

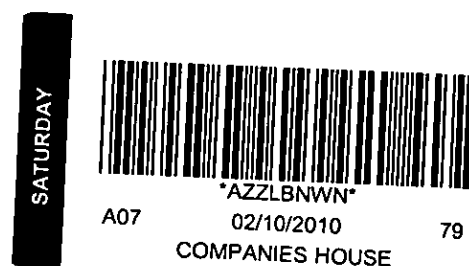
HM PUBLISHERS HOLDINGS LIMITED

Company Registration No. 46694

HM PUBLISHERS HOLDINGS LIMITED

Consolidated Report and Financial Statements

31 December 2009



CONSOLIDATED REPORT AND FINANCIAL STATEMENTS 2009

CONTENTS	Page
General Information	1
Directors' Report	2
Statement of Directors' Responsibilities in relation to the Financial Statements	7
Independent Auditors' Report to the members of HM Publishers Holdings Limited	8
Consolidated HM Publishers Holdings Limited Financial Statements	
Consolidated Statement of Comprehensive Income	10
Consolidated Balance Sheet	11
Consolidated Statement of Changes in Equity	12
Consolidated Cash Flow	13
Notes to the Consolidated Financial Statements	
1 Authorisation of financial statements and statement of compliance with IFRS	14
2 Summary of significant accounting policies	14
3 Other financial information	23
4 Revenues and expenses	24
5 Staff costs and Directors' emoluments	25
6 Taxation	26
7 Profit attributable to members of parent company	28
8 Dividends paid	28
9 Property, plant and equipment	29
10 Intangible assets	30
11 Investment in associates	30
12 Business combinations	32
13 Impairment testing of goodwill with indefinite life	33
14 Employment benefits	35
15 Inventories	37
16 Trade and other receivables	37
17 Cash and cash equivalents	38
18 Issued share capital and reserves	38
19 Financial liabilities	40
20 Trade and other payables	40
21 Commitments and contingencies	41
22 Related party disclosures	43
23 Financial risk management objectives and policies	46
24 Financial instruments	48

CONTENTS (continued)

HM Publishers Holdings Limited Company Financial Statements

Balance Sheet	51
Cash Flow	52
Statement of Changes in Equity	53
Notes to the Financial Statements	
25 Staff costs and Directors' emoluments	54
26 Deferred tax	54
27 Dividends paid	54
28 Property, plant and equipment	54
29 Investment in subsidiaries	55
30 Trade and other receivables	55
31 Cash and cash equivalents	55
32 Issued share capital	56
33 Financial liabilities	56
34 Trade and other payables	56
35 Commitments and contingencies	57
36 Related party disclosures	58

GENERAL INFORMATION

DIRECTORS

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

SECRETARY

C E Fleming

REGISTERED OFFICE

Brunel Road
Houndmills
Basingstoke
Hampshire RG21 6XS

BANKERS

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

SOLICITORS

Taylor Wessing
5 New Street Square
London
EC4A 3TW

AUDITORS

Ernst & Young LLP
Apex Plaza
Reading
RG1 1YE

DIRECTORS' REPORT

Company Registration No. 46694

The directors present their annual report, the Group and Company financial statements for the year ended 31 December 2009

Principal activities

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

Business review and future developments

The Group had a successful year despite difficult trading conditions in a number of key markets. The Group responded well to the economic downturn by implementing stringent cost control measures across the Group. The Group continues to benefit from the broad spread of its international business and the diversity of markets in which the Group operates. Group revenues increased by 14% to £952m (2008 £819m) with continuing growth occurring in the STM business generated by Nature and its sister publications and in the Group's International Education business. The Trade businesses recovered strongly from a difficult year in 2008, where results were depressed by substantial debt write-offs in the UK retail market. The US Trade and College divisions had a successful year. Group results benefited strongly from the relative weakness of sterling compared to the US dollar and Euro. Operating profit of £107.8m was substantially up on the figure of £70.1m achieved in 2008 and represents 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 has taken advantage of the opportunities presented by these developments in the STM market through its investment in online publishing within the Nature Publishing Group and through the development of electronic content delivery in the Academic and College markets. The Group continues to invest for the future in the development of online content delivery in the Trade and Education markets.

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

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

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

ACADEMIC

The Palgrave Macmillan business had a successful year despite continuing weakness in library markets particularly in the US. Revenue in sterling terms was 7.4% ahead of last year at £42.6m (2008 £39.6m). Sales into the College market were good, helped by strong student enrolments in the UK. Sales into overseas markets of the Bedford Freeman Worth list, where Palgrave Macmillan acts as distributor into non-US markets, also performed well. Sales of the group's Scholarly and Reference list performed well despite a relatively weak US library market. A strong publishing programme and an encouraging performance in the developing academic electronic books market boosted sales and margins. Stringent cost control measures were implemented across the division in response to the difficult economic circumstances.

STM

The Nature Publishing Group had another good year. Revenues increased by 15.1% to £146.4m (2008 £127.2m). Continuing growth in electronic subscriptions and site licence revenues from the Group's flagship Nature title and its associated sister journals resulted in healthy revenue growth and offset difficulties in the advertising markets and continuing long term structural decline in the print subscription market. The launch of new titles in the Nature stable of journals continued to drive growth and developments in related publishing areas, such as Macmillan Medical Communications targeted at the custom publishing medical markets continue to show promise. Tight cost control in a difficult economic climate ensured that the division continued to generate healthy margins and remains strongly cash positive.

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

The Group's Education business had a good year and continues to exploit its unrivalled geographical spread of businesses in overseas markets. Revenues increased by 4.3% to £224.8m (2008: £215.5m) and margins showed encouraging growth. The Group's businesses in Latin America, Europe, Middle East and India all had good results. Within Europe, the Spanish market performed particularly well. Results in East and West Africa were less encouraging, although the Southern Africa group had a good year and showed strong growth compared to 2008. The Education businesses in Australia and New Zealand had a difficult year in depressed market conditions. Gill & Macmillan also struggled in a very depressed market. The introduction of stringent cost control measures and tight control of margins meant that the Education group performed creditably despite difficult conditions in some markets.

FICTION AND NON-FICTION – UK AND ROW

Revenues increased by 7.7% to £105.6m (2008: £98m). The Group's Fiction and Non-Fiction publishing businesses continued to find trading conditions difficult in almost all markets. The UK retail market remains extremely competitive with pricing pressures continuing from ongoing concentration of the UK retail market into the hands of a decreasing number of major bookselling chains and supermarkets. Difficulties in the retail market in Australia also affected results. Despite this the Group's Trade businesses performed well in 2009 and recovered strongly from a very depressed 2008, where results were held back by high bad debt write-offs. Sales of the Picador imprint performed well, benefiting from strong film tie-in sales, and major non-fiction titles performed well in the key Christmas selling season. The Pan Australia locally published fiction list also performed well in difficult market conditions. Stringent cost control measures were successfully introduced across the businesses to counteract the difficult trading conditions.

FICTION AND NON-FICTION - US

The US Fiction and Non-Fiction publishing businesses had a good year, following a difficult year in 2008 due to the effects of the economic recession. Revenues increased in sterling terms by 33.2% to £259.2m (2008: £194.5m). The corresponding growth in US dollars was 7.2%. The US Group benefited from strong sales of the P.C. Cast *House of Night* series and in the Picador imprint Hilary Mantel's *Wolf Hall* together with continuing strong sales of established authors such as Janet Evanovich and Robert Jordan. The Group continues to pursue its strategy of organic growth through development of new authors. The Group is benefiting from the growth of e-publishing in consumer markets in the US.

US COLLEGE

The US College business had a successful year in difficult economic circumstances and continues to perform well in the competitive US College market. Revenues increased in sterling terms by 26.3% to £142.7m (2008: £113m). The corresponding growth rate in US dollars was 13.2%. The Group's Bedford division had a good year with continuing strong sales in the English Composition discipline. Freeman Worth benefited from strong sales of College text new editions particularly in the Psychology discipline. The division continues to invest in the development of electronic publishing material in a rapidly changing marketplace.

PUBLISHING SERVICES

The Group continues to invest in the provision of services to the publishing industry. The India electronic data processing operation of MPS Limited continues to develop its range of services in a challenging economic climate. The print buying operation of Macmillan Publishers Asia Limited had a successful year despite pricing pressures due to the strength of the Hong Kong dollar. Sales into key African markets were relatively weak in 2009 but despite this the business achieved good margins and continues to be cash generative. The distribution operations in the UK, Australia, the US and Ireland had a good year. The UK and Australian operations benefited from investment in new premises and technology in 2008.

DIRECTORS' REPORT

Business review and future developments (continued)

Liquidity and capital resources

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

The consolidated cash flow statement shows a net increase in cash and cash equivalents in the year ended 31 December 2009 of £26.0m (2008 increase of £18.9m). This figure is stated after payment of dividends to the Group's shareholders of £50.0m (2008 £23.0m).

At December 2009 the Group had net surplus funds on loan to fellow Group companies of £49.6m (2008 £67.0m). These funds are loaned to Group companies at market rates of interest and are included within amounts due from related parties in the consolidated balance sheet and are as disclosed in note 22 to the accounts.

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

Asset and capital structure

Equity and gearing

The Group's capital structure is as follows

	Note	2009 £'000	2008 £'000
Cash and cash equivalents	17	49,921	28,978
Interest-bearing loans and borrowings	19	(94,390)	(110,122)
Net debt		(44,469)	(81,144)
Total equity		(321,821)	(343,503)
Total capital employed		(366,290)	(424,647)
Gearing		13.8%	23.6%

Profile of debt

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

		2009 £'000	2008 £'000
Current			
Obligations under finance leases and hire purchase contracts	19	722	563
Bank overdrafts	19	32,488	41,255
Other loans	19	617	735
		33,827	42,553
Non-current			
Obligations under finance leases and hire purchase contracts	19	1,994	1,822
Other loans	19	58,569	65,747
		60,563	67,569
		94,390	110,122

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

DIRECTORS' REPORT

Business review and future developments (continued)

Income Tax

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

Dividends

An interim ordinary dividend of £50m has been paid for the year to 31 December 2009 (2008: £23m). The directors do not recommend the payment of a final dividend.

Contingent Liabilities

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

The internal investigation is ongoing and is being conducted with the agreement of both the World Bank and the Serious Fraud Office. Its findings will not be available until the investigation is complete which is not expected to be before autumn 2010.

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

Directors and their interests

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

W H Farries

C E Fleming – Alternate for Dr A C Thomas

Dr J Gutbrod (Germany)

Dr S von Holtzbrinck (Germany)

R Nathan (resigned 15 March 2010) – Alternate for Dr J M Wheeldon

Dr A Reich (Germany) – Alternate for Dr S von Holtzbrinck

J Sargent (USA)

I H Schwanewedel (Germany)

Dr A C Thomas

Dr J M Wheeldon

The Company has indemnified one or more directors of HM Publishers Holdings Limited against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year and is in force as at the date of approving the Directors' Report.

Supplier payment policy and practice

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

Financial instruments

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

Employees

The average monthly number of employees in the Group decreased from 9,017 in 2008 to 8,954 in 2009.

DIRECTORS' REPORT

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 £18,053 (2008: £19,403). No political contributions were made.

Corporate Social Responsibility

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

Auditors

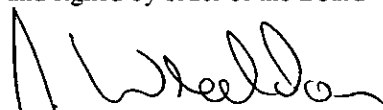
A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the forthcoming Annual General Meeting.

Directors' statement as to disclosure of information to auditors

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

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

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



Dr J M Wheeldon
Director

28 May 2010

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

We have audited the Group and Parent company financial statements of HM Publishers Holdings Limited for the year ended 31 December 2009, 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.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Director's Responsibilities Statement, set out on page 7, the Directors are responsible for the preparation of the Group and Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group and Company 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 (APB'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 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.

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 2009 and of the Groups' 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 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 and, as regards the Group's financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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



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

28 May 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Continuing operations			
Revenue	3	952 119	818,955
Other income	4	8 511	14 845
Cost of sales		(368,891)	(322,224)
Gross profit		591,739	511,576
Employee benefits expense	5	(240,471)	(201,744)
Depreciation and amortisation expense	4	(19,761)	(17 598)
Other expenses	4	(223,659)	(222,127)
Operating profit		107 848	70,107
Finance revenue	4	2,759	6 373
Finance costs	4	(6,649)	(7,995)
Other finance (expense) income – pensions	14	(1 856)	445
		(5,746)	(1,177)
Profit before tax		102,102	68,930
Income tax expense	6	(31 887)	(25,064)
Profit after tax		70,215	43 866
Share of profit of associates		19	36
Profit for the year		70 234	43,902
Other comprehensive income			
Net gain/ (loss) on hedge of net investment		1 137	(719)
Exchange differences on translation of foreign enterprises		(8,297)	41,878
Loss on cash flow hedges taken to equity	24	(3 032)	(19,445)
Actuarial losses on defined benefit plan		(29 997)	(10,689)
Transfer to the income statement of cash flow hedges previously taken to equity	24	19 445	1,896
Income tax relating to the components of other comprehensive income	6	3 375	7,905
Other comprehensive income for the year, net of tax		(17 369)	20,826
Total comprehensive income for the year, net of tax		52 865	64,728

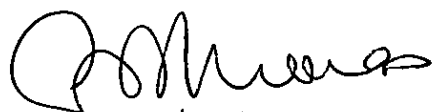
CONSOLIDATED BALANCE SHEET
as at 31 December 2009

ASSETS	Note	2009 £'000	2008 £'000
Non-current assets			
Property, plant and equipment	9	56,635	61,824
Intangible assets	10	96,599	106,233
Investment in associates	11	118	99
Pension asset	14	83	-
Income tax receivable		1,512	943
Deferred tax assets	6	34,573	26,352
Other non-current assets	16	40	199
		<u>189,560</u>	<u>195,650</u>
Current assets			
Inventories	15	150,197	160,909
Trade and other receivables	16	506,900	516,467
Cash and cash equivalents	17	49,921	28,978
		<u>707,018</u>	<u>706,354</u>
TOTAL ASSETS		<u>896,578</u>	<u>902,004</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	18	772	772
Share premium		76,788	76,788
Capital redemption reserve		51	51
Other reserves		44,906	32,694
Retained earnings		125,131	145,500
		<u>247,648</u>	<u>255,805</u>
Minority interests		74,173	87,698
TOTAL EQUITY		<u>321,821</u>	<u>343,503</u>
Non-current liabilities			
Financial liabilities	19	60,563	67,569
Defined benefit pension plan deficit	14	67,747	41,440
Deferred income tax liabilities	6	5,756	6,179
Other non-current liabilities	20	15,268	12,858
		<u>149,334</u>	<u>128,046</u>
Current liabilities			
Trade and other payables	20	376,095	379,055
Financial liabilities	19	33,827	42,553
Income tax payable		15,501	8,847
		<u>425,423</u>	<u>430,455</u>
TOTAL LIABILITIES		<u>574,757</u>	<u>558,501</u>
TOTAL EQUITY AND LIABILITIES		<u>896,578</u>	<u>902,004</u>

These financial statements were approved by the Board of Directors on

2010

Signed on behalf of the Board of Directors

Dr A C Thomas
Director

 28/5/10

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

Attributable to equity holders of the parent

	Issued capital (Note 18) £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Capital contribution (Note 18) £'000	Associates (Note 18) £'000	Foreign currency translation reserves (Note 18) £'000	Net unrealised gains reserve (Note 18) £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2009	772	76,788	51	145,500	35,360	244	12,417	(15,327)	87,698	343,503
Profit for the period	-	-	-	50,875	-	19	-	-	19,340	70,234
Other comprehensive income	-	-	-	(21,244)	-	-	(951)	13,144	(8,318)	(17,369)
Total comprehensive income	-	-	-	29,631	-	19	(951)	13,144	11,022	52,865
Dividends	-	-	-	(50,000)	-	-	-	-	(19,954)	(69,954)
Buy out of minorities	-	-	-	-	-	-	-	-	(4,593)	(4,593)
At 31 December 2009	772	76,788	51	125,131	35,360	263	11,466	(2,183)	74,173	321,821

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

	Issued capital (Note 18) £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Capital contribution (Note 18) £'000	Associates (Note 18) £'000	Foreign currency translation reserves (Note 18) £'000	Net unrealised gains reserve (Note 18) £'000	Non-controlling interest £'000	Total equity £'000
As at 1 January 2008	772	76,788	51	142,561	35,360	208	(9,403)	(1,327)	64,012	309,022
Profit for the period	-	-	-	32,983	-	36	-	-	10,883	43,902
Other comprehensive income	-	-	-	(7,079)	-	-	21,820	(14,000)	20,085	20,826
Total comprehensive income	-	-	-	25,904	-	36	21,820	(14,000)	30,968	64,728
Dividends	-	-	-	(23,000)	-	-	-	-	(7,223)	(30,223)
Change in minority interest percentage	-	-	-	35	-	-	-	-	(35)	-
Buy out of minorities	-	-	-	-	-	-	-	-	(24)	(24)
At 31 December 2008	772	76,788	51	145,500	35,360	244	12,417	(15,327)	87,698	343,503

CONSOLIDATED CASH FLOW
for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Operating profit		107,848	70,107
Decrease / (increase) in inventories		1,691	(14,458)
(Increase)/ decrease in accounts receivable		(22,485)	4,404
Increase/ (decrease) in accounts payable less than one year		25,298	(11,423)
Increase/ (decrease) increase in accounts payable over one year		3,206	(1,481)
Movement in pensions		(3,005)	553
Loss on sale of fixed assets		36	270
Depreciation and amortisation charges		19,761	17,598
Income tax paid		(32,442)	(30,034)
Net cash flow from operating activities		<u>99,908</u>	<u>35,536</u>
Cash flows used in investing activities			
Interest received		2,759	6,373
Proceeds from disposal of property, plant and equipment		693	1,100
Proceeds from disposal of intangible assets		4	10
Purchase of property, plant and equipment		(3,572)	(9,580)
Purchase of intangible assets		(5,474)	(2,255)
Acquisition of trade / assets and subsidiaries		(365)	(9,055)
Investment in associates		(19)	(36)
Income from associates		19	36
Movement in investment securities		144	279
Buy-out of non-controlling interest		(4,258)	-
Net cash flows used in investing activities		<u>(10,069)</u>	<u>(13,128)</u>
Cash flows used in financing activities			
Interest paid		(8,300)	(7,394)
Interest element of finance leases		(205)	(156)
Payment of finance lease liabilities		(2,385)	(1,278)
Proceeds from borrowings		17,016	23,780
Dividends paid to equity holders of the parent		(50,000)	(23,000)
Payments to non-controlling interests		(19,954)	(7,224)
Net cash flows used in financing activities		<u>(63,828)</u>	<u>(15,272)</u>
Net increase in cash and cash equivalents		26,011	7,136
Net foreign exchange difference		3,817	(3,717)
Cash and cash equivalents at 1 January	17	<u>(13,012)</u>	<u>(16,431)</u>
Cash and cash equivalents at 31 December	17	<u><u>16,816</u></u>	<u><u>(13,012)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Group and Company financial statements of HM Publishers Holdings Limited for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 18 May 2010. HM Publishers Holdings Limited is a limited company incorporated and domiciled in England.

The Group financial statements of HM Publishers Holdings Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and also IFRS as issued by the International Accounting Standards Board.

The Company's financial statements have been prepared in accordance with IFRS and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 2006 not to publish its individual income statement and related notes.

2. Summary of significant accounting policies

Statement of compliance

The Group's accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and also IFRS as issued by the International Standards Accounting Board.

Basis of preparation

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

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

Basis of consolidation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)**Investment in associates**

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

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

The Company's investments in subsidiaries

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

Foreign currency translation*Group*

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

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

Company

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

Property, plant and equipment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Goodwill

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Recoverable amounts of non-current assets

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

Investments

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

Inventories

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

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

Trade and other receivables

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

Author advances

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)**Cash and cash equivalents**

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

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

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

Interest-bearing loans and borrowings

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

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

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

Pensions and other post-employment benefits

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)**Leases***Group as a lessee*

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

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

Group as a lessor

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

Revenue

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

Sale of goods and services

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

Subsidiary rights

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

Property rental income

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

Interest

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

Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Borrowing costs

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

Derivative financial instruments and hedging

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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

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

New Standards Adopted in the Period

The Group has adopted the following new and amended IFRS and IFRIC standards and interpretations during the year:

IAS 1 Presentation of Financial Statements- Revised

IAS 23 Borrowing Costs- Revised

IAS 27 Consolidation and Separate Financial Statements – Revised

IAS 32 Financial Instruments- Presentation and Disclosure- Revised

IFRS 7 Improving Disclosures about Financial Statements

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

IAS 1 Revised Presentation of Financial Statements

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

IAS 27R Consolidated and Separate Financial Statements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Standard or interpretation	Title
Effective from 1 July 2009	
IAS 27	Consolidated and Separate Financial Statements (revised)
IAS 39	Amendment – Eligible Hedged Items
IFRS 3	Business Combinations (revised)
IFRIC 17	Distributions of Non-Cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers
Effective from 1 January 2010	
IFRS 2	Amendment to IFRS 2 – Group Cash-settled Share-based Payment Transactions
IFRS 1	Amendment to IFRS 1 – Additional Exemptions for First-time Adopters
Effective from 1 February 2010	
IAS 32	Amendment to IAS 32 – Classification of Rights Issues
Effective from 1 July 2010	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRS 1	Amendment to IFRS 1 – Limited exemption from additional IFRS 7 disclosures
Effective from 1 January 2011	
IFRIC 14	Amendment - Prepayments of a Minimum Funding Requirement
Effective from 1 January 2013	
IFRS 9	Financial Instruments – Classification and measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Other financial information

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

(a) Analysis of revenue

	2009	2008
	£'000	£'000
Sales of goods	860,224	740,601
Rendering of services	91,895	78,354
Sales to external customers	952,119	818,955
Finance revenue	2,759	6,373
Total revenue	954,878	825,328

No revenue was derived from exchanges of goods or services (2008 £nil)

	By business division	
	2009	2008
	£'000	£'000
Primary:		
Continuing operations		
Academic	42,552	39,631
Scientific, Technical & Medical	146,402	127,217
Education	224,771	215,483
Fiction and Non-Fiction – UK and Rest of the World	105,556	97,975
Publishing Services and Other	31,020	31,050
Fiction and Non-Fiction – US	259,167	194,540
US College	142,651	113,059
	952,119	818,955

		By destination	
		2009	2008
		£'000	£'000
Secondary:	Note		
Continuing operations			
Europe including UK		214,683	200,827
North America		483,299	379,030
Africa		54,264	60,862
Asia Pacific		122,834	109,587
Rest of the World		77,039	68,649
Sales to external customers		952,119	818,955
Sales to related parties	22	1,971	1,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses

Other income

	Note	2009 £'000	2008 £'000
Gain on disposal of property plant equipment and intangibles		-	55
Rental income		876	332
Income from related parties	22	5,461	53
Gain from currency translation		-	12,158
Other		2,174	2,247
		<u>8,511</u>	<u>14,845</u>

Depreciation and amortisation expense

		2009 £'000	2008 £'000
Depreciation of tangible fixed assets	9	(10,570)	(9,495)
Amortisation of intangible assets	10	(9,191)	(8,103)
		<u>(19,761)</u>	<u>(17,598)</u>

Other expenses

		2009 £'000	2008 £'000
Advertising and distribution expenses		(90,323)	(85,607)
Administration expenses		(93,050)	(88,005)
Rent and lease expenses		(22,267)	(19,090)
Expenses with related parties	22	(123)	(14,186)
Loss from currency translation		(4,922)	-
Other		(12,974)	(15,239)
		<u>(223,659)</u>	<u>(222,127)</u>

Finance revenue

		2009 £'000	2008 £'000
Bank interest receivable		847	960
Interest receivable from related parties	22	1,383	5,343
Other interest income		529	70
Total finance revenue		<u>2,759</u>	<u>6,373</u>

Finance costs

		2009 £'000	2008 £'000
Bank loans and overdrafts		(5,716)	(6,518)
Finance charges payable under finance leases and hire purchase contracts		(205)	(156)
Interest payable to related parties	22	(323)	(783)
Other interest expense		(405)	(538)
Total finance costs		<u>(6,649)</u>	<u>(7,995)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Revenues and expenses (continued)

Group operating profit is stated after charging:

	2009 £'000	2008 £'000
Changes in inventory reserve	(22 912)	(27 747)
Operating lease payments – minimum lease payments	(20,244)	(17,242)
Pension net benefit expense	(4 646)	(2,220)

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

Audit of the Group financial statements	(85)	(85)
Other fees to auditors		
Local statutory audit for subsidiaries	(1,228)	(1 099)
Taxation services	(41)	(31)
Audit of the Group pension schemes	(2)	(2)
Other services	(47)	(9)

5. Staff costs and Directors' emoluments

(a) Directors' emoluments	2009 £'000	2008 £'000
Directors' emoluments	(3,088)	(2 138)

	2009 No.	2008 No.
Number of directors accruing benefits under		
Defined benefit pension schemes	2	2
Defined contribution pension schemes	4	4

	2009 £'000	2008 £'000
Company contributions paid to defined contribution pension schemes	(74)	(28)

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

	2009 £'000	2008 £'000
Emoluments	(1 180)	(1 026)
Accrued pension at the year end under defined benefit scheme	(37)	-
Company contributions paid to defined contribution pension schemes	(45)	(5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Staff costs and Directors' emoluments (continued)

(b) Employee benefits expense, including directors

	2009	2008
	£'000	£'000
Wages and salaries	(199,222)	(167,771)
Social security costs	(30,097)	(25,519)
Pension costs	(8,094)	(6,500)
Severance payments	(3,058)	(1,954)
	<u>(240,471)</u>	<u>(201,744)</u>

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

	2009	2008
	£'000	£'000
For directors	74	28
For other staff	1,979	1,831
	<u>2,053</u>	<u>1,859</u>

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

	2009	2008
	No.	No.
Europe including UK	1,882	1,872
North America	1,810	1,886
Africa	401	479
Asia Pacific	503	467
India	3,443	3,379
Rest of the World	915	934
	<u>8,954</u>	<u>9,017</u>

6. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement

	2009	2008
	£'000	£'000
Current income tax		
Current income tax charge	(32,637)	(25,022)
Adjustments in respect of current income tax of previous years	<u>(1,229)</u>	<u>334</u>
Total current income tax	<u>(33,866)</u>	<u>(24,688)</u>
Deferred tax		
Relating to origination and reversal of temporary differences	<u>1,979</u>	<u>(376)</u>
Total deferred income tax	<u>1,979</u>	<u>(376)</u>
Tax charged in the income statement	<u>(31,887)</u>	<u>(25,064)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation (continued)

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

	2009 £'000	2008 £'000
Tax credited in the statement of equity:		
Tax on loss on cash flow hedges	849	5,542
Tax on reversal of 2008 (2007) loss on cash flow hedges	(5,542)	(569)
Tax on net (gain)/loss on hedge of net investment	(324)	205
Tax on actuarial losses	8,392	2,727
	<u>3,375</u>	<u>7,905</u>

(b) Reconciliation of the total tax charge

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2009 and 2008 is as follows

	2009 £'000	2008 £'000
Accounting profit before income tax	102,102	68,930
At UK statutory income tax rate of 28% (2008 28.5%)	28,589	19,645
Income not subject to corporation tax	(2,877)	(922)
Foreign subsidiaries subject to lower tax rate	(1,571)	(1,024)
Foreign subsidiaries subject to higher tax rate	5,078	3,016
Expenses not deductible for tax purposes	8,488	5,081
Prior year adjustments	(4,559)	(961)
Changes in tax losses carry forward	1,489	980
Changes in temporary differences	524	(492)
Tax loss carry forward used not previously recognised	(34)	(308)
Other	(3,240)	49
At effective income tax rate of 31% (2008 36%)	<u>31,887</u>	<u>25,064</u>

Factors that may affect future tax charges

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

(c) Unrecognised tax losses

The Group has tax losses of approximately £1,495,000 (2008 £1,495,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been dormant for some time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation (continued)

(d) Deferred income tax

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

	2009	2008
	£'000	£'000
Deferred tax asset		
Depreciation in excess of capital allowances	1,494	1 165
Inventory valuation	6 492	7 018
Sales returns and allowances	6,791	6,132
Defined benefit pension schemes	18,580	11,154
Other timing differences	1 216	883
	<u>34,573</u>	<u>26,352</u>
Deferred tax liability		
Accelerated capital allowances	1,239	1,315
Inventory valuation	349	1,180
Sales returns and allowances	(343)	(357)
Other timing differences	4,511	4,041
	<u>5,756</u>	<u>6,179</u>

Temporary timing differences in relation to non-deductible stock and credit note provisions amounting to £1,957,000 (2008 £1,757,000) have not been recognised in deferred tax, due to doubts over their future recoverability

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

	2009	2008
	£'000	£'000
Deferred tax in the income statement		
Depreciation in excess of capital allowances	155	(912)
Inventory valuation	1,168	729
Sales returns and allowances	414	359
Other timing differences	242	(552)
	<u>1,979</u>	<u>(376)</u>

7. Profit attributable to members of the Parent Company

The profit dealt with in the financial statements of the Parent Company is £31 897 000 (2008 loss £555 000)

8. Dividends paid

	2009	2008
	£'000	£'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2009 £64 74 per share (2008 £29 78 per share)	<u>50,000</u>	<u>23,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Property, plant and equipment

31 December 2009	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2009	62,506	81,471	143,977
Exchange adjustment	(3,112)	(2,771)	(5,883)
Additions	2,882	5,835	8,717
Disposals	(116)	(4,273)	(4,389)
At 31 December 2009	62,160	80,262	142,422
Accumulated depreciation			
At 1 January 2009	23,323	58,830	82,153
Exchange adjustment	(1,423)	(2,511)	(3,934)
Charge for year	3,606	6,964	10,570
Disposals	(14)	(2,988)	(3,002)
At 31 December 2009	25,492	60,295	85,787
Net book value			
At 31 December 2009	36,668	19,967	56,635
At 31 December 2008	39,183	22,641	61,824

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2009 is £2,795,000 (2008: £2,424,000). Additions during the year include £736,000 (2008: £1,733,000) of plant and equipment held under finance leases and hire purchase contracts. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Land and buildings with a carrying amount of £5,041,000 (2008: £6,224,000) are subject to a first charge to secure the Group's bank loans (note 19).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Intangible assets

31 December 2009	Development costs £'000	Trade names £'000	Publishing rights £'000	Other rights £'000	Goodwill £'000	Total £'000
Cost						
At 1 January 2009	15,039	20,239	73,474	2,542	45,716	157,010
Exchange adjustment	(843)	(1,868)	(2,556)	(18)	(1,646)	(6,931)
Additions	2,104	-	574	-	47	2,725
Acquisitions	-	-	1,655	-	662	2,317
Adjustment to deferred consideration	-	-	-	-	(335)	(335)
Reclassification	369	-	-	-	-	369
Disposals	(314)	-	(64)	-	-	(378)
At 31 December 2009	16,355	18,371	73,083	2,524	44,444	154,777
Accumulated amortisation						
At 1 January 2009	12,587	7,185	29,238	1,767	-	50,777
Exchange adjustment	(677)	(415)	(567)	(2)	-	(1,661)
Charge for the year	1,613	1,009	6,207	362	-	9,191
Reclassification	190	-	-	-	-	190
Disposals	(255)	-	(64)	-	-	(319)
At 31 December 2009	13,458	7,779	34,814	2,127	-	58,178
Net book value						
At 31 December 2009	2,897	10,592	38,269	397	44,444	96,599
At 31 December 2008	2,452	13,054	44,236	775	45,716	106,233

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

11. Investment in associates

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

	Country of Incorporation/ Registration	Class of share	Proportion of shares held by the Group as at 31 December	
			2009	2008
Stockton Press Educational Publishers B V	Netherlands	Ordinary	40.00%	40.00%
Macmillan New Asia Publishers Ltd	Hong Kong	Ordinary	49.00%	49.00%
College Press Publishers (Pvt) Ltd	Zimbabwe	Ordinary	48.91%	50.00%

All shares are held by subsidiary undertakings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Investment in associates (continued)

The following tables illustrate summarised information of the investment in associates

	2009 £'000	2008 £'000
Stockton Press Educational Publishers B.V.:		
Share of associate's balance sheet		
Current assets	98	81
Non-current assets	176	208
Current liabilities	(156)	(190)
Net assets	<u>118</u>	<u>99</u>
Share of associate's profit	<u>19</u>	<u>36</u>
Carrying amount of investment	<u>118</u>	<u>99</u>
Macmillan New Asia Publishers Ltd:		
Share of associate's balance sheet		
Current assets	171	198
Current liabilities	(23)	(41)
Net assets	<u>148</u>	<u>157</u>
Share of associate's profit/ (loss)	<u>7</u>	<u>27</u>
Carrying amount of investment	<u>(320)</u>	<u>(363)</u>
Less provision	<u>320</u>	<u>363</u>
Carrying amount less provision	<u>-</u>	<u>-</u>
Cumulative losses of associate	<u>(294)</u>	<u>(301)</u>

College Press Publishers (Pvt) Limited

The company was previously a subsidiary company but the group no longer has a controlling interest. The results for the year have not been incorporated into the group figures due to the hyper inflation rate in Zimbabwe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations

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

Acquisitions in 2009:

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

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

	Previous Carrying Value £,000	Fair value recognised on acquisition £,000
Tangible assets	6	6
Trade receivables	38	38
Cash	27	27
	<u>71</u>	<u>71</u>
Trade and other payables	(579)	(579)
	<u>(508)</u>	<u>(508)</u>
Intangible arising on acquisition		1,655
Total consideration		<u>1,147</u>
Consideration payable		
On acquisition		365
Deferred payments		782
		<u>1,147</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Business combinations (continued)**Acquisitions in 2008:**

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

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

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

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

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

13. Impairment testing of goodwill with indefinite life

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Carrying value of goodwill with indefinite life

	2009	2008
	£000	restated £000
Academic	-	-
Scientific, Technical and Medical (STM)	-	-
Education	20 998	20,180
Fiction and Non-Fiction – UK and Rest of the World	-	-
Publishing Services	2,753	3 373
Fiction and Non-Fiction - US	8,764	9,055
US College	11 929	13 108
Total	44 444	45,716

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

Key assumptions used in value in use calculations

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

Value in use

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

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

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

Discount factor – The basis used is to arrive at a pre-tax weighted average cost of capital based on the Group's cost of borrowing and the Group's shareholders' required return on equity. The discount factors used range from 8.4% to 11.2%. The required return on equity is risk adjusted for each cash-generating unit. These two factors are weighted in proportion to the Group's financing derived from each source based on the fair value of the Group's overall debt funding in relation to the Group's overall equity funding. All figures used are based on the relevant ratios in the consolidated accounts of the Group's ultimate holding company

Sensitivity to changes in assumptions

Management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed the recoverable amount. The discount factor would have to increase to over 16% to result in an impairment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Employment benefits

Pensions and other post-employment benefit plans

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

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

	UK Plan		Pension Plans US and other non-UK Plans		Total	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Employee benefits expense.						
Current service cost	(951)	(1,160)	(1,839)	(1,491)	(2,790)	(2,651)
Past service cost	-	-	-	(14)	-	(14)
Other finance costs:						
Interest cost on benefit obligation	(7,773)	(8,090)	(1,188)	(949)	(8,961)	(9,039)
Expected return on plan assets	6,263	8,650	842	834	7,105	9,484
Net benefit expense	<u>(2,461)</u>	<u>(600)</u>	<u>(2,185)</u>	<u>(1,620)</u>	<u>(4,646)</u>	<u>(2,220)</u>
Actual return / (loss) on plan assets	<u>9,226</u>	<u>(18,210)</u>	<u>2,435</u>	<u>(3,217)</u>	<u>11,661</u>	<u>(21,427)</u>
Benefit asset/ (liability):						
Present value of defined benefit obligation	(158,036)	(121,610)	(24,583)	(22,107)	(182,619)	(143,717)
Plan assets						
Equities	10,731	2,150	9,240	6,229	19,971	8,379
Debt	36,401	523	6,241	6,015	42,642	6,538
Properties	-	203	33	191	33	394
Cash	3,721	38,194	445	662	4,166	38,856
Target return funds	48,143	48,027	-	-	48,143	48,027
Other assets	-	83	-	-	-	83
Fair value of plan assets	<u>98,996</u>	<u>89,180</u>	<u>15,959</u>	<u>13,097</u>	<u>114,955</u>	<u>102,277</u>
Benefit (liability)	<u>(59,040)</u>	<u>(32,430)</u>	<u>(8,624)</u>	<u>(9,010)</u>	<u>(67,664)</u>	<u>(41,440)</u>
Pension asset					83	-
Defined benefit pension deficit					<u>(67,747)</u>	<u>(41,440)</u>
Net pension liability					<u>(67,664)</u>	<u>(41,440)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Employment benefits (continued)

Movement in the benefit (liability) during the years to 31 December 2009 and 2008 is as follows

	UK Plan		US and other non-UK Plans		Total	
	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	(32,430)	(27,590)	(9,010)	(4,106)	(41,440)	(31 696)
Net benefit expense	(2,461)	(600)	(2,185)	(1,620)	(4,646)	(2 220)
Actuarial losses	(29,215)	(7,070)	(782)	(3,619)	(29 997)	(10 689)
Contributions	5,066	2,830	2,588	2,411	7,654	5,241
Foreign exchange movement	-	-	765	(2,076)	765	(2,076)
	<u>(59,040)</u>	<u>(32,430)</u>	<u>(8,624)</u>	<u>(9,010)</u>	<u>(67,664)</u>	<u>(41,440)</u>

History of experience gains and losses

	UK Plan		US and other non-UK Plans		Total	
	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000
Difference between expected return and actual return on pension scheme assets	2,963	(26,860)	1,593	(4,050)	4,556	(30 910)
Experience gain/ (loss) arising on scheme liabilities	<u>258</u>	<u>550</u>	<u>(2,375)</u>	<u>431</u>	<u>(2,117)</u>	<u>981</u>
Total actuarial gain/ (loss)	<u>3,221</u>	<u>(26 310)</u>	<u>(782)</u>	<u>(3,619)</u>	<u>2 439</u>	<u>(29,929)</u>

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

	UK Plan		US Plan	
	2009	2008	2009	2008
	%	%	%	%
Discount rate	5.90	6.50	6.53	6.24
Expected rate of return on assets				
Equities	7.00	7.80	6.00	5.00
Bonds and Gilts	4.80	6.50	6.00	5.00
Property	6.00	-	-	-
Other	3.60	7.00	6.00	5.00
Future salary increases	4.40	3.90	4.00	5.00
Future pension increases	3.70	2.90		
Inflation	3.40	2.90		

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	
	2009	2008
	Years	Years
Current pensioners at 65 – male	22.2	19.4
Current pensioners at 65 – female	23.6	22.4
Future pensioners at 65 – male	23.0	19.8
Future pensioners at 65 – female	24.4	22.8

On 1 March 2008 a new schedule of contributions was agreed with the Trustees and a single payment for the year of £2.5 million was made in February 2009. A new schedule of contributions was agreed with the Trustees on 31 March 2009 and a further payment of £2.5 million was made on 25 March 2009 bringing the total for the year to £5.0 million. The new schedule of contributions is designed to pay off the deficit over a period of 12 years from the date of the valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Inventories

	2009	2008
	£'000	£'000
Raw materials	5,571	10,809
Work-in-progress	54,716	51,804
Finished goods	89,910	98,296
	<u>150,197</u>	<u>160,909</u>

16. Trade and other receivables

	Note	2009	2008
		£'000	£'000
Current			
Trade receivables		305,070	293,573
Author advances		102,083	108,575
Prepayments		8,626	8,987
Receivables from associates		155	29
Other related parties	22	74,463	84,166
Other debtors		16,503	21,137
		<u>506,900</u>	<u>516,467</u>
Non-current			
Other debtors		40	199

As at 31 December 2009, trade receivables at nominal value of £18,995,000 (2008: £19,755,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2009	2008
	£'000	£'000
At 1 January	(19,755)	(11,845)
Currency translation	381	(1,191)
Charge for the year	(5,323)	(8,605)
Utilised	5,342	1,762
Unused amounts reversed	360	124
At 31 December	<u>(18,995)</u>	<u>(19,755)</u>

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

	Not past due			Past due		
	Total		<60	60-180	180-360	>360
	£'000	£'000	days	days	Days	days
			£'000	£'000	£'000	£'000
2009	305,070	249,936	39,852	11,290	1,514	2,478
2008	293,573	224,814	48,751	14,691	2,025	3,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Cash and cash equivalents

	2009	2008
	£'000	£'000
Cash at bank and in hand	36,118	23,734
Short-term deposits	13,803	5,244
	<u>49,921</u>	<u>28,978</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents are £49,921,000 (2008: £28,978,000).

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

	Note	2009	2008
		£'000	£'000
Cash at bank and in hand		36,118	23,734
Short-term deposits		13,803	5,244
Bank overdrafts and loans	19	(33,105)	(41,990)
		<u>16,816</u>	<u>(13,012)</u>

18. Issued share capital and reserves

Authorised:	Number	£'000
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 2009		
Ordinary shares of £1 each		
At 1 January and 31 December 2009	772,376	772
31 December 2008		
Ordinary shares of £1 each		
At 1 January and 31 December 2008	772,376	772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Issued share capital and reserves (continued)

Nature and purpose of other reserves

Capital contribution

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

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

Associates

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

Foreign currency translation reserves

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

Net unrealised gain reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Financial liabilities

	Effective interest rate %	2009 £'000	2008 restated £'000
Current			
Obligations under finance leases and hire purchase contracts (note 21) 1 21 to 16 00		722	563
Bank overdrafts		32,488	41,255
Secured bank loan		617	684
Other loan		-	51
		<u>33,827</u>	<u>42,553</u>
Non-current			
Obligations under finance leases and hire purchase contracts (note 21) 1 21 to 16 00		1,994	1,822
Secured bank loan		-	684
Unsecured bank loan		58,569	65,063
		<u>60,563</u>	<u>67,569</u>

£617,000 (2008 £684,000) of the Group's current bank loans, loan notes and overdrafts are secured on properties, book debts and other assets

Secured bank loan

A subsidiary undertaking has bank loans secured on properties, repayable in instalments until 2010. The amounts falling due after more than one year are £nil (2008 £684,000)

Non-current unsecured bank loan

A subsidiary undertaking has a multicurrency term, revolving and swingline facilities agreement with a consortium of banks arranged by the ultimate holding company Georg von Holtzbrinck GmbH & Co KG. As part of this arrangement the subsidiary undertaking borrowed US\$95m repayable in 2012 with the issuing bank Landesbank Baden-Württemberg. The outstanding balance bears interest at 0.98% (2008 4.08%). These borrowings are guaranteed by the ultimate holding company.

20. Trade and other payables

	Note	2009 £'000	2008 £'000
Current			
Trade payables		81,412	87,692
Royalties payable		74,639	72,082
Other payables and accruals		103,963	111,821
Deferred income		91,246	90,279
Other related parties	22	24,835	17,181
		<u>376,095</u>	<u>379,055</u>
Non-current			
Royalties payable		-	66
Other payables		6,152	11,159
Deferred income		9,116	1,633
		<u>15,268</u>	<u>12,858</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Commitments and contingencies**Operating lease commitments – Group as lessee**

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

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

	2009 £'000	2008 £'000
Within one year	19,346	18,292
After one year but not more than five years	67,688	65,071
More than five years	47,866	64,689
	<u>134,900</u>	<u>148,052</u>

Operating lease commitments – Group as lessor

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

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

	2009 £'000	2008 £'000
Within one year	876	332
After one year but not more than five years	1,538	776
More than five years	292	437
	<u>2,706</u>	<u>1,545</u>

Finance lease and hire purchase commitments – Group as lessee

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

	2009		2008	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Within one year	892	722	720	563
After one year but not more than five years	<u>2,248</u>	<u>1,994</u>	<u>2,130</u>	<u>1,822</u>
Total minimum lease payments	3,140	2,716	2,850	2,385
Less amounts representing finance charges	<u>(425)</u>	<u>-</u>	<u>(465)</u>	<u>-</u>
Present value of minimum lease payments	<u>2,715</u>	<u>2,716</u>	<u>2,385</u>	<u>2,385</u>

Capital commitments

At 31 December 2009, the Group has commitments of £96,000 (2008: £364,000) contracted for but not provided in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contingent liabilities

HM Publishers Holdings Limited has the following contingent liabilities at 31 December 2009

Other guarantees £5,960,000 (2008 £5,718,000)

There are no uncertainties or possibility of re-imburement of guarantees

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

The internal investigation is ongoing and is being conducted with the agreement of both the World Bank and the Serious Fraud Office. Its findings will not be available until the investigation is complete which is not expected to be before autumn 2010.

Provisions have been made of £2 million for legal fees pertaining to the ongoing internal investigation, which represents the best estimate of those costs to which Macmillan Publishers Limited were committed relating to the investigation. Further costs may be incurred as the investigation continues, and will be expensed when committed.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures

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

	Note	Country of incorporation/ registration	Class of share	Proportion of voting rights held by the Group	
				2009	2008
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%
Gill and Macmillan Limited	2	Ireland	Ordinary	50 00%	50 00%
Macmillan Iberia S A		Spain	Ordinary	100 00%	100 00%
Nature Publishing Group Iberoamerica S L		Spain	Ordinary	100 00%	100 00%
Macmillan (Hellas) Publishers S A		Greece	Ordinary	100 00%	100 00%
Macmillan Armenia J V C J S C		Armenia	Ordinary	70 00%	70 00%
Macmillan Polska Sp Z o o		Poland	Ordinary	100 00%	100 00%
Macmillan Romania Srl		Romania	Ordinary	100 00%	100 00%
Stockton Press Netherlands B V		Netherlands	Ordinary	100 00%	100 00%
Macmillan Publishers Inc		USA	Ordinary	100 00%	100 00%
SMP (1952), Inc		USA	Ordinary	100 00%	100 00%
Macmillan Holdings, LLC		USA	Ordinary	66 00%	66 00%
Henry Holt and Company, LLC		USA	Ordinary	66 00%	66 00%
St Martin s Press, LLC		USA	Ordinary	66 00%	66 00%
Bedford, Freeman & Worth Publishing Group, LLC		USA	Ordinary	66 00%	66 00%
Tom Doherty Associates, LLC		USA	Ordinary	66 00%	66 00%
Farrar, Straus & Giroux, LLC		USA	Ordinary	66 00%	66 00%
Holtzbrinck Publishers, LLC		USA	Ordinary	66 00%	66 00%
Hayden-McNeil LLC		USA	Ordinary	66 00%	66 00%
Nature America, Inc		USA	Ordinary	100 00%	100 00%
Macmillan Academic Publishing Inc		USA	Ordinary	100 00%	100 00%
MPS Content Services Inc		USA	Ordinary	61 46%	61 46%
Namibia Educational Services (Pty) Limited		Namibia	Ordinary	100 00%	95 00%
Macmillan Boleswa Publishers (Pty) Limited		Swaziland	Ordinary	100 00%	100 00%
Clever Books (Pty) Limited		South Africa	Ordinary	100 00%	100 00%
Pan Macmillan South Africa (Pty) Limited		South Africa	Ordinary	100 00%	100 00%
Macmillan South Africa (Pty) Limited		South Africa	Ordinary	100 00%	100 00%
Macmillan Educacao Mozambique Lda		Mozambique	Ordinary	80 00%	97 50%
Editora Nacional de Mocambique		Mozambique	Ordinary	80 00%	-
Macmillan Kenya (Publishers) Limited		Kenya	Ordinary	90 04%	90 04%
Macmillan Uganda Limited		Uganda	Ordinary	80 00%	80 00%
Macmillan Malawi Limited		Malawi	Ordinary	85 70%	85 70%
Macmillan Aidan Limited		Tanzania	Ordinary	80 00%	80 00%
Macmillan Publishers Cameroon Limited		Cameroon	Ordinary	60 00%	60 00%
Macmillan Publishers (Zambia) Limited		Zambia	Ordinary	100 00%	100 00%
Unimax Macmillan Limited		Ghana	Ordinary	65 00%	65 00%
Macmillan Rwanda Publishers Limited		Rwanda	Ordinary	100 00%	100 00%
Northern Nigerian Publishing Company Limited		Nigeria	Ordinary	65 00%	65 00%
Macmillan Publishers Australia Pty Limited		Australia	Ordinary	100 00%	100 00%
Pan Macmillan Australia Pty Limited		Australia	Ordinary	100 00%	100 00%
Macmillan Publishers New Zealand Limited		New Zealand	Ordinary	100 00%	100 00%
MPS Limited		India	Ordinary	61 46%	61 46%
MPS Technologies Limited		India	Ordinary	61 46%	61 46%
Macmillan ICC Publishing Solutions Private Limited		India	Ordinary	61 46%	61 46%
Macmillan Publishers India Limited		India	Ordinary	88 10%	61 58%
Frank Brothers and Company (Publishers) Limited		India	Ordinary	88 10%	61 58%
Macmillan Publishers (China) Limited		Hong Kong	Ordinary	100 00%	100 00%
Macmillan Language House Limited		Japan	Ordinary	100 00%	100 00%
Nature Japan K K		Japan	Ordinary	100 00%	100 00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

	Country of incorporation/ registration	Class of share	Proportion of voting rights held by the Group	
			2009	2008
Macmillan Publishers S A	Mexico	Ordinary	100 00%	100 00%
Ediciones Castillo S A de C V	Mexico	Ordinary	100 00%	100 00%
Macmillan do Brasil Ltda	Brazil	Ordinary	100 00%	100 00%
Macmillan Publishers, S A	Peru	Ordinary	95 00%	95 00%
Macmillan Publishers S A	Argentina	Ordinary	100 00%	100 00%
Editorial Puerto de Palos S A	Argentina	Ordinary	100 00%	100 00%
Editorial Estrada S A	Argentina	Ordinary	100 00%	100 00%
Macmillan Publishers Egypt Limited	Egypt	Ordinary	100 00%	100 00%
Kawkab Distribution Limited	Egypt	Ordinary	98 00%	98 00%
Macmillan Korea Publishers Limited	South Korea	Ordinary	100 00%	100 00%
Pan Macmillan Books India Private Limited	India	Ordinary	100 00%	100 00%
SureChem Inc	USA	Ordinary	100 00%	-

Notes

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

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

<i>Related party</i>		Income from related parties £'000	Expenses with related parties £'000	Interest received from related parties £'000	Interest paid to related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Ultimate parent company.							
Georg von Holtzbrinck GmbH & Co KG	2009	-	-	321	-	30,458	-
	2008	-	-	1,884	-	30 295	-
Immediate holding company.							
Holtzbrinck Publishers Holdings Limited	2009	5,149	-	962	(265)	38 643	4,797
	2008	53	(13 969)	2,616	(4)	30,718	8,077
Associate:							
Stockton Press Educational Publishers B V	2009	-	(123)	-	-	-	621
	2008	-	(217)	-	(5)	-	667
Fellow undertakings:							
Verlagsgruppe Georg von Holtzbrinck GmbH	2009	-	-	100	-	4,932	-
	2008	-	-	267	-	22,344	-
Holtzbrinck Publishers Holdings LP	2009	-	-	-	(58)	4	19,417
	2008	-	-	576	(774)	445	8,437
Verlagsgruppe Droemer GmbH & Co KG	2009	1 601	-	-	-	241	-
	2008	1 800	-	-	-	359	-
Experteer GmbH & Co KG	2009	-	-	-	-	-	-
	2008	-	-	-	-	5	-
Euroscript GmbH	2009	636	-	-	-	162	-
	2008	-	-	-	-	-	-
HEV Hanseatische Gasseksgaft	2009	46	-	-	-	23	-
	2008	-	-	-	-	-	-
Total	2009	<u>7,432</u>	<u>(123)</u>	<u>1,383</u>	<u>(323)</u>	<u>74 463</u>	<u>24 835</u>
	2008	<u>1 853</u>	<u>(14 186)</u>	<u>5,343</u>	<u>(783)</u>	<u>84,166</u>	<u>17,181</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Related party disclosures (continued)

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlements occur in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2009, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2008: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

The ultimate parent

Georg von Holtzbrinck GmbH & Co. KG

Georg von Holtzbrinck GmbH & Co. KG owns 100% of the ordinary shares in Holtzbrinck Publishers Holdings Limited, the immediate holding company of HM Publishers Holdings Limited (2008: 100%).

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100.00% of the ordinary shares in HM Publishers Holdings Limited (2008: 100%).

Associates

Stockton Press Educational Publishers B.V.

The Group has a 40.00% interest in Stockton Press Educational Publishers B.V. (2008: 40.00%).

Macmillan New Asia Publishers Limited

The Group has a 49.00% interest in Macmillan New Asia Publishers Limited (2008: 49.00%).

College Press Publishers (Pvt) Limited

The Group has a 48.91% interest in College Press Publishers (Pvt) Limited (2008: 50.00%).

23. Financial risk management objectives and policies

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

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

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

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

Foreign currency risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Financial risk management objectives and policies (continued)

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

Balance sheet exposure

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

Transaction exposure

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

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

	Increase/ decrease in US\$ rate	Increase/ (decrease) in PBT £'000	Increase/ (decrease) in equity £'000
2008	+5%	(2,003)	(12,930)
	-5%	2,215	14,295
2009	+5%	(2,552)	(10,175)
	-5%	2,823	11,238

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations. The majority of the Group's long term debt obligations are funded through the Group's ultimate holding company. Banking facilities at the level of the Group and its subsidiaries are arranged mainly by means of 3 year committed credit facilities in order to manage the Group's working capital funding requirements. Management of the interest rate exposure on long term debt obligations is undertaken at the level of the Group's ultimate holding company.

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

Commodity price risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Liquidity risk

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

24. Financial Instruments**Fair values**

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

	Carrying amount		Fair value	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
<i>Financial liabilities</i>				
Fixed rate borrowings				
Bayerische Hypo-Und Vereinsbank AG				
7.64% and 8.67% Mortgage Loans	616	1,369	690	1,519

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

All other borrowings are at floating rates.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Instruments (continued)

Hedging activities

Cash flow hedges

Recognised through equity

At 31 December 2009, 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 2009 have been recognised through equity in the current year and will be recognised through the income statement in 2010.

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2009 £'000	Gain/(loss) recognised through equity £'000
<i>Sell currency/ buy Sterling</i>					
Australian Dollars	14,273	Jan-Nov 2010	2.01	7,930	(690)
New Zealand Dollars	1,998	Feb-Dec 2010	2.44	896	(66)
Japanese Yen	2,430,000	Jan-Nov 2010	141.98	16,200	884
South African Rand	84,500	Jan-Dec 2010	13.20	7,036	(396)
<i>Buy currency/ sell Sterling</i>					
Hong Kong Dollars	115,000	Jan-Dec 2010	12.00	9,141	(412)
Total					<u>(680)</u>

At 31 December 2009 the Group had entered into the following foreign exchange contracts with the Group's ultimate holding company to hedge expected cash flows in the US Dollar and Euro which are expected to occur in 2010. 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 2009 have been recognised through equity in the current year and will be recognised through the income statement in 2010.

	Currency amount 000's	Maturity dates	Foreign exchange rate	Fair value 2009 £'000	(Loss) recognised through equity £'000
<i>Sell currency/ buy Sterling</i>					
US Dollars	28,000	Feb-Dec 2010	1.65	17,262	(284)
Euro	55,000	Jan-Dec 2010	1.18	41,556	(2,068)
Total					<u>(2,352)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Financial Instruments (continued)

Recognised through income statement

During the year ended 31 December 2009 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 2008 £'000	Gain/ (loss) recognised through income statement £'000
<i>Sell currency/ buy Sterling</i>					
Australian Dollars	12,109	Jan-Nov 2009	2 26	5 685	(389)
New Zealand Dollars	1,300	Jan-Dec 2009	2 72	512	(28)
Japanese Yen	2,350,000	Jan-Oct 2009	201 38	17 803	(6,935)
South African Rand	68,000	Jan-Dec 2009	16 59	4,956	(690)
US Dollars	30,000	Sep-Dec 2009	1 94	20,533	(5,072)
Euro	50,000	Mar-Dec 2009	1 25	47,624	(7,405)
<i>Buy currency/ sell Sterling</i>					
US Dollars	8,000	Jan 2009	1 45	5,475	(32)
Euro	10,000	Jan 2009	1 04	9,525	(92)
Hong Kong Dollars	140 000	Jan-Dec 2009	12 49	12,367	1,198
					<u>(19 445)</u>


BALANCE SHEET
as at 31 December 2009

ASSETS	Note	2009 £'000	2008 £'000
Non-current assets			
Property	28	17,572	17,007
Investment in subsidiaries	29	39,205	102,893
		<u>56,777</u>	<u>119,900</u>
Current assets			
Trade and other receivables	30	80,739	43,750
Cash and cash equivalents	31	37	27
Income tax receivable		3,328	998
		<u>84,104</u>	<u>44,775</u>
TOTAL ASSETS		<u>140,881</u>	<u>164,675</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	32	772	772
Share premium		76,788	76,788
Capital redemption reserve		48	48
Retained earnings		41,785	59,888
TOTAL EQUITY		<u>119,393</u>	<u>137,496</u>
Non-current liabilities			
Deferred income tax liabilities	26	711	643
Current liabilities			
Trade and other payables	34	5,414	8,776
Financial liabilities	33	15,363	17,760
		<u>20,777</u>	<u>26,536</u>
TOTAL LIABILITIES		<u>21,488</u>	<u>27,179</u>
TOTAL EQUITY AND LIABILITIES		<u>140,881</u>	<u>164,675</u>

These financial statements were approved by the Board of Directors on

2010

Signed on behalf of the Board of Directors

Dr A C Thomas
Director

 28/5/10

CASH FLOW

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Operating profit/ (loss)		2,771	(87)
(Increase)/ decrease in accounts receivable		(38,496)	17,453
(Decrease)/ Increase in accounts payable less than one year		(3,362)	7,616
Depreciation charges		1,609	1,097
Income tax received/ (paid)		(1,826)	1,168
Net cash flow from operating activities		(39,304)	27,247
Cash flows (used in)/ from investing activities			
Interest received		503	3,008
Dividends received from subsidiaries		98,705	326
Investment in subsidiary undertaking		(4,573)	(6)
Purchase of property		(2,174)	(828)
Net cash flows (used in)/ from investing activities		92,461	2,500
Cash flows used in financing activities			
Interest paid		(750)	(429)
Dividends paid to equity holders of the parent		(50,000)	(23,000)
Net cash flows used in financing activities		(50,750)	(23,429)
Net decrease in cash and cash equivalents		2,407	6,318
Cash and cash equivalents at 1 January	31	(17,733)	(24,051)
Cash and cash equivalents at 31 December	31	(15,326)	(17,733)

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Attributable to equity holders of the parent				Total attributable to equity holders of parent £'000
	Issued Capital £'000	Share premium £'000	Capital Redemption Reserve £'000	Retained earnings £'000	
At 1 January 2008	772	76,788	48	83,443	161,051
Profit for the year	-	-	-	(555)	(555)
Equity dividends (note 27)	-	-	-	(23,000)	(23,000)
At 31 December 2008	772	76,788	48	59,888	137,496
Profit for the year	-	-	-	31,897	31,897
Equity dividends (Note 27)	-	-	-	(50,000)	(50,000)
At 31 December 2009	772	76,788	48	41,785	119,393

NOTES TO THE FINANCIAL STATEMENTS

25. Staff costs and Directors' emoluments

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

26. Deferred Tax

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

	2009 £'000	2008 £'000
Deferred tax liability		
Accelerated capital allowances	711	643

27. Dividends paid

	2009 £'000	2008 £'000
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend for 2009 £64.74 per share (2008 £29.78 per share)	50,000	23,000

28. Property, plant and equipment

	Land and buildings £'000
31 December 2009	
Cost	
At 1 January 2009	24,562
Additions	2,174
At 31 December 2009	26,736
Accumulated depreciation	
At 1 January 2009	7,555
Charge for year	1,609
At 31 December 2009	9,164
Net book value	
At 31 December 2009	17,572
At 31 December 2008	17,007

NOTES TO THE FINANCIAL STATEMENTS

29. Investments in subsidiaries

	2009 £'000	2008 £'000
Subsidiary undertakings:		
Shares at cost at 1 January	102 893	105 254
Additions	4,573	6
Liquidation	(70,628)	-
Impairment	2,367	(2 367)
	<u>39,205</u>	<u>102,893</u>
Shares at cost at 31 December		

See note 22 for list of subsidiaries

30. Trade and other receivables

	Note	2009 £'000	2008 £'000
Current			
Other related parties	36	<u>80 739</u>	<u>43 750</u>

31. Cash and cash equivalents

	2009 £'000	2008 £'000
Cash at bank and in hand	<u>37</u>	<u>27</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents £37 000 (2008 £27 000)

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

	Note	2009 £'000	2008 £'000
Cash at bank and in hand		37	27
Bank overdrafts	33	<u>(15,363)</u>	<u>(17,760)</u>
		<u>(15 326)</u>	<u>(17 733)</u>

NOTES TO THE FINANCIAL STATEMENTS

32. Issued share capital

	Number	£'000
Authorised:		
Ordinary shares of £1 each	10,000,000	10,000
	Number	US\$'000
Ordinary shares of US\$1 each	200,000	200
	Number	£'000
Allotted, called up and fully paid:		
31 December 2009		
Ordinary shares of £1 each		
At 1 January and 31 December 2009	772,376	772
31 December 2008		
Ordinary shares of £1 each		
At 1 January and 31 December 2008	772,376	772

33. Financial liabilities

	Note	2009	2008
		£'000	£'000
Current			
Bank overdrafts		15,363	17,760

34. Trade and other payables

		2009	2008
		£'000	£'000
Current			
Other related parties	36	4,797	8,076
Other payables and accruals		617	700
		5,414	8,776

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

	2009 £'000	2008 £'000
Within one year	1,866	1,763
After one year but not more than five years	7,157	7,150
More than five years	6,638	8,394
	<u>15,661</u>	<u>17,307</u>

Operating lease commitments – Company as lessor

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

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

	2009 £'000	2008 £'000
Within one year	4,710	4,496
After one year but not more than five years	253	-
	<u>4,963</u>	<u>4,496</u>

Capital Commitments

At 31 December 2009, HM Publishers Holdings Limited has commitments of £nil (2008: £nil) contracted for but not provided in the financial statements.

Guarantees

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

	2009 £'000	2008 £'000
Bank facilities guaranteed	<u>19,666</u>	<u>21,015</u>

NOTES TO THE FINANCIAL STATEMENTS

36. Related party disclosures

The principal subsidiaries at 31 December are detailed in note 22

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

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

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

		Amounts owed by related parties £'000	Amounts owed to related parties £'000
<i>Related party</i>			
Immediate holding company.			
Holtzbrinck Publishers Holdings Limited			
	2009	-	4,797
	2008	-	8,076
Fellow undertakings:			
Macmillan Publishers Limited			
	2009	80,739	-
	2008	43,750	-
Total:			
	2009	<u>80,739</u>	<u>4,797</u>
	2008	<u>43,750</u>	<u>8,076</u>

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlements occur in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2009, the Company has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2008: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Immediate Holding company

Holtzbrinck Publishers Holdings Limited

Holtzbrinck Publishers Holdings Limited owns 100.00% of the ordinary shares in HM Publishers Holdings Limited (2008: 100.00%).