs £'000	Trade names £'000	Publishing rights £'000	Other rights £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2011	20,512	18,713	78,134	2,547	46,452	166,358
Exchange adjustment	(350)	(500)	(1,116)	(44)	(1,158)	(3,168)
Additions	7,381	-	3,280	-	1,615	12,276
Acquisitions	-	33	464	-	-	497
Reclassification	(628)	-	(2,011)	-	-	(2,639)
Disposals	(6,462)	-	(374)	-	(647)	(7,483)
At 31 December 2011	20,453	18,246	78,377	2,503	46,262	165,841
Accumulated amortisation						
At 1 January 2011	15,877	8,956	43,766	2,348	3,026	73,973
Exchange adjustment	(328)	(65)	(879)	(16)	-	(1,288)
Charge for the year	2,616	984	6,107	26	-	9,733
Reclassification	(628)	-	(2,011)	-	-	(2,639)
Impairment losses	-	-	969	-	-	969
Disposals	(5,437)	-	(374)	-	-	(5,811)
At 31 December 2011	12,100	9,875	47,578	2,358	3,026	74,937
Net book value						
At 31 December 2011	8,353	8,371	30,799	145	43,236	90,904
At 31 December 2010	4,635	9,757	34,368	199	43,426	92,385

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 2011	2010
Stockton Press Educational Publishers B V	Netherlands	Ordinary	40 00%	40 00%
College Press Publishers (Pvt) Ltd	Zimbabwe	Ordinary	48 91%	48 91%
1DegreeBio Inc	Canada	Preference	35 90%	-
Research Applications and Financial Tracking Inc	USA	Preference	47 66%	-
Relay Technology Management Inc	USA	Ordinary	37 50%	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investment in associates (continued)

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 is that of publishing and distribution of books and periodicals

The principal activity of 1DegreeBio Inc is the provision of online antibody database resources

The principal activity of Research Applications and Financial Tracking Inc is software development providing solutions to the laboratory research community

The principal activity of Relay Technology Management Inc is software development to identify and track promising drug candidates from academia and biotechnology companies

The following tables illustrate summarised information of the investment in associates

	2011	2010
	£'000	£'000
Stockton Press Educational Publishers B.V.:		
Share of associate's balance sheet		
Current assets	107	102
Non-current assets	112	143
Current liabilities	(90)	(121)
Net assets	129	124
Share of associate's profit	5	7
Carrying amount of investment	129	124
College Press Publishers (Pvt) Limited:		
Share of associate balance sheet		
Current assets	484	484
Non-current assets	12	12
Current liabilities	(293)	(293)
Net assets	203	203
Share of associates profit/ loss	-	203
Carrying amount of investment	203	203

The share of associates balance sheet represents figures taken from the financial statements to 31 December 2009, being the most recent available

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investment in associates (continued)

	2011 £'000	2010 £'000
1Degree Bio Inc:		
Share of associate balance sheet		
Current assets	34	-
Non-current assets	4	-
Current liabilities	(1)	-
Non-current liabilities	(14)	-
Net assets	23	-
Intangible arising on acquisition	223	-
	246	-
Share of associates (loss)	(66)	-
Carrying amount of investment	246	-

The investment was made on 24 June 2011 for a consideration of £313,000

	2011 £'000	2010 £'000
Research Applications and Financial Tracking Inc:		
Share of associate balance sheet		
Current assets	676	-
Non-current assets	3	-
Current liabilities	(19)	-
Net assets	660	-
Intangible arising on acquisition	869	-
	1,529	-
Share of associates (loss)	(61)	-
Carrying amount of investment	1,529	-

The investment was made on 1 December 2011 for a consideration of £1,592,000

	2011 £'000	2010 £'000
Relay Technology Management Inc		
Share of associate balance sheet		
Current assets	171	-
Non-current assets	47	-
Current liabilities	(32)	-
Net assets	186	-
Intangible arising on acquisition	688	-
	874	-
Share of associates (loss)	(91)	-
Carrying value of investment	874	-

The investment was made on 21 July 2011 for a consideration of £968,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations

IFRS3 Busıness Combınatıons was not applıed to acquısıtıons of subsıdıarıes or of ınterests ın associates and joınt ventures that occurred before 1 January 2004

Acquısıtıons ın 2011:

On 1 December 2011 the Group purchased a 66 31% share ın Symplectıc Lımıted through ıts subsıdıary company, Macmıllan Dıgıtal Scıence Lımıted The purchase prıce was £3,439,000 and was financed by borrowıngs under exıstıng credıt lınes The transactıon ıncluded a purchase of 200 Ordınary Shares from exıstıng shareholders for £640,000 and an ınjectıon of new capıtal wıth a further 200 Ordınary shares and 781 preference shares purchased for an addıtıonal £2,799,000

The prelımınary faır value of the ıdentıfiable assets purchased at the date of acquısıtıon and the correspondıng carryıng amounts before the acquısıtıon were as follows

	Previous Carrying Value £'000	Fair value recognised on acquisition £'000
Net assets acquired		
Cash	2,799	2,799
Other net assets	(104)	(104)
Intangıble assets	-	2,491
Deferred tax lıabılıty	-	(672)
	2,695	4,514
Mınorıty ınterest		(1,747)
Goodwıll		672
		3,439
Consıderatıon payable		
Cash		3,439
		3,439

The Group has elected to measure the non-controllıng ınterests ın Symplectıc Lımıted at the proportıonate share of the acquıree s ıdentıfiable net assets

The goodwıll of £672,000 arısıng from the acquısıtıon represents the synergıstıc benefits from acquırıng thıs busıness

The ıntangıble assets acquıred represent ıntellectual property and have been allocated a useful lıfe of five years

Transactıon costs on acquısıtıons were ımmaterıal and wrıtten off durıng the year

From the date of acquısıtıon to 31 December 2011, Symplectıc Lımıted contrıbuted a £5,000 loss to the net profit of the Group If the combınatıon had taken place at the begınnıng of 2011, the profit before tax for the Group would have been £106,518 and revenue from contınuıng operatıons would have been £1,046,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations (continued)

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
	49	49
Trade and other payables	(139)	(139)
Net assets acquired	(90)	(90)
Intangible arising on acquisition		1,381
Total consideration		1,291
Consideration payable		
Cash		1,291
		1,291

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
	2	2
Trade and other payables	(73)	(73)
Net assets acquired	(71)	(71)
Intangible arising on acquisition		1,649
Total consideration		1,578
Consideration payable		
Cash		1,578
		1,578

No changes were made to the provisional fair values recorded as at 31 December 2010

12. Business combinations (continued)

Disposals in 2011.

On 12 October 2011 the Group sold its 61 46% shareholding in MPS Limited The sale proceeds were £5,872,000

The value of the assets disposed of were as follows

	Carrying Value £'000
Intangible assets	992
Tangible assets	4,994
Inventories	1,517
Trade and other receivables	6,804
Cash	875
	15,182
Trade and other payables	(3,963)
Net assets disposed	11,219
Attributable to	
Non controlling interest	4,323
Owners of the parent	6,896
Consideration received	
Cash	5,872
Costs of sale	(1,624)
Net consideration received	4,248
Loss on disposal	(2,648)

Before disposal, MPS Limited contributed £14,715,000 of revenue and £803,000 of operating profit to the Group's results

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Carrying value of goodwill with indefinite life

	2011 £000	2010 £000
Academic	-	-
Scientific, Technical and Medical (STM)	-	-
Digital Science	-	-
Education	21,915	22,134
Fiction and Non-Fiction – UK and Rest of the World	-	-
Publishing Services	-	-
Fiction and Non-Fiction - US	9,067	9,062
US College	12,254	12,230
Total	43,236	43,426

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 1% to 7 9% The required return on equity is risk adjusted for each cash-generating unit These two factors are weighted in proportion to the Group's financing derived from each source based on the fair value of the Group's overall debt funding in relation to the Group's overall equity funding All figures used are based on the relevant ratios in the consolidated accounts of the Group's ultimate holding company

Sensitivity to changes in assumptions

Management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed the recoverable amount The discount factor would need to increase to over 10 5% to result in a material impairment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Employment benefits

Pensions and other post-employment benefit plans

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

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

	UK Plan		Pension Plans US and other non-UK Plans		Total	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Employee benefits expense:						
Current service cost	(321)	(756)	(504)	(1,779)	(825)	(2,535)
Past service cost	-	-	-	-	-	-
Effect of curtailment of benefits	-	1,989	(69)	4,521	(69)	6,510
Other finance costs:						
Interest cost on benefit obligation	(9,077)	(9,114)	(1,230)	(1,283)	(10,307)	(10,397)
Expected return on plan assets	6,378	5,546	1,236	1,076	7,614	6,622
Net benefit expense	(3,020)	(2,335)	(567)	2,535	(3,587)	200
Actual return / (loss) on plan assets	5,549	10,589	(449)	1,906	5,100	12,495
Benefit asset/ (liability).						
Present value of defined benefit obligation	(183,553)	(167,622)	(26,825)	(25,011)	(210,378)	(192,633)
Plan assets						
Equities	35,495	36,604	11,714	12,606	47,209	49,210
Debt	54,334	41,883	8,041	7,272	62,375	49,155
Properties	5,596	4,456	67	64	5,663	4,520
Cash	3,718	5,717	379	306	4,097	6,023
Target return funds	22,378	22,809	-	-	22,378	22,809
Fair value of plan assets	121,521	111,469	20,201	20,248	141,722	131,717
Benefit (liability)	(62,032)	(56,153)	(6,624)	(4,763)	(68,656)	(60,916)
Pension asset					35	136
Defined benefit pension deficit					(68,691)	(61,052)
Net pension liability					(68,656)	(60,916)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Employment benefits (continued)

Movement in the benefit (liability) during the years to 31 December 2011 and 2010 is as follows

	UK Plan		US and other non-UK Plans		Total	
	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	(56,153)	(59,040)	(4,763)	(8,624)	(60,916)	(67,664)
Net benefit expense	(3,020)	(2,335)	(567)	2,535	(3,587)	200
Actuarial losses	(12,935)	(1,794)	(3,046)	(598)	(15,981)	(2,392)
Contributions	10,076	7,016	1,767	2,233	11,843	9,249
Foreign exchange movement	-	-	(15)	(309)	(15)	(309)
	(62,032)	(56,153)	(6,624)	(4,763)	(68,656)	(60,916)

History of experience gains and losses

	UK Plan		US and other non-UK Plans		Total	
	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000
Difference between expected return and actual return on pension scheme assets	(829)	5,043	(1,685)	830	(2,514)	5,873
Experience (loss)/ gain arising on scheme liabilities	(1,426)	1,620	(1,361)	(1,428)	(2,787)	192
Total actuarial (loss)/ gain	(2,255)	6,663	(3,046)	(598)	(5,301)	6,065

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	
	2011	2010	2011	2010
	%	%	%	%
Discount rate	4 80	5 50	6 00	6 00
Expected rate of return on assets				
Equities	6 95	6 50	6 00	6 00
Corporate Bonds	4 80	5 40	6 00	6 00
Gilts	2 95	3 50	6 00	6 00
Property	5 45	5 50	-	-
Other	5 95	7 15	6 00	6 00
Future salary increases	3 45	3 85	-	3 50
Future pension increases				
For service 1 March 1997 to 5 April 2005	3 45	3 70		
For all other periods of service	3 00	3 00		
Inflation	2 95	3 35		

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	
	2011	2010
	Years	Years
Current pensioners at 65 – male	23 2	22 7
Current pensioners at 65 – female	24 2	23 7
Future pensioners at 65 – male	25 0	24 5
Future pensioners at 65 – female	26 1	25 7

On 31 March 2011 a new schedule of contributions was agreed with the Trustees A contribution payment of £9 8m was made in February 2011 and a further payment of £4 0m was made in January 2012 and another of £6 0m in February 2012 Employer contributions relating to future service benefit at a rate of 11 9% of salaries commenced in April 2011 Under the new schedule it is intended that the deficit will be paid off by March 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Inventories

	2011	2010
	£'000	£'000
Raw materials	6,600	9,449
Work-in-progress	52,332	53,728
Finished goods	93,262	97,028
	152,194	160,205

16. Trade and other receivables

	Note	2011	2010
Current		£'000	£'000
Trade receivables		306,766	308,224
Author advances		104,768	103,674
Prepayments		10,144	10,012
Receivables from associates		10	129
Other related parties	22	119,402	111,475
Other debtors		19,617	19,253
		560,707	552,767
Non-current			
Other debtors		43	42

As at 31 December 2011, trade receivables at nominal value of £20,709,000 (2010 £30,317,000) were impaired and fully provided for Movements in the provision for impairment of receivables were as follows

	2011	2010
	£'000	£'000
At 1 January	(30,317)	(18,995)
Currency translation	1,119	(350)
Charge for the year	(5,436)	(16,493)
Utilised	9,831	5,053
Unused amounts reversed	4,094	468
At 31 December	(20,709)	(30,317)

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

		Not past due	Past due			
			<60	60-180	180-360	>360
	Total	Current	Days	Days	Days	Days
	£'000	£'000	£'000	£'000	£'000	£'000
2011	306,766	254,203	33,181	10,820	5,950	2,612
2010	308,224	257,504	21,439	21,792	5,211	2,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Cash and cash equivalents

	2011	2010
	£'000	£'000
Cash at bank and in hand	44,949	33,196
Short-term deposits	12,760	17,965
	57,709	51,161

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 £57,709,000 (2010 £51,161,000)

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

	Note	2011	2010
		£'000	£'000
Cash at bank and in hand		44,949	33,196
Short-term deposits		12,760	17,965
Bank overdrafts and loans	19	(12,070)	(37,801)
		45,639	13,360

18. Issued share capital and reserves

	Number	£'000
Authorised:		
Ordinary shares of £1 each	10,000,000	10,000
	Number	**US$'000**
Ordinary shares of US$1 each	200,000	200

Allotted, called up and fully paid:	**Number**	**£'000**
31 December 2011		
Ordinary shares of £1 each		
At 1 January and 31 December 2011	772,376	772
31 December 2010		
Ordinary shares of £1 each		
At 1 January and 31 December 2010	772,376	772

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Financial liabilities

	Effective interest rate %	2011 £'000	2010 £'000
Current			
Obligations under finance leases and hire purchase contracts (note 21)	5 19 to 16 00	809	953
Bank overdrafts		12,070	36,937
Secured bank loan		-	864
		12,879	38,754
Non-current			
Obligations under finance leases and hire purchase contracts (note 21)	5 19 to 16 00	1,615	2,135
Unsecured bank loan		-	61,196
Private placement loan		80,698	-
		82,313	63,331

£Nil (2010 £864,000) 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
On 27 July 2011 the Group along with Georg von Holtzbrinck GmbH & Co KG amended its multicurrency term, revolving and swingline credit facilities agreement that had been previously entered into in 2005 with Landesbank baden-Wurrtemberg The agreement provides that at any time the Group, along with Georg von Holtzbrinck GmbH & Co KG, may borrow amounts up to €480m at LIBOR plus a margin based upon certain financial ratios The agreement has an expiration date of 27 July 2016 and also contains certain covenants, as well as provisions specifying compliance with certain quarterly and annual financial ratios at the Georg von Holtzbrinck GmbH & Co KG level

The Group had no outstanding borrowings against this credit facility at 31 December 2011 and $95m at 31 December 2010 The interest rate for borrowings at 31 December 2010 was 0 86% The borrowings outstanding at 31 December 2010 were guaranteed by the ultimate holding company

The Group is compliant with all covenants at the year end and on a forecast basis

Private placement loan
On 26 May 2011 a subsidiary company borrowed $125m from Prudential Insurance Company of America by issuing $125m of fixed rate 5 562% senior notes (the "PRICOA Agreement") The notes mature in three traunches - $40m on 26 May 2020, $45m on 26 May 2021 and $40m on 26 May 2022

20. Trade and other payables

	Note	2011 £'000	2010 £'000
Current			
Trade payables		68,730	80,664
Royalties payable		79,781	79,128
Other payables and accruals		114,392	113,957
Deferred income		115,691	105,319
Other related parties	22	47,875	24,025
		426,469	403,093
Non-current			
Other payables		7,603	9,159
Deferred income		7,976	9,689
		15,579	18,848

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

	2011 £'000	2010 £'000
Within one year	22,873	21,695
After one year but not more than five years	65,870	69,711
More than five years	21,197	33,300
	109,940	124,706

Subsequent to the balance sheet date the Group has entered into a property lease commitment for a period of 15 years The cost of this commitment is expected to be approximately £3 4m per annum

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

	2011 £'000	2010 £'000
Within one year	823	576
After one year but not more than five years	1,385	1,636
	2,208	2,212

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

	2011		2010	
	Minimum Payments £'000	Present Value of Payments £'000	Minimum Payments £'000	Present Value of Payments £'000
Within one year	937	809	1,151	953
After one year but not more than five years	1,678	1,614	2,335	2,124
More than five years	2	2	11	11
Total minimum lease payments	2,617	2,425	3,497	3,088
Less amounts representing finance charges	(192)	-	(409)	-
Present value of minimum lease payments	2,425	2,425	3,088	3,088

Capital commitments
At 31 December 2011, the Group has commitments of £69,000 (2010 £1,535,000) contracted for but not provided in the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Commitments and contingencies (continued)

Contingent liabilities
At the 31 December 2011, the Group had other guarantees of £6,677,000 (2010 £7,707 000) relating to various subsidiaries

During the year various governmental and regulatory bodies in the US and Europe have commenced investigations into the Group together with certain other major publishers over agency arrangements related to sales of e-books The European investigation is on-going and the Group is cooperating fully with the enquiry In April 2012 the US Department of Justice and 16 US States filed lawsuits against a subsidiary company together with certain other major publishers and Apple in the US The number of states included in the state lawsuit has now increased to 33 At the same time a subsidiary company and certain other major publishers and Apple have been sued in a private class action law suit in the US The plaintiffs in that suit seek damages, injunctive relief and legal fees The Group is defending itself in those actions and believes that it was fully compliant with all applicable laws

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 2011	2010
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%	100 00%
Macmillan Digital Education Limited		England and Wales	Ordinary	100 00%	-
Symplectic Limited		England and Wales	Ordinary	66 31%	-
Gill and Macmillan (UK) Limited		England and Wales	Ordinary	100 00%	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 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%
SureChem Inc		USA	Ordinary	100 00%	100 00%
Labtiva Inc		USA	Ordinary	56 62%	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 SA		Mozambique	Ordinary	90 00%	80 00%
Macmillan Uganda Limited		Uganda	Ordinary	-	80 00%
Macmillan Malawi Limited		Malawi	Ordinary	85 70%	85 70%
Macmillan Aidan Limited		Tanzania	Ordinary	-	80 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%
MPS Technologies Limited		India	Ordinary	-	61 46%
Macmillan ICC Publishing Solutions Private Limited		India	Ordinary	-	61 46%
Macmillan Publishers India Limited		India	Ordinary	88 10%	88 10%
Frank Brothers and Company (Publishers) Limited		India	Ordinary	88 10%	88 10%
Pan Macmillan Books India Private Limited		India	Ordinary	-	100 00%
Macmillan Publishers (China) Limited		Hong Kong	Ordinary	100 00%	100 00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

	Country of Incorporation/ registration	Class of share	Proportion of voting rights held by the Group 2011	2010
Macmillan Language House Limited	Japan	Ordinary	100 00%	100 00%
Nature Japan K K	Japan	Ordinary	100 00%	100 00%
Macmillan Korea Publishers Limited	South Korea	Ordinary	100 00%	100 00%
Macmillan Taiwan Limited	Taiwan	Ordinary	66 31%	-
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 S A S	Colombia	Ordinary	100 00%	-
Macmillan Publishers Egypt Limited	Egypt	Ordinary	100 00%	100 00%
Kawkab Distribution Limited	Egypt	Ordinary	98 00%	98 00%
Biodata Limited	Israel	Ordinary	58 55%	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

Related party		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							
	2011	-	-	405	-	50,115	483
	2010	-	-	284	-	45,569	-
Immediate holding company:							
Holtzbrinck Publishers Holdings Limited							
	2011	77	(106)	1,485	(334)	35,132	8,911
	2010	86	(2,076)	1,474	(178)	39,039	8,577
Associate:							
Stockton Press Educational Publishers B V							
	2011	-	(70)	-	-	-	491
	2010	-	(70)	-	-	-	541
Fellow undertakings:							
Verlagsgruppe Georg von Holtzbrinck GmbH							
	2011	-	-	152	-	33,573	-
	2010	-	-	38	(4)	25,790	-
Holtzbrinck Publishers Holdings LP							
	2011	1,188	(1,227)	-	(222)	-	37,990
	2010	3,844	(2,443)	-	(162)	475	14,907
Verlagsgruppe Droemer GmbH & Co KG							
	2011	2,235	-	-	-	413	-
	2010	1,898	-	-	-	320	-
Spektrum der Wissenschaft Verlagsgesellschaft mbH							
	2011	293	(154)	-	-	145	-
	2010	320	(211)	-	-	124	-
Euroscript Delt Luxembourg S A							
	2011	689	-	-	-	-	-
	2010	822	-	-	-	103	-
HGV Hanseatische Gesellschaft Fuer Verlagsservice GmbH							
	2011	12	-	-	-	-	-
	2010	31	-	-	-	6	-
Prensa Clientifica S A							
	2011	23	-	-	-	24	-
	2010	108	-	-	-	49	-
Total:							
	2011	4,517	(1,557)	2,042	(556)	119,402	47,875
	2010	7,109	(4,800)	1,796	(344)	111,475	24,025

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 2011, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2010 £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 (2010 100%) This company is incorporated in Germany

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100% of the ordinary shares in HM Publishers Holdings Limited (2010 100%)

Associates

Stockton Press Educational Publishers B.V.

The Group has a 40% interest in Stockton Press Educational Publishers B V (2010 40 00%)

College Press Publishers (Pvt) Limited

The Group has a 48 91% interest in College Press Publishers (Pvt) Limited (2010 48 91%)

1Degree Bio Inc

The Group has a 35 9% interest in 1DegreeBio Inc

BioRaft Inc

The Group has a 47 66% interest in BioRaft Inc

Relay Technology Management LLC

The Group has a 37 5% interest in Relay Technology Management LLC

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

23. Financial risk management objectives and policies (continued)

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

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
2010	+5%	(2,505)	(10,678)
	-5%	2,769	11,795
2011	+5%	(2,651)	(13,626)
	-5%	2,929	15,048

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

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

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

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 2011 and 2010 based on contractual undiscounted payments Interest on overdrafts is variable and has therefore been excluded from the balances

Year ended 31 December 2011	**Within 1 Year**	**1 to 5 Years**	**More than 5 Years**	**Total**
Non-derivative financial liabilities				
Finance leases and hire purchase	937	1,678	2	2,617
Overdraft	12,070	-	-	12,070
Private Placement loan	4,551	18,203	105,272	128,026
Guarantees	6,677	-	-	6,677
Trade and other payables	310,778	7,603	-	318,381
Total	335,013	27,484	105,274	467,771

Year ended 31 December 2010				
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

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	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Financial liabilities				
Fixed rate borrowings				
Prudential Insurance company of America				
5 562% Senior notes	80,698	-	78,276	-

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 financial assets are classified as loans and receivables and fair value is considered to be materially equivalent to book value

All other financial liabilities, except for derivatives disclosed in note 24 are classified as being held at amortised cost and fair value is considered to be materially equivalent to book value

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

24. Financial Instruments (continued)

Hedging activities

Cash flow hedges

Recognised through equity

At 31 December 2011, 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 2011 have been recognised through equity in the current year and will be recognised through the income statement in 2012

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2011 £'000	Gain/(loss) recognised through equity £'000
Sell currency/ buy Sterling					
South African Rand	36,000	Jan-Sep 2012	12 64	2,869	28
Japanese Yen	2,100,000	Jan-Dec 2012	127 23	17,506	(1,045)
Buy currency/ sell Sterling					
Hong Kong Dollars	151,000	Feb-Dec 2012	12 25	12,552	289
US Dollars	5,000	Jan 2012	1 54	3,226	(18)
Total					(746)

At 31 December 2011 the Group had entered into the following foreign exchange contracts with the Group's ultimate holding company to hedge expected cash flows in Euros and US Dollars which are expected to occur in 2012 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 2011 have been recognised through equity in the current year and will be recognised through the income statement in 2012

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2011 £'000	Gain/(Loss) recognised through equity £'000
Sell currency/ buy Sterling					
Euros	55,000	Jan-Dec 2012	1 12	45,833	2,952
US Dollars	15 000	Oct-Nov 2012	1 62	9,677	(483)
Total					2,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Instruments (continued)

Recognised through income statement

At the 31 December 2011 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 Australian Dollars in 2011 and therefore these amounts have been recognised through the income statement

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2011 £'000	Gain/ (loss) recognised through income statement £'000
Sell currency/ buy Sterling					
Australian Dollars	9,562	Jan-Nov 2012	1 58	6,291	(133)
					(133)

During the year ended 31 December 2011 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 2010 £'000	Gain/ (loss) recognised through income statement £'000
Sell currency/ buy Sterling					
Australian Dollars	15,081	Jan-Dec 2011	1 72	9,857	(953)
New Zealand Dollars	510	Jan-June 2011	2 38	254	(40)
Japanese Yen	2,600,000	Jan-Aug 2011	137 38	20,597	(1,690)
Euro	60,000	Jan-Dec 2011	1 21	51,644	(2,083)
Buy currency/ sell Sterling					
Hong Kong Dollars	96,000	Jan-Dec 2011	12 02	7,954	(4)
Euro	11,184	Jan 2011	1 16	9,627	26
US Dollars	7,755	Jan 2011	1 55	5,020	(24)
Sell currency/ buy Australian Dollars					
Euro	2,428	Jan 2011	1 32	2,090	4
					(4,764)

BALANCE SHEET
as at 31 December 2011

ASSETS	Note	2011 £'000	2010 £'000
Non-current assets			
Property	28	18,800	18,613
Investment in subsidiaries	29	37,710	39,205
		56,510	57,818
Current assets			
Trade and other receivables	30	184,862	60,419
Cash and cash equivalents	31	63	27
Income tax receivable		3,306	1,113
		188,231	61,559
TOTAL ASSETS		244,741	119,377
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		155,777	4,456
TOTAL EQUITY		233,385	82,064
Non-current liabilities			
Deferred income tax liabilities	26	979	917
Current liabilities			
Trade and other payables	34	10,377	8,871
Financial liabilities	33	-	27,525
		10,377	36,396
TOTAL LIABILITIES		11,356	37,313
TOTAL EQUITY AND LIABILITIES		244,741	119,377

These financial statements were approved by the Board of Directors on 30 May 2012

Signed on behalf of the Board of Directors

Dr A C Thomas
Director

CASH FLOW
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Operating profit/ (loss)		2,778	(181)
(Increase)/ decrease in accounts receivable		(128,537)	20,722
Increase in accounts payable less than one year		1,437	3,457
Depreciation charges		1,500	1,349
Loss on sale of assets		-	206
Income tax (paid)/ received		(2,845)	1,872
Net cash flow (used in)/ from operating activities		(125,667)	27,425
Cash flows from/ (used in) investing activities			
Interest received		6	303
Dividends received from subsidiaries		203,415	142
Proceeds from disposal of subsidiary undertaking		6,200	-
Proceeds from disposal of property, plant & equipment		-	887
Purchase of property, plant and equipment		(1,687)	(3,483)
Net cash flows from/ (used in) investing activities		207,934	(2,151)
Cash flows used in financing activities			
Interest paid		(1,360)	(1,159)
Dividends paid to equity holders of the parent		(53,415)	(36,287)
Net cash flows used in financing activities		(54,775)	(37,446)
Net increase/ (decrease) in cash and cash equivalents		27,492	(12,172)
Net foreign exchange difference		69	-
Cash and cash equivalents at 1 January	31	(27,498)	(15,326)
Cash and cash equivalents at 31 December	31	63	(27,498)

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

	Attributable to equity holders of the parent				Total attributable to equity holders of parent
	Issued Capital	Share premium	Capital Redemption Reserve	Retained earnings	
	£'000	£'000	£'000	£'000	£'000
At 1 January 2010	772	76,788	48	41,785	119,393
Loss 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
Profit for the year	-	-	-	204,736	204,736
Equity dividends (Note 27)	-	-	-	(53,415)	(53,415)
At 31 December 2011	772	76,788	48	155,777	233,385

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

	2011 £'000	2010 £'000
Deferred tax liability		
Accelerated capital allowances	979	917

27. Dividends paid

	2011 £'000	2010 £'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2011 £69 16 per share (2010 £46 98 per share)	53,415	36,287

28. Property, plant and equipment

31 December 2011	**Land and buildings £'000**
Cost	
At 1 January 2011	28,195
Additions	1,687
At 31 December 2011	29,882
Accumulated depreciation	
At 1 January 2011	9,582
Charge for year	1,500
At 31 December 2011	11,082
Net book value	
At 31 December 2011	18,800
At 31 December 2010	18,613

29. Investments in subsidiaries

	2011 £'000	2010 £'000
Subsidiary undertakings:		
Shares at cost at 1 January	39,205	39,205
Disposals	(1,495)	-
Shares at cost at 31 December	37,710	39,205

See note 22 for list of subsidiaries

30. Trade and other receivables

	Note	2011 £'000	2010 £'000
Current			
Other related parties	36	184,862	60,419

31. Cash and cash equivalents

	2011 £'000	2010 £'000
Current		
Cash at bank and in hand	63	27

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 £63,000 (2010 £27,000)

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

	Note	2011 £'000	2010 £'000
Current			
Cash at bank and in hand		63	27
Bank overdrafts	33	-	(27,525)
		63	(27,498)

NOTES TO THE FINANCIAL STATEMENTS

32. Issued share capital

	Number	£'000
Authorised		
Ordinary shares of £1 each	10,000,000	10,000
	Number	**US$'000**
Ordinary shares of US$1 each	200,000	200
	Number	**£'000**
Allotted, called up and fully paid:		
31 December 2011		
Ordinary shares of £1 each		
At 1 January and 31 December 2011	772,376	772
31 December 2010		
Ordinary shares of £1 each		
At 1 January and 31 December 2010	772,376	772

33. Financial liabilities

	Note	2011 £'000	2010 £'000
Current			
Bank overdrafts		-	27,525

34. Trade and other payables

		2011 £'000	2010 £'000
Current			
Other related parties	36	8,911	8,577
Other payables and accruals		1,466	294
		10,377	8,871

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

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

	2011	2010
	£'000	£'000
Within one year	1,952	1,822
After one year but not more than five years	6,674	6,433
More than five years	5,002	6,205
	13,628	14,460

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

	2011	2010
	£'000	£'000
Within one year	5,591	4,949
After one year but not more than five years	123	433
	5,714	5,382

Capital Commitments
At 31 December 2011, HM Publishers Holdings Limited has commitments of £nil (2010 £ nil) contracted for but not provided in the financial statements

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

	2011	2010
	£'000	£'000
Bank facilities guaranteed	8,919	18,422

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

Related party		Amounts owed by related parties £'000	Amounts owed to related parties £'000
Immediate holding company:			
Holtzbrinck Publishers Holdings Limited			
	2011	-	8,911
	2010	-	8,577
Fellow undertakings:			
Macmillan Publishers Limited			
	2011	171,947	-
	2010	60,419	-
Macmillan Limited	2011	12,915	-
	2010	-	-
Total:			
	2011	184,862	8,911
	2010	60,419	8,577

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 2011, the Company has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2010 £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

The ultimate parent

Georg von Holtzbrinck GmbH & Co. KG
Georg von Holtzbrinck GmbH & Co KG owns through a 100% owned subsidiary, 100% of the ordinary shares in GvH Vermogensverwaltungsgesellschaft XXXIII mbH, the immediate holding company of Holtzbrinck Publishers Holdings Limited (2010 100%) Both of these companies are incorporated in Germany

Immediate Holding company

Holtzbrinck Publishers Holdings Limited
Holtzbrinck Publishers Holdings Limited owns 100 00% of the ordinary shares in HM Publishers Holdings Limited (2010 100 00%)