Company Registration No. 46694

HM PUBLISHERS HOLDINGS LIMITED

Consolidated Report and Financial Statements

31 December 2012

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CONSOLIDATED REPORT AND FINANCIAL STATEMENTS 2012

CONTENTS

CONTENTS (continued)

GENERAL INFORMATION

DIRECTORS

Dr S von Holtzbrinck	Chairman
W H Farries	
R E Jacobs	Alternate for Dr A C Thomas
Dr A Reich	Alternate for Dr S von Holtzbrinck
J Sargent	
J H Schwanewedel	
Dr A C Thomas	

SECRETARY

G M Williams-Hamer

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SOLICITORS

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EC4A 3TW

AUDITORS

Ernst & Young LLP
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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 2012

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 remained consistent with 2011, showing a small decrease of 0 2% to £1,044m (2011 £1,046m) Continuing growth occurred in the Scientific, Technical and Medical (STM) business generated by Nature and its sister publications whilst the Group's International Education and Domestic Curriculum businesses also experienced turnover increases The US business also had a successful year The key contributor to the overall reduction in revenue was the strategic disposal of MPS Limited in 2011 Operating profit of £93 8m was down on the figure of £112 2m achieved in 2011 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

During the year the Group has reassessed the definitions of its cash generation units (CGU s) These CGU's are consistent with how the business is organised for management purposes

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

NATURE PUBLISHING GROUP

The Nature Publishing Group had another good year Revenues increased by 5 35% to £195 4m (2011 £185 5m) 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 offsetting continuing difficulties in the advertising markets The launch of new titles in the Nature stable of journals continued to drive growth, together with developments in related publishing areas

DIRECTORS' REPORT (continued)

Business review and future developments (continued)

INTERNATIONAL EDUCATION

The Group s International Education business had a good year The Group continues to exploit its geographical spread of businesses in overseas markets Revenues increased by 0 1% to £192 9m (2010 £192 6m), and margins showed encouraging growth The Group's businesses in Latin America, Europe, Middle East and Asia all had good results Trading conditions in Spain and Australia continue to be challenging Operating results in India were depressed by significant overhead investments necessary to drive revenue growth in 2013 and beyond The application of stringent cost control measures and tight control of margins meant that the International Education group performed creditably despite difficult conditions in some markets

DOMESTIC CURRICULUM

The Group's Domestic Curriculum business had a good year Revenues increased by 11 2% to £73 9m (2011 £66 4m), and margins showed encouraging growth The main factor in this growth was due to very strong sales of new curriculum material in South Africa Trading conditions in Australia continue to be difficult The application of stringent cost control measures and tight control of margins meant that the Domestic Curriculum group performed creditably despite difficult conditions in some markets

PALGRAVE SCHOLARLY

The Palgrave Scholarly business had an encouraging year despite revenue in sterling terms being 2 5% behind last year at £28 4m (2011 £29 2m) Shortfalls in revenues resulted from a decline in print sales and journals but this decline was offset by strong growth in digital sales Stringent cost control measures remained in place across the division as the business continues to invest in the developing digital markets

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 businesses acquired in recent years and made further investments with the acquisition of a controlling interest in 1DegreeBio Inc Details of this investment is shown in note 13 of the accounts This acquisition had minimal impact on revenues and profits

DIGITAL EDUCATION

During the year the Group extended its investment in the provision of digital services in the education area through the expansion of its Digital Education 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 education community through its International Education business

TRADE – UK AND ROW

The Group s Fiction and Non-Fiction publishing businesses continued to find trading conditions difficult in almost all markets Revenues decreased by 4 6% to £112 2m (2011 £117 7m) 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 outlets Whilst the market for sales of physical books was subdued in 2012, digital sales showed strong growth The trend towards digital sales continues to put pressure on traditional high street retail outlets Fiction big brand authors all exceeded prior year sales Sales of Non-Fiction titles were down on the previous year with some key titles not performing as well as hoped Results in Australia were impacted by the continuing weakness in the retail market in this region Stringent cost control measures continued across the businesses to counteract difficult trading conditions

DIRECTORS' REPORT (continued)

Business review and future developments (continued)

US TRADE

The US Fiction and Non-Fiction publishing business had a good year with eBook sales performing particularly well Revenues decreased in sterling terms by 0 1% to £261 5m (2011 £261 7m) The corresponding decrease in US dollars was 1 3% 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

Revenues decreased in sterling terms by 1 2% to £161 9m (2011 £163 9m) The corresponding decrease in US dollars was 2 4% The division continues to invest in the development of electronic publishing content delivery in a rapidly changing marketplace During the year the division made an investment in EBI Map-Works Inc , complementing its existing investments in the provision of educational support services to the Academic community Details of this investment is shown in note 13 of the accounts

PUBLISHING SERVICES

The Publishing Services business showed a fall in revenues of 42 7% to £16 7m (2011 £29 2m), the vast majority of which was due to the disposal of the publishing services outsource operation, MPS Limited based in India, which was sold in October 2011 The distribution operation in the UK completed its move to the new consolidated distribution centre in Swansea and continues to benefit from operational effectiveness as a result

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 above The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described below In addition, notes 24 to 25 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 decrease in cash and cash equivalents in the year ended 31 December 2012 of £1 1m (2011 increase of £33 5m) This figure is stated after payment of dividends to the Group's shareholders of £47 0m (2011 £53 4m)

At December 2012 the Group had net surplus funds on loan to fellow Group companies of £60 0m (2011 £71 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 disclosed in note 23 to the accounts

The main source of long term funding for the business is a private placement loan in the US and 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 20 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	2012 £'000	2011 £'000
Cash and cash equivalents	18	57,678	57,709
Interest-bearing loans and borrowings	20	(91,686)	(95,192)
Net debt		(34,008)	(37,483)
Total equity		(304,831)	(324,449)
Total capital employed		(338,839)	(361,932)
Gearing		11 2%	11 6%

The gearing percentages are within the Group's target levels

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

		2012 £'000	2011 £'000
Current			
Obligations under finance leases and hire purchase contracts	20	1,263	809
Bank overdrafts	20	12,268	12,070
Other loans	20	360	-
		13,891	12,879
Non-current			
Obligations under finance leases and hire purchase contracts	20	477	1,615
Other loans	20	77,318	80,698
		77,795	82,313
		91,686	95,192

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 7 to the consolidated financial statements The income tax charge as a percentage of profit on ordinary activities before income tax was 30% in the current year and 36% in the previous year

Dividends
An interim ordinary dividend of £47 0m has been paid for the year to 31 December 2012 (2011 £53 4m) The directors do not recommend the payment of a final dividend

DIRECTORS' REPORT (continued)

Business review and future developments (continued)

Contingent Liabilities

During 2010, the Group was contacted by the Antitrust Division of the U S Department of Justice ("DOJ") requesting information in connection with an investigation as to whether its activities relating to the pricing of digitally downloaded books violated the Sherman Act Also during 2010 the Group was contacted by the Attorneys General of two US States requesting information in connection with an investigation as to whether those activities violated the antitrust laws of those states Similar assertions were made against the Group in various class action lawsuits filed in August through December 2011, which were consolidated into one case in January 2012

In April 2012, the DOJ investigated the Group, and several other third parties, alleging a conspiracy to fix the prices of digitally downloaded books in violation of the Sherman Act Also, in April 2012, a group of states and Puerto Rico sued the Group and several other third parties, alleging a similar conspiracy in violation of the Sherman Act and the antitrust laws of those states and Puerto Rico That complaint has since been amended to include a total of 33 states, Puerto Rico and the District of Columbia

In February 2013, the Group settled all three cases by signing a settlement agreement with the DOJ and reaching an agreement in principle with the states and the class

The Group has fully provided for the agreed settlement amount

Directors and their interests

The directors holding office during the year 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	Resigned 29 June 2012
Dr J Gutbrod (Germany)	Resigned 16 July 2012
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	Resigned 31 May 2012
R E Jacobs	Appointed 29 June 2012

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 6 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 24

Employees

The average monthly number of employees in the Group decreased from 8,050 in 2011 to 6,612 in 2012 This reduction was mainly due to the disposal of the India publishing services business, MPS Limited

DIRECTORS' REPORT (continued)

Business review and future developments (continued)

Employee involvement

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

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

Training and development

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

Disabled Persons

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

Political and Charitable Contributions

During the year charitable contributions totalled £41,354 (2011 £298,151) The donations were predominantly directed towards cancer research and children's charities as well as medical and welfare organisations Charitable contributions in 2011 included a donation of £238,500 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 Group 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' REPORT (continued)

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

3 June 2013

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

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit and loss of the Group for that period

In preparing these 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,
- make judgements and accounting estimates that are reasonable and prudent,
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group s financial position and financial performance, and
- state whether the Company and Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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

We have audited the Group and Parent company financial statements of HM Publishers Holdings Limited for the year ended 31 December 2012, which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Parent Company Balance sheet, Consolidated Statement of Changes in Equity, Parent Company Statement of Changes In Equity, Consolidated Cash Flow, Parent Company Cash Flow and the related notes 1 to 36 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended,

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and

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

Opinion on other matters prescribed by the Companies Act 2006

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

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

6 June 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Continuing operations			
Revenue	4	1 043,696	1,046,283
Other income	5	10,254	4,523
Cost of sales		(374,558)	(374,537)
Gross profit		679,392	676,269
Employee benefits expense	6	(299,952)	(283,631)
Depreciation and amortisation expense	5	(17,866)	(20,546)
Other expenses	5	(267,758)	(259,875)
Operating profit		93,816	112,217
Finance revenue	5	3,805	4,014
Finance costs	5	(7,767)	(7,020)
Other finance expense – pensions	15	(2,068)	(2,693)
		(6,030)	(5,699)
Profit before tax		87,786	106,518
Income tax expense	7	(26,247)	(37,905)
Profit after tax		61,539	68,613
Share of loss of associates	12	(710)	(213)
Profit for the year		60,829	68,400
Profit for the year attributable to			
Owners of the parent		52,529	49,062
Non-controlling interest		8,300	19,338
Other comprehensive income			
Net loss on hedge of net investment		(4,915)	(3,490)
Exchange differences on translation of foreign enterprises		(7,991)	(10,739)
Gain on cash flow hedges taken to equity	25	2,332	1 723
Actuarial losses on defined benefit plan	15	(14,875)	(15 981)
Transfer to the income statement of cash flow hedges previously taken to equity	25	(1,723)	4,764
Income tax relating to the components of other comprehensive Income	7	3,387	1,989
Other comprehensive expense for the year, net of tax		(23,785)	(21,734)
Total comprehensive income for the year, net of tax		37,044	46,666
Total comprehensive income for the year attributable to:			
Owners of the parent		32,834	29,121
Non-controlling interest		4,210	17,545

CONSOLIDATED BALANCE SHEET
as at 31 December 2012

ASSETS	Note	2012 £'000	2011 £'000
Non-current assets			
Property, plant and equipment	10	47,329	50,843
Intangible assets	11	105,130	90,904
Investment in associates	12	2,905	2,981
Pension asset	15	-	35
Income tax receivable		913	770
Deferred tax assets	7	37,208	34,116
Other non-current assets	17	42	43
		193,527	179,692
Current assets			
Inventories	16	140,033	152,194
Trade and other receivables	17	545,470	560,707
Cash and cash equivalents	18	57,678	57,709
		743,181	770,610
TOTAL ASSETS		936,708	950,302
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	19	772	772
Share premium		76,788	76,788
Capital redemption reserve		51	51
Other reserves		43,594	52,505
Retained earnings		114,924	120,599
		236,129	250,715
Non-controlling interests		68,702	73,734
TOTAL EQUITY		304,831	324,449
Non-current liabilities			
Financial liabilities	20	77,795	82,313
Defined benefit pension plan deficit	15	74,897	68,691
Deferred income tax liabilities	7	5,220	6,305
Other non-current liabilities	21	20,387	15,579
		178,299	172,888
Current liabilities			
Trade and other payables	21	414,116	426,469
Financial liabilities	20	13,891	12,879
Income tax payable		25,571	13,617
		453,578	452,965
TOTAL LIABILITIES		631,877	625,853
TOTAL EQUITY AND LIABILITIES		936,708	950,302

These financial statements were approved by the Board of Directors on 3 June 2013

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 2012

Attributable to equity holders of the parent

	Issued capital (Note 19) £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Capital contribution (Note 19) £'000	Associates (Note 19) £'000	Foreign currency translation reserves (Note 19) £'000	Net unrealised gains reserve (Note 19) £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
As at 1 January 2011	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
Profit/ (loss) for the period	-	-	-	53,239	-	(710)	-	-	52,529	8,300	60,829
Other comprehensive income/ (expense)	-	-	-	(11,494)	-	-	(8,695)	494	(19,695)	(4,090)	(23,785)
Total comprehensive Income/ (expense)	-	-	-	41,745	-	(710)	(8,695)	494	32,834	4,210	37,044
Dividends	-	-	-	(47,000)	-	-	-	-	(47,000)	(9,731)	(56,731)
Change in non-controlling interest percentage	-	-	-	(420)	-	-	-	-	(420)	481	61
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	8	8
At 31 December 2012	772	76,788	51	114,924	35,360	(450)	6,923	1,761	236,129	68,702	304,831

CONSOLIDATED CASH FLOW
for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Operating profit		93,817	112,217
Decrease in inventories		6,530	4,892
(Increase)/ decrease in accounts receivable		(1,133)	1
Increase in accounts payable less than one year		4,557	23,218
Increase/ (decrease) in accounts payable over one year		4,826	(1,368)
Movement in pensions		(8,325)	(8,257)
(Gain)/ loss on sale of fixed assets		(57)	2,265
Depreciation and amortisation charges		17,866	20,546
Income tax paid		(21,848)	(34,118)
Net cash flow from operating activities		96,233	119,396
Cash flows used in investing activities			
Interest received		3,805	4,013
Proceeds from disposal of property, plant and equipment		495	1,312
Proceeds from disposal of intangible assets		-	1,666
Purchase of property, plant and equipment		(7,982)	(13,287)
Purchase of intangible assets		(7,277)	(12 544)
Acquisition of trade, assets and subsidiaries		(19,139)	(8 680)
Disposal of trade, assets and subsidiaries		-	4,321
Net cash flows used in investing activities		(30,098)	(23 199)
Cash flows used in financing activities			
Interest paid		(9,664)	(9,486)
Interest element of finance leases		(172)	(226)
Payment of finance lease liabilities		(625)	(653)
Proceeds from borrowings		-	18,705
Dividends paid to equity holders of the parent		(47,000)	(53,415)
Payments to non-controlling interests		(9,731)	(17,578)
Net cash flows used in financing activities		(67,192)	(62,653)
Net (decrease)/ increase in cash and cash equivalents		(1,057)	33,544
Net foreign exchange difference		468	(1,265)
Cash and cash equivalents at 1 January	18	45,639	13,360
Cash and cash equivalents at 31 December	18	45,050	45,639

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 2012 were authorised for issue in accordance with a resolution of the directors on 3 June 2013 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 issued by the International Standards Accounting Board and as adopted by the European Union

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 issued by the International Standards Accounting Board and as adopted by the European Union

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Investment in associates

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

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

The Company's investments in subsidiaries

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

Foreign currency translation

Group

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

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

Company

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date All differences are taken to the income statement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

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

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

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 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

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

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the consideration 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

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 Pre production costs are capitalised within work in progress and amortised over periods ranging from 12 to 48 months from date of publication

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 (continued)

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

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

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

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

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

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

Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

Sale of goods and services
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably Revenue from sale of print, online periodical subscriptions and other online services is recognised on a pro rata basis over the period of the contract Revenues from the sale of digital products through digital distribution channels are recognised when the products are downloaded

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Income tax

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

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

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss,

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

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

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

Borrowing costs
Borrowing costs are recognised as an expense when incurred in accordance with IAS 23, with the exception of borrowing costs directly attributable to the acquisition construction or production of an asset, these costs are capitalised as part of the asset

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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 2012 unless otherwise stated Where relevant the impact is described below

IFRS 7 Financial Instruments Disclosures – Enhances Derecognition Disclosure Requirements

IAS 12 Income Taxes (Amendment) – Deferred Taxes Recovery of Underlying Assets

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 2012	
IAS 1	Presentation of items of Other Comprehensive Income – Amendments to IAS 1
Effective from 1 January 2013	
IFRS 10	Consolidated 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
IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
IFRS 1	Government Loans – Amendments to IFRS 1
IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements May 2012	IAS 1 Presentation of financial statements
	IAS 16 Property Plant and Equipment
	IAS 32 Financial Instruments – Presentation
	IAS 34 Interim Financial Reports
Effective from 1 January 2015	
IFRS 9	Financial Instruments – Classification and measurement

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group s financial statements in the period of initial application, with the exception of IAS 19, Employee benefits (revised) If this standard had been adopted for the year ending 31 December 2012, the Directors estimate the impact to be an increase in the income statement cost of around £0 7m This is due to changing the approach to calculating the expected return on assets to one which uses the discount rate, which does not allow for the additional returns on growth seeking assets

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. Significant accounting judgements, assumptions and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group Such changes are reflected in the assumptions when they occur

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset The value in use calculation is based on a discounted cash flow model The cash flows are derived from the budget for the next three years, extrapolated for a further two years, and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis are disclosed and further explained in Note 14

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded The Group establishes provisions, based on reasonable estimates for possible consequences of audits by the tax authorities of the respective counties in which it operates The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies

Pension benefits

The cost of the defined benefit pension plan and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations An actuarial valuation involves making various assumptions that may differ from actual developments in the future These include the determination of the discount rate, future salary increases, mortality rates and future pension increases Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions All assumptions are reviewed at each reporting date

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in their respective currencies with at least an AA rating or above, and extrapolated maturity corresponding to the expected duration of the defined benefit obligation The underlying bonds are further reviewed for quality Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds

The mortality rate is based on publicly available mortality table Future salary increases and pension increases are based on expected future inflation rate Further details about the assumptions used are given in Note 15

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. 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

Analysis of revenue:

	2012	2011
	£'000	£'000
Sales of goods	921,686	934,182
Rendering of services	122,010	112,101
Sales to external customers	1,043,696	1,046,283
Finance revenue	3,805	4,014
Total revenue	1,047,501	1,050,297

No revenue was derived from exchanges of goods or services (2011 £Nil)

	By business division	
Primary.	**2012**	**2011**
Continuing operations	**£'000**	**£'000**
Nature Publishing Group	195,388	185,452
International Education	192,880	192,629
Domestic Curriculum	73,864	66,454
Palgrave Scholarly	28,434	29,172
Trade – UK and ROW	112,286	117,681
Publishing Services	16,709	29,180
Macmillan Digital Science	765	156
Macmillan Digital Education	31	-
US Trade	261,481	261,671
US College	161.858	163,887
	1,043,696	1,046,283

		By destination	
Secondary	**Note**	**2012**	**2011**
		£'000	**£'000**
Continuing operations			
Europe including UK		227,442	225,175
North America		521,403	531 578
Africa		56,665	47,773
Asia Pacific		136,352	131,236
Rest of the World		101,834	110 521
Sales to external customers		1 043,696	1,046,283
Sales to related parties	23	2,126	3,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Revenues and expenses

Other income

	Note	2012 £'000	2011 £'000
Gain on disposal of property, plant and equipment		57	249
Gains from currency translation		5,111	-
Rental income		430	823
Income from related parties	23	2,651	1,261
Other		2,005	2,190
		10,254	4,523

Depreciation and amortisation expense

	Note	2012 £'000	2011 £'000
Depreciation of tangible fixed assets	10	(9,936)	(9,844)
Amortisation of intangible assets	11	(7,799)	(10,702)
Impairment of intangible assets	11	(131)	-
		(17,866)	(20,546)

Other expenses

	Note	2012 £'000	2011 £'000
Advertising and distribution expenses		(93,285)	(96,343)
Administration expenses		(139,086)	(110,348)
Rent and lease expenses		(23,495)	(23,949)
Expenses with related parties	23	(929)	(1,557)
Loss from currency translation		-	(3 858)
Other		(10,963)	(23,820)
		(267,758)	(259,875)

Finance revenue

	Note	2012 £'000	2011 £'000
Bank interest receivable		883	1,610
Interest receivable from related parties	23	2,119	2,042
Other interest income		803	362
Total finance revenue		3.805	4,014

Finance costs

	Note	2012 £'000	2011 £'000
Bank loans and overdrafts		(2,013)	(3,200)
Finance charges payable under finance leases and hire purchase contracts		(172)	(226)
Interest payable to related parties	23	(838)	(556)
Other interest expense		(4,744)	(3,038)
Total finance costs		(7 767)	(7,020)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Revenues and expenses (continued)

Group operating profit is stated after charging

	Note	2012 £'000	2011 £'000
Changes in inventory reserve		(26,359)	(24,511)
Operating lease payments – minimum lease payments		(23,152)	(22,525)
Pension net benefit (expense)	15	(2,838)	(3,587)
Loss on sale of investment		-	(2,514)

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

	2012 £'000	2011 £'000
Audit of the Group financial statements	(86)	(85)
Other fees to auditors		
Local statutory audit for subsidiaries	(1,534)	(1,453)
Taxation services	(76)	(46)
Audit of the Group pension schemes	(2)	(2)
Other services	(57)	(63)

6. Staff costs and Directors' emoluments

(a) Directors' emoluments	2012 £'000	2011 £'000
Directors emoluments	(3,425)	(4,226)

	2012 No.	2011 No.
Number of directors accruing benefits under		
Defined benefit pension schemes	2	2
Defined contribution pension schemes	4	4

	2012 £'000	2011 £'000
Company contributions paid to defined contribution pension schemes	(35)	(50)

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

	2012 £'000	2011 £'000
Emoluments	(1,360)	(1 983)
Accrued pension at the year end under defined benefit scheme	(54)	-
Company contributions paid to defined contribution pension schemes	(17)	(5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Staff costs and Directors' emoluments (continued)

(b) Employee benefits expense, including directors

	2012 £'000	2011 £'000
Wages and salaries	(246,662)	(234,639)
Social security costs	(41,754)	(39,097)
Pension costs	(8,403)	(7,799)
Severance payments	(3,133)	(2,096)
	(299,952)	(283,631)

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

	2012 £'000	2011 £'000
For directors	35	50
For other staff	8,909	8,486
	8,944	8 536

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

	2012 No.	2011 No.
Europe including UK	2,114	1,980
North America	2,121	1,921
Africa	302	347
Asia Pacific	475	484
India	594	2,484
Rest of the World	1,006	834
	6,612	8,050

7. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement:

	2012 £'000	2011 £'000
Current income tax		
Current income tax charge	(29,133)	(31,729)
Adjustments in respect of current income tax of previous years	480	(478)
Total current income tax	(28,653)	(32,207)
Deferred tax		
Relating to origination and reversal of temporary differences	2,454	(5,623)
Relating to change in tax rates	(48)	(75)
Total deferred income tax	2 406	(5,698)
Tax charged in the income statement	(26,247)	(37,905)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Taxation (continued)

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

	2012 £'000	2011 £'000
Tax relating to items charged or credited to equity:		
Tax on (gain) on cash flow hedges	(571)	(456)
Tax on reversal of 2011 (2010) gain/ (loss) on cash flow hedges	456	(1,334)
Tax on net loss on hedge of net investment	1,204	977
Tax on actuarial losses	2,298	2 802
	3,387	1,989

(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 2012 and 2011 is as follows

	2012 £'000	2011 £'000
Profit from continuing operations before taxation	87,786	106,518
At UK standard income tax rate of 24 5% (2011 26 5%)	21,508	28,227
Income not subject to corporation tax	(121)	(4,967)
Foreign subsidiaries subject to lower tax rate	(772)	(931)
Foreign subsidiaries subject to higher tax rate	4,330	6,865
Expenses not deductible for tax purposes	1,090	9 771
Prior year adjustments	(1,386)	202
Changes in tax losses carry forward	2,200	1 779
Changes in temporary differences	2,831	1,489
Tax loss carry forward used not previously recognised	(572)	(17)
Other	(2,861)	(4,513)
At effective income tax rate of 30% (2011 36%)	26,247	37,905

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 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 24% had been enacted and as such the deferred tax asset has been calculated at 24% The rate decrease to 23% enacted on 1 April 2013 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 £2 210 000 (2011 £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

7. Taxation (continued)

(d) Deferred income tax

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

	2012 £'000	2011 £'000
Deferred tax asset		
Depreciation in excess of capital allowances	(654)	(198)
Inventory valuation	8,374	8,281
Sales returns and allowances	6,318	7,534
Defined benefit pension schemes	17,383	17,092
Other timing differences	5,787	1,407
Deferred tax asset	37,208	34,116
Deferred tax liability		
Accelerated capital allowances	1,120	1,283
Inventory valuation	(98)	-
Sales returns and allowances	(226)	(593)
Other timing differences	4,424	5,615
Deferred tax liability	5,220	6,305

Temporary timing differences in relation to non-deductible stock and credit note provisions amounting to £3,196,000 (2011 £2,045,000) have not been recognised in deferred tax, due to doubts over their future recoverability

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same tax authority

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

	2012 £'000	2011 £'000
Deferred tax in the income statement		
Depreciation in excess of capital allowances	(417)	(1,794)
Inventory valuation	729	1,362
Sales returns and allowances	(1,328)	(1,717)
Other timing differences	3,422	(3,549)
Deferred income tax credit/ (expense)	2,406	(5,698)

8. Profit attributable to members of the Parent Company

The profit dealt with in the financial statements of the Parent Company is £70,728,000 (2011 £204,736,000)

9. Dividends paid

	2012 £'000	2011 £'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2012 £60 85 per share (2011 £69 16 per share)	47,000	53,415

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Property, plant and equipment

31 December 2012	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2012	62,619	80,093	142,712
Exchange adjustment	(1,503)	(1,976)	(3,479)
Additions	1,640	6,333	7,973
Disposals	(87)	(6,845)	(6,932)
At 31 December 2012	62,669	77,605	140,274
Accumulated depreciation			
At 1 January 2012	29,893	61,976	91,869
Exchange adjustment	(857)	(1,510)	(2,367)
Charge for year	3,497	6,439	9,936
Disposals	(87)	(6,406)	(6,493)
At 31 December 2012	32,446	60,499	92,945
Net book value			
At 31 December 2012	30,223	17,106	47,329
At 31 December 2011	32,726	18,117	50,843

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2012 is £1,726 000 (2011 £2,522,000) Additions during the year include £210,000 (2011 £564,000) 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

The amount of borrowing costs capitalised during the year was £Nil (2011 £Nil)

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

11. Intangible assets

31 December 2012	Development costs £'000	Trade names £'000	Publishing rights £'000	Other rights £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2012	20,453	18,246	78 377	2,503	46,262	165,841
Exchange adjustment	(711)	(1,092)	(1,212)	(20)	(1,493)	(4,528)
Additions	9,135	-	1,251	-	-	10,386
Acquisitions	524	531	10,026	109	4,149	15,339
Disposals	(1,022)	-	-	-	-	(1,022)
At 31 December 2012	28,379	17,685	88,442	2,592	48,918	186,016
Accumulated amortisation						
At 1 January 2012	12,100	9,875	47,578	2,358	3,026	74,937
Exchange adjustment	(315)	(351)	(285)	(8)	-	(959)
Charge for the year	2,217	979	4,570	33	-	7,799
Impairment losses	-	131	-	-	-	131
Disposals	(1,022)	-	-	-	-	(1,022)
At 31 December 2012	12,980	10,634	51,863	2,383	3,026	80,886
Net book value						
At 31 December 2012	15,399	7,051	36,579	209	45,892	105,130
At 31 December 2011	8,353	8,371	30,799	145	43,236	90,904

With effect from 1 January 2004, goodwill is no longer amortised and is annually tested for impairment (see Note 14)

12. Investment in associates

During the year the following 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 2012	2011
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[1]	Canada	Preference	-	35 90%
Research Applications and Financial Tracking Inc	USA	Preference	47 66%	47 66%
Relay Technology Management Inc	USA	Ordinary	42 80%	37 50%
Beijing Macmillan Century Consulting & Service Co Limited	China	Ordinary	50 00%	-

[1]During the year further shares were acquired in 1DegreeBio and the company is now considered to be a subsidiary of the Group (note 13)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. 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 publishing and distribution of educational books

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 principal activity of Beijing Macmillan Century Consulting & Service Co Limited is publishing and distribution of books and periodicals

The following tables illustrate summarised information of the investment in associates

	2012	2011
	£'000	£'000
Stockton Press Educational Publishers B.V.:		
Share of associate's balance sheet		
Current assets	123	107
Non-current assets	80	112
Current liabilities	(62)	(90)
Net assets	141	129
Share of associate s revenue	66	66
Share of associate's profit	11	5
Carrying amount of investment	141	129
College Press Publishers (Pvt) Limited:		
Share of associate's balance sheet		
Current assets	436	484
Non-current assets	45	12
Current liabilities	(348)	(293)
Net assets	133	203
Share of associate's revenue	1,112	-
Share of associate's loss	(62)	-
Carrying amount of investment	133	203

The share of associate's balance sheet represents figures taken from the financial statements to 31 December 2011, being the most recent available

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Investment in associates (continued)

	2012 £'000	2011 £'000
1Degree Bio Inc.:		
Share of associate's 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 associate's revenue	-	-
Share of associate s loss	(150)	(66)
Carrying amount of investment	-	246

During 2012 further investments of CAD 953,775 (£596,000) were made, increasing the Group s shareholding from 35 9% to 56 95% This investment is now considered to be a subsidiary of the Group

	2012 £'000	2011 £'000
Research Applications and Financial Tracking Inc :		
Share of associate's balance sheet		
Current assets	490	676
Non-current assets	4	3
Current liabilities	(108)	(19)
Net assets	386	660
Intangible arising on acquisition	900	869
	1,286	1,529
Share of associate's revenue	22	3
Share of associate's loss	(251)	(61)
Carrying amount of investment	1,286	1,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Investment in associates (continued)

	2012	2011
Relay Technology Management Inc.	**£'000**	**£'000**
Share of associate's balance sheet		
Current assets	96	171
Non-current assets	218	47
Current liabilities	(28)	(32)
Net assets	286	186
Intangible arising on acquisition	814	688
	1,100	874
Share of associate's revenue	146	38
Share of associate's loss	(204)	(91)
Carrying value of investment	1,100	874

On 30 December 2012 loan notes of $747,000 (£471,000) were converted to equity, increasing the Group shareholding from 37 5% to 42 8%

	2012	2011
	£'000	**£'000**
Beijing Macmillan Century Consulting & Service Co Limited		
Share of associate's balance sheet		
Current assets	243	-
Non-current assets	1	-
Current liabilities	(298)	-
Net assets	(54)	-
Intangible arising on acquisition	299	-
	245	-
Share of associate's revenue	225	-
Share of associate's loss	(54)	-
Carrying value of investment	245	-

The investment was made on 4 May 2012 for a consideration of £299,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Business combinations

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

Acquisitions in 2012.
On 18 May 2012, the Group purchased certain assets and liabilities from Educational Benchmarking, Inc through its newly formed 66% owned subsidiary, EBI Map-Works LLC The purchase price of $24,048,000 (£14,875,000) was financed by borrowings under the existing credit lines This acquisition was made to complement the Groups existing investments in the provision of educational support services to the Academic community

The preliminary 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
Net assets acquired		
Trade receivables	1,779	1,779
Property, plant and equipment	109	109
Other assets	2	2
Intangible assets	-	10,869
Accounts payable	(34)	(34)
Deferred revenue	(1,879)	(1,879)
Royalties payable	(166)	(166)
	189	10,680
Goodwill		4,195
		14,875
Consideration payable		
Cash		14,875
		14,875

The Group has elected to measure the non-controlling interests in EBI Map-Works LLC at the proportionate share of the acquiree's identifiable net assets

The goodwill of £4,195,000 arising from the acquisition represents the synergistic benefits from acquiring this business

The intangible assets acquired represent assets allocated across a number of asset categories and have been allocated useful lives of between 3 and 15 years

The results of EBI Map-Works LLC are included in the consolidated financial statements since the date of acquisition From the date of acquisition, EBI Map-Works LLC has contributed £2,181,000 of revenue and a loss of £321,000 before income taxes of the Company If the combination had taken place at the beginning of the year, revenue would have been £1,045,401,000 and the profit before tax for the Group would have been £88,308,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Business combinations (continued)

During 2012 the Group purchased an additional 21 05% share in 1DegreeBio Inc through its subsidiary company Macmillan Digital Science Limited In May 2012 714,625 Class A Preference shares were purchased for a consideration of CAD 428,775 (£269,000) In October 2012 500,000 Class B Preference shares were purchased for a consideration of CAD 525,000 (£327,000) The overall equity shareholding of the Group after these transactions is 56 95% (51% diluted) The investment was financed by borrowings under existing credit lines

The preliminary 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
Net assets acquired		
Property plant and equipment	9	9
Cash	26	353
Other assets	117	117
Intangible assets	-	1,235
Liabilities	(127)	(219)
Deferred tax liability	-	(191)
	25	1,304
Non-controlling interest		(600)
Goodwill		322
		1,026
Consideration payable		
Cash		327
Removal of investment in associate		364
Gain arising on stepped acquisition		335
		1,026

The Group has elected to measure the non-controlling interests in 1DegreeBio Inc at the proportionate share of the acquiree's identifiable net assets

The intangible assets acquired represent intellectual property and have been allocated a useful life of 5 years

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

From the date of acquisition to 31 December 2012, 1DegreeBio Inc contributed a £325,000 loss to the net profit of the Group If the combination had taken place at the beginning of 2012, the profit before tax for the Group would have been £87,518 000 and revenue from continuing operations would have been unchanged

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Business combinations (continued)

Acquisitions in 2011·

On 1 December 2011 the Group purchased a 66 31% share in Symplectic Limited through its subsidiary company, Macmillan Digital Science Limited The purchase price was £3,439,000 and was financed by borrowings under existing credit lines The transaction included a purchase of 200 Ordinary Shares from existing shareholders for £640,000 and an injection of new capital with a further 200 Ordinary shares and 781 preference shares purchased for an additional £2,799,000

The preliminary 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
Net assets acquired		
Cash	2,799	2,799
Other net assets	(104)	(104)
Intangible assets	-	2,491
Deferred tax liability	-	(672)
	2,695	4,514
Minority interest		(1,747)
Goodwill		672
		3,439
Consideration payable		
Cash		3,439
		3,439

No changes were made to the provisional fair values recorded as at 31 December 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. 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 2011 results

14. 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 During the year the Group has reassessed the definitions of these cash generating units and the comparative values of goodwill assigned to these has been revised accordingly The main cash generating units for the Group are as follows

Nature Publishing Group
International Education
Domestic Curriculum
Palgrave Scholarly
Trade – UK and ROW
Publishing Services
Macmillan Digital Science
Macmillan Digital Education
US Trade
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

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

Carrying value of goodwill with indefinite life

	2012 £000	2011 £000
Nature Publishing Group	-	-
International Education	7,408	7,970
Domestic Curriculum	12,092	12,329
Palgrave Scholarly	-	-
Trade – UK and ROW	-	-
Publishing Services	-	-
Macmillan Digital Science	1,462	1,616
Macmillan Digital Education	-	-
US Trade	8,926	9,067
US College	16,004	12,254
Total	45,892	43,236

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 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 The discount rates used are shown below

	Discount rate	
	2012	2011
Nature Publishing Group	7 4%	7 3%
International Education	7 5%	7 5%
Domestic Curriculum	7 5%	7 5%
Palgrave Scholarly	7 5%	7 5%
Trade – UK and ROW	8 0%	7 9%
Publishing Services	7 5%	7 5%
Macmillan Digital Science	7 5%	7 1%
Macmillan Digital Education	7 5%	7 1%
US Trade	7 8%	7 6%
US College	7 3%	7 3%

Sensitivity to changes in assumptions

Management have considered whether a reasonably possible change in any of the above key assumptions could result in the carrying value of a business unit exceeding its recoverable amount Based on this consideration, management have not identified any reasonably possible change in the above key assumptions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Employee benefits expense:						
Current service cost	(351)	(321)	(413)	(504)	(764)	(825)
Effect of curtailment of benefits	-	-	(5)	(69)	(5)	(69)
Other finance costs·						
Interest cost on benefit obligation	(8,673)	(9,077)	(1,196)	(1,230)	(9,869)	(10,307)
Expected return on plan assets	6,624	6,378	1,176	1,236	7,800	7,614
Net benefit expense	(2,400)	(3,020)	(438)	(567)	(2,838)	(3,587)
Actual return / (loss) on plan assets	11,261	5,549	2,289	(449)	13,550	5,100
Benefit (liability):						
Present value of defined benefit obligation	(202,945)	(183,553)	(31,539)	(26,825)	(234,484)	(210,378)
Plan assets						
Equities	14,736	35,495	9,466	11,714	24,202	47,209
Debt	79,288	54,334	8,826	8,041	88,114	62,375
Properties	6,081	5,596	42	67	6,123	5,663
Cash	12,237	3,718	3,681	379	15,918	4,097
Target return funds	25,230	22,378	-	-	25,230	22,378
Fair value of plan assets	137,572	121,521	22,015	20,201	159,587	141,722
Benefit (liability)	(65,373)	(62 032)	(9,524)	(6,624)	(74,897)	(68,656)
Pension asset					-	35
Defined benefit pension deficit					(74,897)	(68,691)
Net pension liability					(74,897)	(68,656)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Employment benefits (continued)

Movement in the benefit (liability) during the years to 31 December 2012 and 2011 is as follows

	UK Plan		US and other non-UK Plans		Total	
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	(62,032)	(56,153)	(6 624)	(4,763)	(68,656)	(60,916)
Net benefit expense	(2 400)	(3,020)	(438)	(567)	(2,838)	(3,587)
Actuarial losses	(11,243)	(12,935)	(3,632)	(3,046)	(14,875)	(15,981)
Contributions	10,302	10,076	861	1,767	11,163	11,843
Foreign exchange movement	-	-	309	(15)	309	(15)
	(65,373)	(62,032)	(9,524)	(6,624)	(74,897)	(68,656)

History of experience gains and losses

	UK Plan		US and other non-UK Plans		Total	
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
Difference between expected return and actual return on pension scheme assets	4,637	(829)	1,112	(1,685)	5,749	(2,514)
Experience (loss)/ gain arising on scheme liabilities	2,819	(1,426)	(4,744)	(1,361)	(1,925)	(2,787)
Total actuarial gain/ (loss)	7,456	(2,255)	(3,632)	(3,046)	3,824	(5,301)

The overall expected rate of return on assets is determined based on the market expectations prevailing, applicable to the period over which the obligation is to be settled These are reflected in the principal assumptions below

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	
	2012	2011	2012	2011
	%	%	%	%
Discount rate	4 40	4 80	3 70 – 5 0	6 00
Expected rate of return on assets				
Equities	7 00	6 95	6 00	6 00
Corporate Bonds	4 40	4 80	6 00	6 00
Gilts	3 00	2 95	6 00	6 00
Property	5 50	5 45	-	-
Other	6 00	5 95	6 00	6 00
Future salary increases	3 45	3 45	-	-
Future pension increases				
For service 1 March 1997 to 5 April 2005	3 60	3 45		
For all other periods of service	3 00	3 00		
Inflation	2 95	2 95		

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	
	2012	2011
	Years	Years
Current pensioners at 65 – male	23 4	23 2
Current pensioners at 65 – female	24 6	24 2
Future pensioners at 65 – male	25 1	25 0
Future pensioners at 65 – female	26 5	26 1

15. Employment benefits (continued)

Amounts for the current and previous four periods are as follows

	UK Plan				
	2012	**2011**	**2010**	**2009**	**2008**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Defined benefit obligation	(202,945)	(183,553)	(167,622)	(158,036)	(121,610)
Plan assets	137,572	121,521	111,469	98,996	89,180
Deficit	(65,373)	(62,032)	(56,153)	(59,040)	(32,430)
Experience adjustments on plan liabilities	2,819	(1,426)	1,620	258	550

	US and other non-UK Plans				
	2012	**2011**	**2010**	**2009**	**2008**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Defined benefit obligation	(31,539)	(26,825)	(25,011)	(24,583)	(22,107)
Plan assets	22,015	20,201	20,248	15,959	13,097
Deficit	(9,524)	(6,624)	(4,763)	(8,624)	(9,010)
Experience adjustments on plan liabilities	(4,744)	(1,361)	(1,428)	(2,375)	431

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 this schedule it was intended that the deficit would be paid off by March 2019 The next scheme valuation is due in 2013 and a revised payment schedule will be agreed

16. Inventories

	2012	**2011**
	£'000	**£'000**
Raw materials	6,799	6,600
Work-in-progress	52,542	52,332
Finished goods	80,692	93,262
	140,033	152,194

During 2012 inventories of £127,903,000 (2011 £134,096,000) were recognised as an expense through the income statement

17. Trade and other receivables

	Note	**2012**	**2011**
Current		**£'000**	**£'000**
Trade receivables		312,767	306,766
Author advances		90,704	104,768
Prepayments		8,416	10,144
Receivables from associates		48	10
Other related parties	23	100,322	119,402
Other debtors		33,213	19,617
		545,470	560,707
Non-current			
Other debtors		42	43

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Trade and other receivables (continued)

As at 31 December 2012, trade receivables at nominal value of £20,509,000 (2011 £20,709,000) were impaired and fully provided for Movements in the provision for impairment of receivables were as follows

	2012 £'000	2011 £'000
At 1 January	(20,709)	(30,317)
Currency translation	502	1,119
Charge for the year	(3,331)	(5,436)
Utilised	1,793	9,831
Unused amounts reversed	1,236	4,094
At 31 December	(20,509)	(20,709)

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

		Not past due				Past due
	Total £'000	Current £'000	<60 Days £'000	60-180 Days £'000	180-360 Days £'000	>360 Days £'000
2012	312,767	253,208	36,473	7,225	10,624	5,240
2011	306,766	254,203	33,181	10,820	5,950	2,612

18. Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	49 688	44,949
Short-term deposits	7,990	12,760
	57,678	57,709

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 £57,678,000 (2011 £57,709,000)

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

	Note	2012 £'000	2011 £'000
Cash at bank and in hand		49,688	44,949
Short-term deposits		7,990	12,760
Bank overdrafts and loans	20	(12 628)	(12,070)
		45,050	45,639

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. 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 2012		
Ordinary shares of £1 each		
At 1 January and 31 December 2012	772,376	772
31 December 2011		
Ordinary shares of £1 each		
At 1 January and 31 December 2011	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 and 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

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

20. Financial liabilities

	Effective interest rate %	2012 £'000	2011 £'000
Current			
Obligations under finance leases and hire purchase contracts (note 22)	5 20 to 10 09	1 263	809
Bank overdrafts		12,268	12,070
Secured bank loan		360	-
		13,891	12,879
Non-current			
Obligations under finance leases and hire purchase contracts (note 22)	5 20 to 10 09	477	1,615
Private placement loan		77,318	80,698
		77,795	82,313

£360,000 (2011 £Nil) 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 which had been previously entered into in 2005 with Landesbank baden-Wurrtemberg The agreement provided that at any time the Group, along with Georg von Holtzbrinck GmbH & Co KG, could borrow amounts up to €480m at LIBOR plus a margin based upon certain financial ratios Since the balance sheet date, this agreement has been amended The total amount available under this facility has been reduced from €480m to €250m The agreement has an expiration date of 27 July 2016 and contains certain covenants, including provisions specifying compliance with certain quarterly and annual financial ratios at Georg von Holtzbrinck GmbH & Co KG group level

The Group had no outstanding borrowings against this credit facility at 31 December 2012 and 31 December 2011

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 tranches - $40m on 26 May 2020, $45m on 26 May 2021 and $40m on 26 May 2022

21. Trade and other payables

	Note	2012 £'000	2011 £'000
Current			
Trade payables		61,843	68,730
Royalties payable		72,130	79 781
Other payables and accruals		125,077	114,392
Deferred income		114,801	115,691
Other related parties	23	40,265	47 875
		414,116	426,469
Non-current			
Other payables		9,717	7,603
Deferred income		9,837	7,976
Payables with associates		833	-
		20.387	15,579

22. 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

	2012	2011
	£'000	£'000
Within one year	21,863	22,873
After one year but not more than five years	63,504	65,870
More than five years	12,609	21,197
	97,976	109,940

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

	2012	2011
	£'000	£'000
Within one year	430	823
After one year but not more than five years	589	1,385
	1,019	2,208

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

	2012		2011	
	Minimum Payments	Present Value of Payments	Minimum Payments	Present Value of Payments
	£'000	£'000	£'000	£'000
Within one year	1,294	1,264	937	809
After one year but not more than five years	481	476	1,678	1,614
More than five years	-	-	2	2
Total minimum lease payments	1,775	1,740	2,617	2,425
Less amounts representing finance charges	(35)	-	(192)	-
Present value of minimum lease payments	1,740	1,740	2,425	2,425

Capital commitments

At 31 December 2012, the Group has commitments of £Nil (2011 £69,000) contracted for but not provided in the financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Commitments and contingencies (continued)

Contingent liabilities

At the 31 December 2012, the Group had other guarantees of £10,426,000 (2011 £6,677,000) relating to various subsidiaries

During 2010, the Group was contacted by the Antitrust Division of the U S Department of Justice ("DOJ") requesting information in connection with an investigation as to whether its activities relating to the pricing of digitally downloaded books violated the Sherman Act Also during 2010 the Group was contacted by the Attorneys General of two US States requesting information in connection with an investigation as to whether those activities violated the antitrust laws of those states Similar assertions were made against the Group in various class action lawsuits filed in August through December 2011, which were consolidated into one case in January 2012

In April 2012, the DOJ investigated the Group, and several other third parties, alleging a conspiracy to fix the prices of digitally downloaded books in violation of the Sherman Act Also, in April 2012, a group of states and Puerto Rico sued the Group and several other third parties, alleging a similar conspiracy in violation of the Sherman Act and the antitrust laws of those states and Puerto Rico That complaint has since been amended to include a total of 33 states, Puerto Rico and the District of Columbia

In February 2013, the Group settled all three cases by signing a settlement agreement with the DOJ and reaching an agreement in principle with the states and the class

The Group has fully provided for the agreed settlement amount

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. 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 2012	2011
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%	100 00%
Symplectic Limited		England and Wales	Ordinary	66 31%	66 31%
Altmetric LLP		England and Wales	Ordinary	50 00%	-
Figshare LLP		England and Wales	Ordinary	50 00%	-
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%
EBI MAP-Works LLC		USA	Ordinary	66 00%	-
Nature America, Inc		USA	Ordinary	100 00%	100 00%
Macmillan Academic Publishing Inc		USA	Ordinary	100 00%	100 00%
SureChem Inc		USA	Ordinary	100 00%	100 00%
Rednova Learning Inc		USA	Ordinary	100 00%	-
Macmillan Digital Science Inc		USA	Ordinary	100 00%	-
Labtiva Inc		USA	Ordinary	56 62%	56 62%
1DegreeBio Inc		Canada	Ordinary	56 95%	35 90%
Macmillan Education Namibia Publishers (Pty) Limited		Namibia	Ordinary	100 00%	100 00%
Macmillan Boleswa Publishers (Pty) Limited		Swaziland	Ordinary	100 00%	100 00%
Pan Macmillan South Africa (Pty) Limited		South Africa	Ordinary	100 00%	100 00%
Macmillan South Africa (Pty) Limited		South Africa	Ordinary	75 00%	75 00%
Macmillan Educacao Mozambique Lda		Mozambique	Ordinary	80 00%	80 00%
Editora Nacional de Mocambique SA		Mozambique	Ordinary	90 00%	90 00%
Macmillan Malawi Limited		Malawi	Ordinary	85 70%	85 70%
Macmillan Publishers (Zambia) Limited		Zambia	Ordinary	100 00%	100 00%
Unimax Macmillan Limited		Ghana	Ordinary	65 00%	65 00%
Macmillan Rwanda Publishers Limited		Rwanda	Ordinary	100 00%	100 00%
Northern Nigerian Publishing Company Limited		Nigeria	Ordinary	65 00%	65 00%
Macmillan Publishers Australia Pty Limited		Australia	Ordinary	100 00%	100 00%
Pan Macmillan Australia Pty Limited		Australia	Ordinary	100 00%	100 00%
Macmillan Publishers New Zealand Limited		New Zealand	Ordinary	100 00%	100 00%
Macmillan Publishers India Limited		India	Ordinary	88 10%	88 10%
Frank Brothers and Company (Publishers) Limited		India	Ordinary	88 10%	88 10%
Macmillan Publishers (China) Limited		Hong Kong	Ordinary	100 00%	100 00%
Macmillan Information Consulting Services (Shanghai) Co Limited		China	Ordinary	100 00%	-

23. Related party disclosures (continued)

	Country of Incorporation/ registration	Class of share	Proportion of voting rights held by the Group 2012	2011
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%	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%	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	75 40%	58 55%

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

23. 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							
	2012	-	-	606	-	34,896	450
	2011	-	-	405	-	50,115	483
Immediate holding company:							
Holtzbrinck Publishers Holdings Limited							
	2012	2,184	-	1,421	(348)	37,108	9,260
	2011	77	(106)	1,485	(334)	35,132	8,911
Associate:							
Stockton Press Educational Publishers B V							
	2012	-	(70)	-	-	-	386
	2011	-	(70)	-	-	-	491
Fellow undertakings:							
Verlagsgruppe Georg von Holtzbrinck GmbH							
	2012	-	-	92	-	27,847	-
	2011	-	-	152	-	33,573	-
Holtzbrinck Publishers Holdings LP							
	2012	467	(703)	-	(490)	-	30,169
	2011	1,188	(1,227)	-	(222)	-	37,990
Verlagsgruppe Droemer GmbH & Co KG							
	2012	1,734	-	-	-	335	-
	2011	2,235	-	-	-	413	-
Spektrum der Wissenschaft Verlagsgesellschaft mbH							
	2012	324	(156)	-	-	93	-
	2011	293	(154)	-	-	145	-
Euroscript Delt Luxembourg S A							
	2012	-	-	-	-	-	-
	2011	689	-	-	-	-	-
HGV Hanseatische Gesellschaft Fuer Verlagsservice GmbH							
	2012	-	-	-	-	-	-
	2011	12	-	-	-	-	-
Prensa Clientifica S A							
	2012	68	-	-	-	43	-
	2011	23	-	-	-	24	-
Total:							
	2012	4,777	(929)	2,119	(838)	100,322	40,265
	2011	4,517	(1,557)	2,042	(556)	119,402	47,875

23. 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 2012, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2011 £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 through a 100% owned subsidiary, 100% of the ordinary shares in GvH Vermogensverwaltungsgesellschaft XXXIII mbH, the immediate holding company of Holtzbrinck Publishers Holdings Limited (2011 100%) Both of these entities are incorporated in Germany, the registered address of both entities is Gansheidestrasse 26, 70184 Stuttgart, Germany

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100% of the ordinary shares in HM Publishers Holdings Limited (2011 100%) Copies of the financial statements are available from Companies House, Crown Way, Cardiff

Associates

Stockton Press Educational Publishers B.V.

The Group has a 40% interest in Stockton Press Educational Publishers B V (2011 40 00%)

College Press Publishers (Pvt) Limited

The Group has a 48 91% interest in College Press Publishers (Pvt) Limited (2011 48 91%)

Research Applications and Financial Tracking Inc

The Group has a 47 66% interest in Research Applications and Financial Tracking Inc (2011 47 66%)

Relay Technology Management LLC

The Group has a 42 8% interest in Relay Technology Management LLC (2011 37 5%)

Beijing Macmillan Century Consulting & Service Co Limited

The Group has a 50% interest in Beijing Macmillan Century Consulting & Service Co Limited (2011 Nil)

24. 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

24. 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
2011	+5%	(2,651)	(13,626)
	-5%	2,929	15,048
2012	+5%	(1,175)	(11,837)
	-5%	1,302	13,082

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 main source of long term funding for the business is a private placement loan in the US and a multicurrency term facility with a consortium of banks arranged by the ultimate holding company The interest rate on the private placement loan is fixed and therefore the Group is not exposed to significant interest rate risk

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

24. 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 22

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 2012 and 2011 based on contractual undiscounted payments Interest on overdrafts is variable and has therefore been excluded from the balances

Year ended 31 December 2012	**Within 1 Year**	**1 to 5 Years**	**More than 5 Years**	**Total**
Non-derivative financial liabilities				
Finance leases and hire purchase	1,294	481	-	1,775
Overdraft	12,268	-	-	12,268
Secured bank loan	360	-	-	360
Private placement loan	4,360	17,441	92,143	113,943
Guarantees	10,426	-	-	10,426
Trade and other payables	299,315	9,717	-	309,032
Total	328,023	27,639	92,143	447,805

Year ended 31 December 2011				
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

25. 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	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Financial liabilities				
Fixed rate borrowings				
Prudential Insurance company of America				
5 562% Senior notes	77,318	80,698	76,774	78,726

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

25. Financial Instruments (continued)

Hedging activities

Cash flow hedges

Recognised through equity

At 31 December 2012, 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 2012 have been recognised through equity in the current year and will be recognised through the income statement in 2013

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2012 £'000	Gain/(loss) recognised through equity £'000
Sell currency/ buy Sterling					
South African Rand	36,000	Jan – Dec 2013	14 02	2,630	(17)
Japanese Yen	2,640,000	Jan – Nov 2013	122 86	18,964	2,501
Australian Dollars	11,733	Jan – Dec 2013	1 60	7,521	(95)
Buy currency/ sell Sterling					
Hong Kong Dollars	135,000	Jan – Sep 2013	12 31	10,774	(178)
Total					2,211

At 31 December 2012 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 2013 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 2012 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 2012 £'000	Gain/(loss) recognised through equity £'000
Sell currency/ buy Sterling					
Euro	60 000	Jan – Dec 2013	1 23	48,968	(431)
US Dollars	38,000	Mar – Dec 2013	1 58	23,505	552
Total					121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Financial Instruments (continued)

Recognised through income statement

During the year ended 31 December 2012 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 2011 £'000	Gain/ (loss) recognised through income statement £'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)
Euro	55,000	Jan – Dec 2012	1 12	45,833	2,952
US Dollars	15,000	Oct – Nov 2012	1 62	9,677	(483)
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)
					1,723

BALANCE SHEET
as at 31 December 2012

ASSETS	Note	2012 £'000	2011 £'000
Non-current assets			
Property	29	18,554	18,800
Investment in subsidiaries	30	37,710	37,710
		56,264	56,510
Current assets			
Trade and other receivables	31	203,644	184,862
Cash and cash equivalents	32	41	63
Income tax receivable		8,861	3,306
		212,546	188,231
TOTAL ASSETS		268,810	244,741
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	33	772	772
Share premium		76,788	76,788
Capital redemption reserve		48	48
Retained earnings		179,505	155,777
TOTAL EQUITY		257,113	233,385
Non-current liabilities			
Deferred income tax liabilities	27	994	979
Current liabilities			
Trade and other payables	34	10,703	10,377
TOTAL LIABILITIES		11,697	11,356
TOTAL EQUITY AND LIABILITIES		268,810	244,741

These financial statements were approved by the Board of Directors on 3 June 2013

Signed on behalf of the Board of Directors

Dr A C Thomas
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	Note	Issued Capital £'000	Share premium £'000	Capital Redemption Reserve £'000	Retained earnings £'000	Total attributable to equity holders of parent £'000
		Attributable to equity holders of the parent				
At 1 January 2011		772	76,788	48	4,456	82,064
Profit for the year		-	-	-	204,736	204,736
Equity dividends	28	-	-	-	(53,415)	(53,415)
At 31 December 2011		772	76,788	48	155,777	233,385
Profit for the year		-	-	-	70,728	70,728
Equity dividends	28	-	-	-	(47,000)	(47,000)
At 31 December 2012		772	76,788	48	179,505	257,113

CASH FLOW
for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Operating (loss)/ profit		(1 159)	2,778
(Increase) in accounts receivable		(19,037)	(128,537)
Increase in accounts payable less than one year		326	1,437
Depreciation charges		1,447	1,500
Income tax (paid)		(5,518)	(2,845)
Net cash flow (used in) operating activities		(23,941)	(125,667)
Cash flows from investing activities			
Interest received		2,140	6
Dividends received from subsidiaries		70,727	203,415
Proceeds from disposal of subsidiary undertaking		-	6,200
Purchase of property, plant and equipment		(1,201)	(1,687)
Net cash flows from investing activities		71,666	207,934
Cash flows used in financing activities			
Interest paid		(747)	(1,360)
Dividends paid to equity holders of the parent		(47,000)	(53,415)
Net cash flows used in financing activities		(47,747)	(54,775)
Net (decrease)/ increase in cash and cash equivalents		(22)	27,492
Net foreign exchange difference		-	69
Cash and cash equivalents at 1 January	32	63	(27,498)
Cash and cash equivalents at 31 December	32	41	63

26. 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

27. Deferred Tax

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

	2012 £'000	2011 £'000
Deferred tax liability		
Accelerated capital allowances	994	979

28. Dividends paid

	2012 £'000	2011 £'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2012 £60 85 per share (2011 £69 16 per share)	47,000	53,514

29. Property, plant and equipment

31 December 2012	Land and buildings £'000
Cost	
At 1 January 2012	29,882
Additions	1,201
At 31 December 2012	31,083
Accumulated depreciation	
At 1 January 2012	11,082
Charge for year	1,447
At 31 December 2012	12,529
Net book value	
At 31 December 2012	18,554
At 31 December 2011	18,800

NOTES TO THE FINANCIAL STATEMENTS

30. Investments in subsidiaries

	2012 £'000	2011 £'000
Subsidiary undertakings:		
Shares at cost at 1 January	37,710	39,205
Disposals	-	(1,495)
Shares at cost at 31 December	37,710	37,710

See note 23 for list of subsidiaries

31. Trade and other receivables

	Note	2012 £'000	2011 £'000
Current			
Other related parties	36	203,644	184,862

32. Cash and cash equivalents

	2012 £'000	2011 £'000
Current		
Cash at bank and in hand	41	63

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 £41,000 (2011 £63,000)

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

	2012 £'000	2011 £'000
Current		
Cash at bank and in hand	41	63
	41	63

NOTES TO THE FINANCIAL STATEMENTS

33. 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 2012		
Ordinary shares of £1 each		
At 1 January and 31 December 2012	772,376	772
31 December 2011		
Ordinary shares of £1 each		
At 1 January and 31 December 2011	772,376	772

34. Trade and other payables

		2012 £'000	2011 £'000
Current			
Other related parties	36	9,260	8,911
Other payables and accruals		1,443	1,466
		10,703	10,377

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

	2012	2011
	£'000	£'000
Within one year	2,029	1,952
After one year but not more than five years	6,693	6,674
More than five years	3,527	5,002
	12,249	13,628

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

	2012	2011
	£'000	£'000
Within one year	5,596	5,591
After one year but not more than five years	-	123
	5,596	5,714

Capital Commitments

At 31 December 2012, HM Publishers Holdings Limited has commitments of £nil (2011 £nil) contracted for but not provided in the financial statements

Guarantees

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

	2012	2011
	£'000	£'000
Bank facilities guaranteed	8,278	8,919

NOTES TO THE FINANCIAL STATEMENTS

36. Related party disclosures

The principal subsidiaries at 31 December are detailed in note 23

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			
	2012	-	9,260
	2011	-	8,911
Fellow undertakings:			
Macmillan Publishers Limited			
	2012	195,569	-
	2011	171,947	-
Macmillan Limited	2012	8,052	-
	2011	12,915	-
Macmillan Information Consulting Services (Shanghai) Co Ltd			
	2012	23	-
	2011	-	-
Total:			
	2012	203,644	9,260
	2011	184,862	8,911

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 2012, the Company has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2011 £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 (2011 100%) Both of these entities are incorporated in Germany, the registered address of both entities is Gansheidestrasse 26, 70184 Stuttgart, Germany

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100% of the ordinary shares in HM Publishers Holdings Limited (2011 100%) Copies of the financial statements are available from Companies House, Crown Way, Cardiff