Company Registration No. 785998

MACMILLAN PUBLISHERS LIMITED

Report and Financial Statements

31 December 2017

REPORT AND FINANCIAL STATEMENTS 2017

CONTENTS

GENERAL INFORMATION

DIRECTORS

E J Bourne	Appointed on 19 October 2017	
T J Britton	Appointed on 19 October 2017	
D J Haank		Resigned on 31 December 2017
S C Inchcoombe		
R E Jacobs		
Dr H U Vest		

SECRETARY

G M Williams Hamer

REGISTERED OFFICE

The Campus
4 Crinan Street
London
NW1 9XW

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

STRATEGIC REPORT

The purpose of the Strategic Report is to inform members of Macmillan Publishers Ltd, 'the Company', and help them assess how the directors have performed their duty under Section 172 of the Companies Act 2006.

Strategic review and future developments

The Company had a successful year, achieving good revenue and operating profit growth in 2017. The Company continues to benefit from the broad spread of its international business and the diversity of markets in which the Company operates. Key performance indicators for the Company are revenues and 'earnings before interest, tax, depreciation and amortisation' (EBITDA).

Revenue movements for the main business segments are discussed below. Total revenue increased year on year to £273m in 2017 compared to £242m in 2016. EBITDA was £68.7m in 2017 compared to £66.8m in 2016.

The Company is exposed to a wide variety of political and economic risks as the Company operates internationally in most countries in the world. The Company is exposed to risks and opportunities through the rapid development of electronic means of content delivery in the publishing and media markets. The Company continues to take advantage of the opportunities presented by these developments through its investment in online publishing via the Nature brand, and through the development of electronic content delivery in the Academic and College markets.

In recent years, there has been continuing rapid expansion of electronic means of delivery of content in the retail publishing sector. The Company invests for the future in the development of online content delivery in the International Education markets as technology adoption evolves in each market. The company has also had the benefit of growth in open access income whereby authors pay to publish content online, enabling free access to end-user customers.

Whilst the Company remains committed to further developing technology-based products and services, it recognises that the development of electronic publishing poses threats through the potential erosion of copyright and the unauthorised use of copyright material. The Company defends vigorously its copyrights and takes action to oppose unauthorised use of copyright material.

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

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

RESEARCH DIVISION (formerly known as Science and Scholarly division)

Research division revenues were up by 12.7% to £200.9m (2016: £178.3m), mainly driven by increases in open access, custom publishing and site license income. EBITDA decreased by 7.7% to £69.0m (2016: £74.8m) driven by increased intergroup recharges and allocation of central costs.

LANGUAGE LEARNING

Revenues were up 13% to £53.0m (2016: £46.8m). This was due to improved results in Mexico, Russia and China. The EBITDA loss improved by 62% to -£4.3m (2016: -£11.4m) driven by the revenue increase and recharges to other entities within the Education group for services performed in 2017.

INTERNATIONAL HIGHER EDUCATION

International Higher Education revenues were up by 9% to £19m (2016: £17.4m). This was primarily due to strong eBook performance in the UK. EBITDA increased by 15% to £4.0m (2016: £3.5m) driven mainly by the revenue improvement.

STRATEGIC REPORT (Continued)

Strategic review and future developments (continued)

Approved by the Board of Directors
and signed on its behalf by

S C Inchcoombe
Director
20 JUNE 2018

DIRECTORS' REPORT

Company Registration No. 785998

The directors present their annual report and Company financial statements for the year ended 31 December 2017.

Principal activities

The principal activities of Macmillan Publishers Limited ("the Company") and its subsidiaries continued as the publishing of books and periodicals, and the provision of online and other services in the publishing sector. The Company is a member of the Springer Nature group, a leading global research, education and professional publisher.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described below. In addition, notes 20 to 21 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

Liquidity and capital resources

The financial position of the Company remains strong.

The cash flow statement shows a net increase in cash and cash equivalents in the year ended 31 December 2017 of £1.0m (2016: £6.3m decrease).

At December 2017 the Company had a net debt receivable due from loans with fellow Group companies of £4.6m (2016: £122.6m net indebtedness due to Group companies). These funds are loaned to and from Group companies at market rates of interest and are included within amounts due from related parties in the balance sheet and are as disclosed in note 19 to the financial statements.

Asset and capital structure

Equity and gearing

The Company has no net debt.

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

Income Tax

An analysis of the income tax charge is set out in note 7 to the financial statements. The income tax charge as a percentage of profit on ordinary activities before income tax was in the 5.5% current year and 18.9% in the previous year.

Dividends

No dividend was paid for the year to 31 December 2017 (2016: £nil). The directors do not recommend the payment of a final dividend.

DIRECTORS' REPORT (Continued)

Directors and their interests

During the year no director, or their spouses or dependent children, has held any interest in the shares of the Company.

The Company has indemnified one or more directors 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 Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2017, the Company had an average of 38 days (2016: 37 days) purchases owed to trade creditors.

Financial instruments

The Company's financial risk management objectives and policies are discussed in note 20.

Employees

The average monthly number of employees in the Company in 2017 was 1,359 compared to 1,330 in 2016.

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

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

Disabled Persons

The Company 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 £124,000 (2016: £98,000). No political contributions were made.

Corporate Social Responsibility

As a member of the Springer Nature group, the Company recognises its responsibilities towards the communities it works with and works in, worldwide. The Company considers compliance with the laws and regulations that impact our business to be an essential part of acting responsibly. Where local laws are less restrictive than Springer Nature's Code of Conduct and Global Policies, Springer Nature expects its employees and other representatives to follow Springer Nature's Code of Conduct and Global Policies even if the conduct would otherwise be legal. Working at Springer Nature means respecting the individual, embracing diversity, equality of opportunity, prohibiting discrimination and maintaining healthy and safe working conditions. The Company recognises its responsibility towards protecting the environment. The Company has identified its material environmental impacts and is monitoring these. The Company is a member of the Book Chain Project, which supports publishers in understanding the origins of, and forest-management practices for, the wood fibre used in papers and boards. The Company expects high standards of corporate responsibility from its business partners, and undertakes audits to verify that appropriate standards are adhered to by its suppliers. Further details on Springer Nature's responsible business strategy and reporting, including its Responsible Business report, its Business Partner Code of Conduct, Modern Slavery Act statement and UK Gender Pay Gap report can be accessed at www.springernature.com/responsiblebusiness

DIRECTORS' REPORT (Continued)

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. 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 on behalf of the Board

S C Inchcoombe
Director
20 JUNE 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

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

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS8 "Accounting policies, changes in accounting estimates and errors" and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and accounting estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MACMILLAN PUBLISHERS LIMITED

Opinion

We have audited the financial statements of Macmillan Publishers Limited for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 21. 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.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

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

22 June 2018

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Continuing operations			
Revenue	4	272,884	242,488
Other income	5	78,612	32,930
Cost of sales		(48,107)	(42,322)
Gross profit		303,389	233,096
Employee benefits expense	6	(88,306)	(80,500)
Depreciation and amortisation expense	5	(19,128)	(16,413)
Other expenses	5	(146,395)	(93,945)
Operating profit		49,560	42,238
Income from investment		187,721	-
Finance revenue	5	8,363	4,167
Finance costs	5	(7,426)	(3,947)
Other finance expense – pensions	12	(1,624)	(1,155)
		187,034	(935)
Profit before tax		236,594	41,303
Income tax expense	7	(12,920)	(7,804)
Profit for the year		223,674	33,499
Other comprehensive (loss)/ income			
Other comprehensive income that may in the future impact the income statement:			
Gain on cash flow hedges taken to equity	21	-	-
Transfer to the income statement of cash flow hedges previously taken to equity	21	-	(2)
Income tax effect	7	-	-
		-	(2)
Other comprehensive income that will have no future impact on the income statement:			
Interest relating to Asset Backed Pension Fund		2,696	2,757
Re-measurement gains/ (losses) on defined benefit plan	12	(15,538)	(39,192)
Income tax effect	7	1,577	7,093
		(11,265)	(29,342)
Other comprehensive (loss)/income for the year, net of tax		(11,265)	(29,344)
Total comprehensive income for the year, net of tax		212,409	4,155

BALANCE SHEET
at 31 December 2017

ASSETS	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	9	26,818	24,610
Intangible assets	10	37,944	30,114
Investment in subsidiaries	11	77,510	77,510
Non-current financial asset	19	74,383	67,986
Defined benefit pension plan asset	12	-	879
Deferred tax assets	7	8,928	9,772
		225,583	210,871
Current assets			
Inventories	13	9,355	13,824
Trade and other receivables	14	429,128	368,187
Cash and cash equivalents	15	3,627	2,656
		442,110	384,667
TOTAL ASSETS		667,693	595,538
EQUITY AND LIABILITIES			
Shareholders' Equity			
Issued capital	16	10,085	10,085
Retained earnings		208,515	42,420
TOTAL EQUITY		218,600	52,505
Non-current liabilities			
Defined benefit pension plan deficit	12	75,197	67,966
Non-current financial liabilities	19	69,830	190,595
Other non-current liabilities		511	437
		145,538	258,998
Current liabilities			
Trade and other payables	17	286,810	280,972
Income tax payable		16,745	3,063
Total current liabilities		303,555	284,035
TOTAL EQUITY AND LIABILITIES		667,693	595,538

These financial statements were approved by the Board of Directors on 20 JUNE 2018.

Signed on behalf of the Board of Directors.

S C Inchcoombe
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Attributed to equity holders of the company		
	Issued Capital (Note 16)	Retained Earnings	Total Equity
	£'000	£'000	£'000
At 1 January 2017	10,085	42,420	52,505
Profit for the period	-	223,674	223,674
Other comprehensive loss	-	(11,265)	(11,265)
Total comprehensive income	-	212,409	212,409
Dividends	-	(46,372)	(46,372)
Other reserve movement	-	59	59
At 31 December 2017	10,085	208,515	218,600

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

At 1 January 2016	10,085	38,265	48,350
Profit for the period	-	33,499	33,499
Other comprehensive loss	-	(29,344)	(29,344)
Total comprehensive income	-	4,155	4,155
Dividends	-	-	-
At 31 December 2016	10,085	42,420	52,505

CASH FLOW STATEMENT
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Operating profit from continuing operations		49,560	42,238
Decrease in inventories		4,469	1,964
Increase in accounts receivable		(67,338)	(92,659)
(Decrease)/Increase in accounts payable		(112,240)	110,292
Subscription shares exchanged for loan payables		-	(55,754)
Decrease in net pension plan liability		(7,428)	(4,809)
(Profit)/Loss on sale of fixed assets		(34)	14
Disposal of intangible assets		-	(151)
Depreciation and amortisation charges		19,128	16,413
Income tax paid		3,183	(2,644)
Net cash (used in)/from operating activities		(110,700)	14,904
Cash flows from investing activities			
Interest received		8,363	4,167
Dividends received from fellow undertakings		187,721	-
Purchase of property, plant and equipment		(5,227)	(2,712)
Purchase of intangible assets		(23,764)	(17,548)
Net cash flows from investing activities		167,093	(16,093)
Cash flows used in financing activities			
Interest paid		(9,050)	(5,102)
Dividends paid		(46,372)	-
Net cash flows used in financing activities		(55,422)	(5,102)
Net (decrease)/ increase in cash and cash equivalents		971	(6,291)
Cash and cash equivalents at 1 January	15	2,656	8,947
Cash and cash equivalents at 31 December	15	3,627	2,656

NOTES TO THE FINANCIAL STATEMENTS

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

The financial statements of the Company for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 20 June 2018. Macmillan Publishers Limited is a limited company incorporated in England.

The Company's financial statements have been prepared in accordance with International Financial Standards (IFRS), as issued by the International Standards Accounting Board and as adopted by the European Union.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Company are set out in note 2.

The Company is exempt from preparing Group financial statements under Section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking and not about its group.

The parent company of the smallest group into which the results of the Company are consolidated is Springer Nature AG & Co. KGaA, Berlin, a company registered in Germany.

2. Summary of significant accounting policies

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

Basis of preparation
The financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

Development 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. Pre-publication costs are capitalised as a development cost within intangible assets and amortised over periods ranging from 12 to 60 months from date of publication.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Intangible assets (continued)

Development costs

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

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

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

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

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

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

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

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

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

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

The cost of providing benefits under the defined benefit plan is determined 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.

When the Company purchases qualifying insurance assets to settle certain liabilities of the defined benefit pension scheme such that the insurance company bears the risk of future changes in those liabilities under a "buy-in" arrangement, the difference between the fair value of qualifying insurance assets at the time of purchase and the fair value of the associated liabilities is recorded as a movement through other comprehensive income in the period. The asset value in respect of the buy-in contract is equal to the liability value booked in respect of the insured pensioners and these amounts have been shown as gross in benefit liability and pension plan assets within Note 12 to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Leases

Company as a lessee

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits 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.

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.

Company 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 from assets leased out under operating leases, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Revenue

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

Sale of goods and services

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

In respect of the Nature Publishing Journal programme, revenue relating to the granting of partner rights is recognised over the period for which the Group provides access services. Revenue relating to designing, creating, publishing, and hosting the journal on the journal website and providing the manuscript tracking system is recognised at the time of delivery of the programme to the partner.

Subsidiary rights

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

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.

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;

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Income Tax (continued)

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Pre-publication costs
The company capitalises pre-publication costs as an internally generated intangible asset where it meets the criteria set out in IAS 38. After capitalisation, the company amortises the intangible asset on a systematic basis over its useful economic life. The company considers that an amortisation period of not more than 5 years reasonably reflects the usage of pre-publication assets over the principal economic period of use.

New and amended Standards adopted in the period
The Company has adopted the following new and amended IFRS and IFRIC standards and interpretations during the year, mandatory as at 1 January 2017 unless otherwise stated. Adoption of these revised standards and interpretations did not have any material impact on the Company's financial statements.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company applied amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Company.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Annual Improvements 2014-2016 Cycle (issued in December 2016)

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
The amendments clarify that:
• An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
• If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.
The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Company.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Company.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:
(i) The beginning of the reporting period in which the entity first applies the interpretation
Or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.
The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Standards issued but not yet effective

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 (Financial Instruments) that replaces IAS 39 (Financial Instruments: Recognition and Measurements) and all previous versions of IFRS 9. IFRS 9 covers all three aspects that were analysed and assessed as part of the financial instruments project: classification and measurement, impairment, and hedge accounting. IFRS 9 is mandatory for reporting periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.
IFRS 9 introduces a uniform approach for classifying and measuring financial assets. The standard is based on the characteristics of the underlying cash flows and the business model by which these cash flows are managed. IFRS 9 provides a new impairment model that is based on the expected credit defaults. The standard contains new regulations on the application of hedge accounting in order to better present the risk management activities of an entity, in particular with regard to the management of non-financial risks.

The Company plans to adopt the new standard as at 1 January 2018 and will not restate comparative information. In assessing the impact of all three aspects of IFRS, the Company considered the following:

Classification and measurement
The Company is in process of assessing the potential impact but does not expect a significant impact on its financial statements on applying the classification and measurement requirements of IFRS 9.

Modifications or exchanges of financial liabilities that do not result in derecognition
IFRS 9 changes the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. When contractual cash flows of a financial liability are renegotiated or otherwise modified and the modification does not result in the derecognition of the financial liability, IFRS 9 requires the Company to recalculate the carrying amount of the financial liability as the present value of the modified contractual cash flows that are discounted at the financial liability's original effective interest rate. Any adjustment to the amortised cost of the financial liability arising from such a modification is recognised in profit or loss at the date of the modification. The Company is in process of assessing the potential impact of this change.

Impairment
IFRS 9 requires the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. Due to the new impairment model, earlier recognition of possible losses on trade receivables may arise. The Company is in process of assessing the potential impact of this change.

Hedge accounting
As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Company does not expect an impact as it does not apply hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. IFRS 15 is effective for periods commencing 1 January 2018 and therefore will be applied by the Company in year ended 31 December 2018. The Company continues to assess the possible impact of IFRS 15, which involves:

- An examination of key contract types in order to identify any distinct performance obligations in the context of the contractual arrangement;
- Assessing the point at which the Company delivers promised services to its customers and whether this presents a requirement to change the timing of its revenue recognition; and
- Understanding the specific new disclosure requirements prescribed.

The Company is in the process of assessing the possible impact of IFRS 15 but no significant impact has been noted thus far. The Company plans to adopt the new standard on the required effective date using the modified retrospective method.

In preparing to adopt IFRS 15, the Company considered the following:

Sale of goods
For contracts with customers in which the sale of goods, primarily printed journals and books, is expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Company's revenue and profit or loss. Revenue recognition will occur at a point in time when control of the asset is transferred to the customer, typically on delivery of the goods.

Rights of return
The Company delivers print books to institutional customers such as booksellers and public and private schools. For most of these contracts, customers are provided with return rights within a specific time period. The Company will apply the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price.

License to intellectual property
In connection with print or electronic subscription contracts for upcoming content (journals and books), the Company typically grants online access rights to historic content of the licensed product within the subscription period. In assessing the criteria of IFRS 15, the Company believes that the license of the intellectual property is regularly a right to access. The obligation is fulfilled over time during the license period and thus recognised on a straight line basis during the term of the license.

Advances received from customers
The Company receives its yearly subscription payments, in particular for print and online journals as well as e-book packages, typically at the beginning of the subscription period. Under the current accounting policy, the Company presents such advances as deferred income within non-current liabilities in the statement of financial position. No interest is accrued on the advances received as the period between transfer of promised good or service and the payment from the customer is less than one year.

Rendering of services
The Company provides services to customers. The Company concluded that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Company. Consequently, under IFRS 15 the Company would continue to recognise revenue for these service contracts over time rather than at a point of time.

Presentation and disclosure requirements
The new standard provides presentation and disclosure requirements, which are more detailed than under current IFRS and which will significantly increase the volume of disclosures in the Company's financial statements, for example regarding disaggregation of revenues, contract balances, performance obligations as well as significant judgements applied.

NOTES TO THE FINANCIAL STATEMENTS
2. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)
Other adjustments
If further reasonable and supportable information is available to the Company in 2018, when the Company adopts IFRS 15, additional adjustments to the statement of financial position as of 31 December 2017 may be necessary.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company plans to early adopt IFRS16 on 1 January 2018 using a modified retrospective approach.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

If the Company had adopted IFRS 16 as of 1 January 2017 using the modified retrospective approach with the same accounting methods (underlying lease classes, calculation of discount rate as of 31 December 2016), the statement of financial position, the statement of profit or loss and the statement of cash flows would be affected as follows:

Statement of Comprehensive Income in GBP '000	**2017**	**IFRS 16 adj.**	**2017 adj.**
Cost of sales	(48,107)	786	(47,321)
Gross profit	**303,389**	**786**	**304,175**
Depreciation and amortisation expense	(19,128)	(730)	(19,858)
Operating profit	**49,560**	**56**	**49,616**
Finance costs	(7,426)	(312)	(7,738)
Income tax expense	(12,920)	128	(12,792)
Profit for the year	**223,674**	**(128)**	**223,546**

Balance sheet **Assets** in GBP '000	**31.12.2017**	**IFRS 16 adj.**	**31.12.2017 adj.**
Property, plant and equipment	26,818	22,983	49,801
Deferred tax assets	8,928	130	9,058

Balance sheet **Equity and liabilities** in GBP '000	**31.12.2017**	**IFRS 16 adj.**	**31.12.2017 adj.**
Finance lease liabilities (non-current)	-	22,459	22,459
Finance lease liabilities (current)	-	1,289	1,289
Deferred income	10,288	(516)	9,772

Cash flow statement in GBP '000	**2017**	**IFRS 16 adj.**	**2017 adj.**
Operating profit from continuing operations	**49,560**	**56**	**49,616**
Change in payables and deferred income	(112,240)	(516)	(112,756)
Depreciation and amortisation expense	(19,128)	730	(18,398)
Net cash (used in)/from operating activities	**(110,704)**	**270**	**(110,434)**
Cash repayment of finance lease liabilities	-	(277)	(277)
Net cash used in financing liabilities	**(55,422)**	**(277)**	**(55,699)**

New Standards adopted in the period

No new standards were adopted in the period with a material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS

2.1 Changes in accounting policies and disclosures

Co-publishing rights
Under the recently implemented Springer Nature accounting policy, contracts which entitle the Company to publish and/or exclusively distribute Society Journals are capitalised as an intangible asset where they meet the criteria in IAS 38. Where the Company has guaranteed a fixed royalty payment (or fixed royalty and editorial stipend payment) the yearly guaranteed payments are recognised as an intangible asset from 1 January in the year in which the Company is entitled to publish or distribute the journal. The asset is then amortised over 18 months such that 75% is amortised within 12 months and the remaining 25% is amortised in the last 6 months. This policy was implemented for the first time in FY2016, with a resulting credit to income statement of £0.2m and net debit to balance sheet of £0.2m. If the policy had been implemented in FY2016, this would have resulted in a credit to the 2016 income statement of £0.2m and debit to 2016 income statement of £0.2m. Since, the amounts are not considered significant by the directors, management have not retrospectively adjusted the comparative figures in prior year 2016.

3. Significant accounting judgements, assumptions and estimates

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

Judgements
In the process of applying the Groups's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Pre-publication costs – capitalisation as an intangible asset
Following the merger of the Springer Science+Business Media and Macmillan Science and Education business divisions in FY2015, the company elected to change the method of accounting for pre-publication costs to align the policy with that of the accounting policies of Springer Nature group. The company had previously treated pre-publication costs as inventory (or income statement expense) and had not previously capitalised pre-publication costs as an intangible asset. Following the merger, the company now capitalises pre-publication costs as an internally generated intangible asset where it meets the criteria set out in IAS 38. This treatment is in line with the wider Springer Nature group, consistent with accounting policies adopted by similar businesses and in management's judgement reasonably reflects the underlying economic risks and rewards associated with the assets in question.

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting judgements, assumptions and estimates (continued)

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

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues.

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

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

The mortality rate is based on publicly available mortality table. Future salary increases and pension increases are based on expected future inflation rate. Further details about the assumptions used are given in Note 12.

Pre-publication costs – useful economic life of intangible asset
As detailed in note 2.1, the company capitalises pre-publication costs as an internally generated intangible asset where it meets the criteria set out in IAS 38. After capitalisation, the company amortises the intangible asset on a systematic basis over its useful economic life. The company considers that an amortisation period of not more than 5 years reasonably reflects the usage of pre-publication assets over the principal economic period of use.

NOTES TO THE FINANCIAL STATEMENTS

4. Other financial information

The total Company 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:**	**Note**	**2017 £'000**	**2016 £'000**
	Sales of goods		38,511	58,650
	Rendering of services		129,208	137,828
	Sales to external customers		167,719	196,478
	Sales to related parties		105,165	46,010
	Revenue		272,884	242,488
	Finance revenue		8,363	4,167
	Total revenue		281,247	246,655

No revenue was derived from exchanges of goods or services (2016: £nil)

	By business segment	
	2017 £'000	**2016 £'000**
Primary		
Continuing operations:		
Research division	200,874	178,288
Language Learning	52,974	46,769
International Higher Education	19,036	17,431
	272,884	242,488

	By destination	
	2017 £'000	**2016 £'000**
Secondary		
Continuing operations:		
Europe including UK	129,930	88,487
North America	39,430	44,665
Africa	10,117	7,428
Asia Pacific	54,465	67,444
Rest of the World	38,942	34,464
	272,884	242,488

NOTES TO THE FINANCIAL STATEMENTS

5. Revenues and expenses

Other income

	Note	2017 £'000	2016 £'000
Gains from currency translation (£2,144,000 of which is with a related parties 2016: £3,845,000)		8,488	15,212
Management charges to related parties	19	70,124	17,522
Other		-	196
		78,612	32,930
Income from related parties	19	72,268	21,368

Depreciation and amortisation expense

	2017 £'000	2016 £'000
Depreciation of tangible fixed assets	(2,985)	(3,549)
Amortisation of intangible assets	(16,143)	(12,864)
	(19,128)	(16,413)

Other expenses

	Note	2017 £'000	2016 £'000
Advertising and distribution expenses		(11,039)	(8512)
Administration expenses		(37,901)	(34,814)
Rent and lease expenses (£7,492,000 which is with a related party 2016: £7,447,000)		(12,000)	(11,736)
Losses from currency translation (£2,127,000 of which is with related parties 2016: £12,178,000)		(10,414)	(14,454)
Losses on disposal of property, plant equipment and intangible assets			-
Management charges from related parties		(75,041)	(24,376)
Other		-	(53)
		(146,395)	(93,945)
Other expenses with related parties	19	(77,204)	(44,001)

Finance revenue

	Note	2017 £'000	2016 £'000
Bank interest receivable		10	10
Interest receivable from related parties	19	8,353	4,157
Other interest income		-	-
Total finance revenue		8,363	4,167

NOTES TO THE FINANCIAL STATEMENTS

5. Revenues and expenses (continued)

Finance costs		2017 £'000	2016 £'000
Bank loans and overdrafts		(42)	(4)
Interest payable to related parties	19	(6,930)	(3,645)
Other interest expense		(454)	(298)
Total finance costs		(7,426)	(3,947)

Operating profit is stated after charging:

		2017 £'000	2016 £'000
Changes in inventory reserve		(737)	1,860
Operating lease payments – minimum lease payments		(3,561)	(123)
Pension net benefit income/ (expense)	12	(1,767)	(1,301)
Auditors' remuneration		(164)	(213)

6. Staff costs and Directors' emoluments

(a) Directors' emoluments	2017 £'000	2016 £'000
Directors' emoluments	(1,622)	(5,006)

	2017 No.	2016 No.
Number of directors accruing benefits under:		
Defined benefit pension schemes	-	-
Defined contribution pension schemes	4	4

	2017 £'000	2016 £'000
Company contributions paid to defined contribution pension schemes	(139)	(114)

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

	2017 £'000	2016 £'000
Emoluments	(731)	(3,102)
Accrued pension at the year end under defined benefit scheme	-	-
Company contributions paid to defined contribution pension schemes	74	17

NOTES TO THE FINANCIAL STATEMENTS

6. Staff costs and Directors' emoluments (continued)

(b) Employee benefits expense, including directors

	2017 £'000	2016 £'000
Wages and salaries	(74,683)	(67,654)
Social security costs	(7,729)	(7,230)
Pension costs	(4,570)	(3,290)
Severance payments	(1,324)	(2,326)
	(88,306)	(80,500)

The Company paid contributions to a defined contribution pension plan (group personal pension or money purchase plan).

Contributions were as follows:

	2017 £'000	2016 £'000
For key management personnel	(139)	(79)
For other staff	(3,428)	(2,952)
	(3,567)	(3,031)
The average number of persons employed by the Company during the year	1,359	1,330

Certain directors are paid by other companies in the group and their remuneration is not disclosed in this financial statement.

7. Taxation

(a) Tax on profit on ordinary activities

	2017 £'000	2016 £'000
Tax charged on the income statement		
Current income tax:		
Current income tax	(9,649)	(8,493)
Adjustments in respect of current income tax of previous years	(1,706)	27
Foreign tax suffered	(499)	-
Total current income tax	(11,854)	(8,466)
Deferred income tax:		
Relating to origination and reversal of temporary differences	(363)	(80)
Adjustments in respect of deferred tax of previous years	(708)	738
Relating to change in tax rates	5	4
Total deferred income tax	(1,066)	662
Income tax expense reported in income statement	(12,920)	(7,804)

NOTES TO THE FINANCIAL STATEMENTS

7. Taxation (continued)

Tax relating to the components of other comprehensive income that may in the future impact the income statement:	**2017 £'000**	**2016 £'000**
Tax on (profit)/ loss on cash flow hedges	-	-
Tax on reversal of 2017/2016 gain on cash flow hedges	-	-
	-	-

Tax relating to the components of other comprehensive income that will have no future impact on the income statement:		
Tax on actuarial losses/(gains) relating to the defined benefit plan	1,577	7,093
	1,577	7,093

(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 Company's effective income tax rate for the years ended 31 December 2017 and 2016 is as follows:

	2017 £'000	**2016 £'000**
Accounting profit before income tax	236,598	41,303
At UK statutory income tax rate of 19.25% (2016: 20%)	45,545	8,261
Income not subject to corporation tax	(36,136)	-
Expenses not deductible for tax purposes	455	238
Adjustments in respect of prior years	2,506	(573)
Changes in tax rates	(42)	906
Changes in temporary differences	93	(1,028)
Pension deductions taken to reserves	-	-
Other	499	-
At effective income tax rate of 5.5% (2016:18.9%)	12,920	7,804

Factors that may affect future tax charges:

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

In the 2016 Budget, the Chancellor announced a further reduction in the main rate of UK corporation tax to 17% from 1 April 2020, and this was substantively enacted in September 2016. No further changes were announced in the 2017 Budget. Deferred tax has been calculated using a rate of 17% as this is the substantively enacted rate at which it was expected that temporary differences would reverse at the balance sheet date.

(c) Unrecognised tax losses

The Company has £nil unrecognised tax losses (2016: £nil) that are available indefinitely for offset against future taxable profits.

NOTES TO THE FINANCIAL STATEMENTS

7. Taxation (continued)

(d) Deferred income tax
The analysis by category of deferred tax included in the balance sheet is as follows:

	2017 £'000	2016 £'000
Deferred tax asset		
Depreciation in excess of capital allowances	(161)	688
Defined benefit pension schemes	8,935	8,884
Other timing differences	154	200
Deferred tax asset	8,928	9,772

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

	2017 £'000	2016 £'000
Deferred tax in the income statement		
Depreciation in excess of capital allowances	298	323
Other timing differences	768	(985)
Deferred income tax expense	1,066	(662)

8. Dividends paid

	2017 £'000	2016 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
interim dividend of £4.60 per share was paid for 2017 (2016: £nil)	46,372	-

NOTES TO THE FINANCIAL STATEMENTS

9. Property, plant and equipment

31 December 2017	Plant and equipment £'000
Cost	
At 1 January 2017	37,679
Additions	5,227
Disposals	(1,605)
At 31 December 2017	41,301
Accumulated depreciation	
At 1 January 2017	(13,069)
Charge for year	(2,985)
Disposals	1,571
At 31 December 2017	(14,483)
Net book value	
At 31 December 2017	26,818
At 31 December 2016	24,610

10. Intangible assets

31 December 2017	Development costs £'000	Pre-publication costs £'000	Total £'000
Cost			
At 1 January 2017	16,303	92,062	108,365
Adjustment to opening balance	-	209	209
Acquisitions	4,436	19,329	23,765
Disposals	(295)	-	(295)
At 31 December 2017	20,444	111,600	132,044
Accumulated amortisation			
At 1 January 2017	(10,031)	(68,220)	(78,251)
Charge for the year	(3,849)	(12,295)	(16,144)
Disposals	295	-	295
At 31 December 2017	(13,585)	(80,515)	(94,100)
Net book value			
At 31 December 2017	6,859	31,085	37,944
At 31 December 2016	6,272	23,842	30,114

NOTES TO THE FINANCIAL STATEMENTS

11. Investments in subsidiaries

The following table illustrates summarised information of investments in subsidiaries:

	2017 £'000	2016 £'000
Cost at 1 January	77,510	21,756
Additions	-	55,754
Disposals	-	-
Provisions for impairment	-	-
	77,510	77,510

See note 19 for a list of subsidiaries and associates and list of intercompany receivables and payables.

12. Employment benefits

Pensions and other post-employment benefit plans

The Company operates three defined benefit pension schemes which were closed to new entrants in 1995. The schemes require contributions to be made to separately administered funds.

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

	2017 £'000	2016 £'000
Employee benefits expense:		
Current service cost	(142)	(145)
Past service cost	397	-
Settlement	(397)	-
Net interest	(1,625)	(1,156)
Net benefit income/ (expense)	(1,767)	(1,301)
Benefit liability:		
Present value of scheme liabilities	(285,833)	(286,633)
Plan assets:		
Equities	-	-
Debt	119,269	121,731
Properties	161	5,953
Cash	5,181	6,476
Target return funds	39,780	37,109
Buy-in contracts	46,244	48,277
Fair value of plan assets	210,635	219,546
Defined benefit pension plan deficit	(75,197)	(67,087)

NOTES TO THE FINANCIAL STATEMENTS

12. Employment benefits (continued)

Movement in the benefit liability during the years to 31 December 2017 and 2016 is as follows:

	2017 £'000	2016 £'000
At 1 January	(67,087)	(32,704)
Net benefit income / (expense)	(1,767)	(1,300)
Re-measurement gains/(losses) in other Comprehensive income:-		
Return on plan assets (excluding amounts shown in net interest expense)	(11,184)	24,112
Actuarial changes arising from changes in demographic assumptions	5,349	-
Actuarial changes arising from changes in financial assumptions	(9,755)	(63,304)
Effect of experience adjustments	52	-
	(17,305)	(40,492)
Contributions	**9,194**	**6,109**
	(75,197)	**(67,087)**

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

	2017 %	2016 %
Discount rate	2.40	2.60
Future salary increases	3.10	3.20
Future pension increases		
- For service 1 March 1997 to 5 April 2005	3.65	3.65
- For all other periods of service	3.00	3.20
Inflation	3.10	3.20

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 2017 Years	UK Plan 2016 Years
Current pensioners at 65 – male	23.0	23.2
Current pensioners at 65 – female	24.5	24.9
Future pensioners at 65 – male	24.4	24.9
Future pensioners at 65 – female	26.1	26.8

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 is shown below:

Assumptions	**Discount rate**	**Future salary increases**	**Future pension increases**	**Life expectancies**
Sensitivity Level	0.25% decrease	0.25% increase	0.25% increase	1 year increase
Impact on defined benefit obligation relating to UK plan	14,205	768	5,102	11,119

NOTES TO THE FINANCIAL STATEMENTS

12. Employment benefits (continued)

The sensitivity analysis above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Sensitivity disclosures for the defined benefit obligation for the comparative period (31 December 2016) have not been provided as permitted under the transitional provisions of IAS 19(revised).

The duration of the UK plan defined benefit obligation at 31 December 2017 is 15 years.

In 2013, the Company established an asset backed funding solution to address the pension scheme deficit. The transaction is designed to generate a long-term stream of receipts by transferring the rights of an intra-group loan agreement and an intra-group lease agreement to the pension scheme. The loan agreement is guaranteed by a parent company, the lease agreement is backed by freehold interest on the leased property. The transaction will provide a regular stream of receipts over the next 17 years and will assist the Company in reducing the pension scheme deficit.

13. Inventories

	2017	2016
	£'000	£'000
Raw materials	112	77
Work-in-progress	4,331	5,396
Finished goods	4,912	8,351
	9,355	13,824

14. Trade and other receivables

	Note	2017	2016
Current		£'000	£'000
Trade receivables		37,281	60,482
Author advances		1,337	794
Prepayments		47,020	49,600
Other related parties	19	330,895	251,553
Other debtors		12,594	5,758
		429,128	368,187

The increase in 'other related parties receivables' is partly due to the implementation of group shared customer service centres to perform third party billing.

As at 31 December 2017 trade receivables at nominal value of £6,286,000 (2016: £6,584,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2017	2016
	£'000	£'000
At 1 January	(6,584)	(5,192)
Other adjustments	(55)	-
Released/(Charged) during the year	353	(1,399)
Utilised	-	7
At 31 December	(6,286)	(6,584)

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

NOTES TO THE FINANCIAL STATEMENTS

14. Trade and other receivables (continued)

		Neither past	Past due and provided for			
		due nor	<90	90-180	180 - 360	360+
	Total	impaired	Days	Days	Days	Days
	£'000	£'000	£'000	£'000	£'000	£'000
2017	37,281	20,695	5,746	3,038	908	6,894
2016	60,482	40,578	10,717	1,921	7,266	-

15. Cash and cash equivalents

	2017	2016
	£'000	£'000
Cash at bank and in hand	3,627	2,656

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 is £3,627,000 (2016: £2,656,000).

16. Issued share capital and reserves

	Number	£'000
Allotted, called up and fully paid:		
31 December 2017		
Ordinary shares of £1 each		
At 1 January and 31 December 2017	10,085,470	10,085
31 December 2016		
Ordinary shares of £1 each		
At 1 January and 31 December 2016	10,085,470	10,085

17. Trade and other payables

	Note	2017	2016
Current		£'000	£'000
Trade payables		11,323	9,162
Royalties payable		11,986	9,768
Other payables and accruals		21,883	30,713
Deferred income		10,288	40,841
Other related parties	19	231,330	190,488
		286,810	280,972

NOTES TO THE FINANCIAL STATEMENTS

18. Commitments and contingencies

Operating lease commitments – Company as lessee
The Company 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 Company 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:

	2017	2016
	£'000	£'000
Within one year	4,399	4,016
After one year but not more than five years	7,519	26
More than five years	15,325	-
	27,243	4,042

Operating lease commitments – Company as lessor

The Company 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:

	2017	2016
	£'000	£'000
Within one year	-	-
After one year but not more than five years	-	-
	-	-

Capital commitments
At 31 December 2017, the Company had commitments of £nil (2016: £nil) contracted for but not provided in the financial statements.

Contingent Liabilities
At 31 December 2017, the Company had other guarantees £177,278,349 (2016: £1,482,000) relating to various subsidiaries. Included in the other guarantees is a guarantee the Company has extended to its subsidiary Springer Nature Two Ltd in respect of preference share capital held in Macmillan Publishers Holdings Limited (MPHL). The preference shares do not have a fixed maturity date and the guarantee would only come into effect in the event of a return of capital by MPHL. The maximum amount due under the guarantee is EUR 198,875,338 less any monies furnished by MPHL.

NOTES TO THE FINANCIAL STATEMENTS

19. Related party disclosures

	Note	Country of incorporation/ registration	Class of share	Proportion of voting rights held by the Group 2017	2016
Macmillan Publishers Holdings Limited	1	England and Wales	Ordinary	100.00%	100.00%
Macmillan (SLP) General Partner Limited		England and Wales	Ordinary	100.00%	100.00%
Springer Nature Two Limited	1	England and Wales	Ordinary	100.00%	100.00%
Macmillan Scottish Limited Partnership		Scotland	Ordinary	100.00%	100.00%
Macmillan Iberia S.A.		Spain	Ordinary	100.00%	100.00%
Nature Publishing Group Iberoamerica S.L.		Spain	Ordinary	-	100.00%
Macmillan Polska Sp. Z.o.o.		Poland	Ordinary	100.00%	100.00%
College Press Netherlands B.V.		Netherlands	Ordinary	100.00%	100.00%
Nature America, Inc.		USA	Ordinary	100.00%	100.00%
Springer Nature Academic Publishing, Inc. (formerly Macmillan Academic Publishing, Inc)		USA	Ordinary	100.00%	100.00%
Rednova Learning Inc.		USA	Ordinary	100.00%	100.00%
Macmillan Education Namibia Publishers (Pty) Limited		Namibia	Ordinary	100.00%	100.00%
Macmillan Boleswa Publishers (Pty) Limited	1	Swaziland	Ordinary	100.00%	100.00%
Macmillan South Africa (Pty) Limited	2	South Africa	Ordinary	75.00%	75.00%
Macmillan Educacao Mozambique Ltda		Mozambique	Ordinary	80.00%	80.00%
Editora Nacional de Mocambique		Mozambique	Ordinary	90.00%	90.00%
Macmillan Publishers (China) Limited	1	Hong Kong	Ordinary	100.00%	100.00%
Macmillan Information Consulting Services (Shanghai) Co. Limited		China	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%
Macmillan Korea Publishers Limited		South Korea	Ordinary	100.00%	100.00%
Macmillan Taiwan Limited	1	Taiwan	Ordinary	100.00%	100.00%
Macmillan Publishers (Thailand) Limited	1	Thailand	Ordinary	100.00%	100.00%
Macmillan Publishers, S.A. de C.V.	1	Mexico	Ordinary	100.00%	100.00%
Ediciones Castillo, S.A. de C.V.	1	Mexico	Ordinary	100.00%	100.00%
Macmillan do Brasil Editora, Commercializadora, Importadora e Distribuidora Ltda	1	Brazil	Ordinary	100.00%	100.00%
Macmillan Publishers S.A.		Peru	Ordinary	100.00%	95.00%
Macmillan Publishers S.A.	1	Argentina	Ordinary	100.00%	100.00%
Editorial Puerto de Palos S.A.	1	Argentina	Ordinary	100.00%	100.00%
Editorial Estrada S.A.	1	Argentina	Ordinary	100.00%	100.00%
Macmillan Publishers S.A.S.		Colombia	Ordinary	100.00%	100.00%
Macmillan Publishers Egypt Limited	1	Egypt	Ordinary	100.00%	100.00%
Kawkab Distribution Limited		Egypt	Ordinary	100.00%	98.00%

<u>Notes</u>

1 Shares held directly by the Company. All other shares are held wholly or partly by subsidiary undertakings.

2 The 25% minority held in the South African entity relates to obligations under the black economic empowerment rules in South Africa.

NOTES TO THE FINANCIAL STATEMENTS

19. Related party disclosures (continued)

The Company's immediate parent undertaking is Springer Nature (UK) Limited (formerly Macmillan Limited).

The Company's ultimate parent undertaking and controlling party is Springer Nature AG & Co. KGaA (formerly known as Springer SBM Zero GmbH).

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

Related party		**Income from related parties £'000**	**Expenses with related parties £'000**	**Interest received from related parties £'000**	**Interest paid to related parties £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Intermediate holding company:							
Springer Nature Publishers Holdings Limited (formerly Holtzbrinck Publishers Holdings Limited)							
	2017	-	(530)	3,954	-	143,952	538
	2016	-	-	4,063	-	138,513	-
Springer Nature Holdings Limited (formerly HM Publishers Holdings Limited)							
	2017	-	(6,161)	-	-	2,364	151,279
	2016	-	(7,447)	-	-	-	152,643
Associate:							
Georg von Holtzbrinck GmbH & Co. KG							
	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-
Springer Nature Three GmbH (formerly Springer Science+Business Media GmbH)							
	2017	-	(2)	1407	(6)	65,671	-
	2016	-	(1,278)	125	-	37,256	-
Rednova Learning Inc.							
	2017	70	(2,755)	12	(18)	5	824
	2016	-	(3,016)	20	-	1	1,082
Spektrum der Wissenschaft Verlagsgellschaft mbH							
	2017	8	(6)	-	-	9	1
	2016	225	(61)	-	(20)	2	-
Fellow undertakings:							
Macmillan Publishers Holdings Limited							
	2017	500	(1,214)	-	(4,720)	25,896	4,043
	2016	-	-	-	-	26,617	128,671
College Press Netherlands B.V. (formerly Stockton Press Netherlands BV)							
	2017	57	(51)	-	-	35	-
	2016	-	-	-	-	-	-
Macmillan Publishers, S.A. de C.V. (formerly Editorial Macmillan de Mexico SA de CV)							
	2017	8,726	(1,023)	-	-	4,524	209
	2016	4,400	-	-	(90)	3,456	26

NOTES TO THE FINANCIAL STATEMENTS
19. Related party disclosures (continued)

Fellow undertakings: (continued)

Related party		**Income from related parties £'000**	**Expenses with related parties £'000**	**Interest received from related parties £'000**	**Interest paid to related parties £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Macmillan do Brasil Editora, Comercializadora, Importadora e Distribuidora Ltda							
	2017	3,047	(284)			3,796	-
	2016	1,768	-	-	-	3,116	-
Macmillan Language House Limited							
	2017	750	(14)			493	-
	2016	537	(10)	-	-	380	-
Macmillan Publishers S.A. (Peru)							
	2017	1,859	(262)	-	-	212	-
	2016	1,188	-	-	-	994	-
Macmillan Publishers S.A. (Argentina)							
	2017	1,142	(380)	-	-	968	11
	2016	1,716	-	-	-	1,326	12
Editorial Puerto de Palos S.A.							
	2017	134	-	-	-	153	-
	2016	-	-	-	-	19	-
Editorial Estrada S.A.							
	2017	145	-	-	-	169	-
	2016	-	-	-	-	23	-
Macmillan Publishers S.A.S							
	2017	234	(214)	-	-	617	-
	2016	593	-	-	-	655	-
Macmillan Taiwan Ltd							
	2017	-	(172)	-	-	-	2
	2016	-	(191)	-	-	-	66
Macmillan Polska Sp. Z.o.o.							
	2017	595	(515)	-	-	346	53
	2016	416	(127)	-	-	112	122
Macmillan Iberia S.A.							
	2017	11,606	(2,748)	-	-	4910	473
	2016	10,259	(1,996)	-	(3)	3,943	490
Macmillan South Africa (Pty) Limited							
	2017	484	(73)	-	-	364	84
	2016	140	(60)	-	-	71	17
Macmillan Education Swaziland (Pty) Ltd							
	2017	33	-	-	-	34	-
	2016	-	-	-	-	-	-
MSNP (Pty) Ltd							
	2017	66	-	-	-	66	-
	2016	-	-	-	-	-	-
Namibia Publishing House (Pty) Limited							
	2017	33	-	-	-	33	-
	2016	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

19. Related party disclosures (continued)

Fellow undertakings: (continued)

Related party		**Income from related parties £'000**	**Expenses with related parties £'000**	**Interest received from related parties £'000**	**Interest paid to related parties £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Macmillan Botswana Publishing Company (Pty)							
	2017	8	-	-	-	7	-
	2016	-	-	-	-	-	-
Springer Science and Business Media Australia Pty Ltd.							
	2017	1	(88)	-	-		13
	2016	-	-	-	-	-	-
Macmillan Science and Education Australia Pty Limited							
	2017	634	(2,244)	-	-	672	341
	2016	419	(2,600)	-	-	259	629
Ediciones, Castillo S.A. de C.V.							
	2017	487	-	-	-	476	21
	2016	-	(184)	-	(72)	-	23
Macmillan Administracion Corporativa S.A. de C.V.							
	2017	14	-	-	-	17	-
	2016	-	-	-	-	-	-
Macmillan Publishers (China) Limited							
	2017	739	(9,384)	-	-	780	89
	2016	-	(11,901)	-	-	-	20,203
Macmillan Information Consulting Services (Shanghai) Co. Limited							
	2017	83	(7,522)	18	-	350	2,075
	2016	782	(9,150)	12	-	642	2,172
Macmillan Korea Publishers Limited							
	2017	24	(170)	-	-	-	200
	2016	-	(282)	-	-	-	222
Nature America, Inc.							
	2017	41,630	(11,286)	-	-	9,458	9,338
	2016	13,502	(4,651)	-	-	7,746	4,125
Nature Japan K.K.							
	2017	7,810	(2,370)	-	-	-	1,734
	2016	5,041	(1,527)	-	-	15,820	2,251

NOTES TO THE FINANCIAL STATEMENTS

19. Related party disclosures (continued)

Fellow undertakings: (continued)

Related party		**Income from related parties £'000**	**Expenses with related parties £'000**	**Interest received from related parties £'000**	**Interest paid to related parties £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Springer India Private Limited							
	2017	68	(289)	-	-	61	336
	2016	-	-	-	-	-	-
Macmillan Publishers India Private Limited							
	2017	288	(121)	-	-	199	146
	2016	61	(556)	-	-	79	291
Macmillan Publishers Egypt Limited							
	2017	2,149	(484)	-	-	5,309	440
	2016	1,634	(351)	-	-	4,822	55
Macmillan Publishers (Thailand) Ltd							
	2016	-	(454)	-	-	-	140
	2016	-	(422)	-	-	-	138
Macmillan Publishers International Ltd							
	2017	-	-	-	-	-	-
	2016	-	-	-	-	5,304	228
Holtzbrinck Investments Ltd							
	2017	-	-	-	-	-	-
	2016	-	-	-	-	-	-
Springer Nature Finance B.V. (formerly Springer Science+Business Media Finance B.V.)							
	2017	2	(213)	-	(2,186)	-	70,158
	2016	-	-	196	(3,522)	-	68,958
Springer Nature B.V. (formerly Springer Science+Business Media B.V.)							
	2017	68	(824)	-	-	56	525
	2016	13	(572)	-	-	13	1,228
Springer Fachmedien Wiesbaden GmbH							
	2017	25	(5)	-	-	27	5
	2016	59	(19)	-	-	62	19
Springer-Verlag GmbH							
	2017	566	(1,682)	-	-	16	59
	2016	302	(525)	-	-	-	71
Springer Customer Service Center GmbH							
	2017	33,823	(3,627)	-	-	265	36
	2016	10,507	(1,788)	-	-	69	45
InfoChem Gesellschaft für chemische Information mbH							
	2017	-	(440)	-	-	-	46
	2016	-	-	-	-	-	-
Adis International Ltd							
	2017	-	(86)	-	-	7	-
	2016	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

19. Related party disclosures (continued)

Fellow undertakings: (continued)

Related party		**Income from related parties £'000**	**Expenses with related parties £'000**	**Interest received from related parties £'000**	**Interest paid to related parties £'000**	**Amounts owed by related parties £'000**	**Amounts owed to related parties £'000**
Springer Science+Business Media UK Limited							
	2017	43	(5)	-	-	9	-
	2016	156	-	-	-	31	-
Springer Science+Business Media Deutschland GmbH							
	2017	4	(310)	-	-	3	298
	2016	-	(5)	-	-	-	35
Springer International Publishing AG							
	2017	49,332	(55,509)	-	-	47,966	57,359
	2016	5,406	(9,205)	-	-	5,406	9,205
Springer Japan K.K.							
	2017	113	(1)	-	-	3	-
	2016	55	-	-	-	21	-
Springer Science+Business Media, LLC							
	2016	19	(307)	-	-	4	13
	2016	151	(352)	-	-	243	(30)
Springer-Verlag London Limited							
	2016	16	(13)	-	-	22	97
	2016	98	(3)	-	-	132	384
Scientific Publishing Services Private Ltd							
	2017	-	-	-	-	-	-
	2016	-	(46)	-	-	-	-
Springer Customer Service Center LLC							
	2017	12,214	(3,091)	-	-	127	31
	2016	6,635	(2,117)	-	-	102	12
Springer Health do Brasil Editora, Comercializadora, Importadora e Distribuidora Ltda							
	2017	22	-	-	-	34	-
	2016	11	-	-	-	12	-
Springer Nature Two Limited							
	2017	-	-	2,967	-	74,045	-
	2016	-	-	-	-	67,986	-

NOTES TO THE FINANCIAL STATEMENTS

19. Related party disclosures (continued)

Fellow undertakings: (continued)

Related party		Income from related parties £'000	Expenses with related parties £'000	Interest received from related parties £'000	Interest paid to related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Springer Healthcare Italia S.r.l.							
	2017	9	-	-	-	5	-
	2016	8	-	-	-	-	-
Springer Science+Business Media France S.A.R.L							
	2017	-	-	-	-	-	-
	2016	3	-	-	-	-	-
Springer Science+Business Media Mexico, S.A. de C.V.							
	2017	6	-	-	-	5	-
	2016	3	(1)	-	-	3	-
Shanghai Springer Information Consulting Services Co., Ltd.							
	2017	15	-	-	-	52	-
	2016	51	-	-	-	34	(5)
Springer Media B.V.							
	2017	-	-	-	-	-	-
	2016	3	-	-	-	-	-
Springer Healthcare Limited							
	2017	121	-	-	-	26	-
	2016	136	(3)	-	-	62	2
Springer Healthcare Iberica, S.L.U.							
	2017	-	-	-	-	9	-
	2016	79	(7)	-	-	20	253
Springer Healthcare LLC							
	2017	-	(503)	-	-	29	43
	2016	8	(3)	-	-	46	47
Crest Premedia Solutions Private Ltd							
	2017	-	(307)	-	-	-	50
	2016	-	(54)	-	-	-	28
BioMed Central Limited							
	2017	16	-	-	-	11	2
	2016	35	(7)	-	-	35	-
Macmillan Boleswa Publishers (Pty) Ltd							
	2017	687	(83)	-	-	5,820	55
	2016	-	(7)	-	-	5,729	-
Prensa Cientifica, S.A.							
	2017	-	-	-	-	-	-
	2016	59	(3)	-	-	3	-
Total:							
	2017	180,596	(117,983)	8,357	(6,930)	400,317	300,919
	2016	67,377	(60,122)	4,157	(3,645)	319,559	381,083

NOTES TO THE FINANCIAL STATEMENTS

19. 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 2017, the Company has not raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2016: £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 Company and Springer Nature Publishers Holdings Limited (formerly Holtzbrinck Publishers Holdings Limited). The effect was to eliminate foreign exchange volatility on certain intercompany receivables.

The ultimate parent
Springer Nature AG & Co. KGaA (formerly Springer SBM Zero GmbH)
The directors of the company consider the ultimate parent undertaking and controlling party to be Springer Nature AG & Co. KGaA (formerly Springer SBM Zero GmbH), a company incorporated in Germany (registered address: Heidelberger Platz 3, 14197, Berlin, Germany) which through its intermediary holding companies exercises control over the group.

Immediate holding company
Springer Nature (UK) Limited (formerly Macmillan Limited)
Springer Nature (UK) Limited (formerly Macmillan Limited) owns 100% of the ordinary shares in Macmillan Publishers Limited (2016: 100%). This company is incorporated in the United Kingdom.

Associates
College Press Publishers (Pvt) Limited
The Company has a 48.91% interest in College Press Publishers (Pvt) Limited (2016: 48.91%).

Non-current financial assets and liabilities
The Company has the following non-current loans and receivables with related parties. These loans and receivables are carried at amortised cost, which generate a fixed or variable interest. The balances arose through a set of transactions entered into to mitigate the foreign currency impact of certain Euro denominated intercompany loans. These balances are linked to the investment made during the year which is more particularly described in Note 11.

Non-current financial asset
The Company has a loan receivable in amount of £67,986,000 due from Springer Nature Two Limited.

Non-current financial liability
The Company has a loan payable of £67,986,000 due to Springer Nature Finance B.V. (formerly Springer Science+Business Media Finance B.V.) and a loan payable of £122,609,000 due to Macmillan Publishers Holdings Ltd.

20. Financial risk management objectives and policies

The Company'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 Company's operations.

The Company also enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Company's operations and its sources of finance. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company'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 Company 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 Company's accounting policies in relation to derivatives are set out in note 2.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial risk management objectives and policies (continued)

Foreign currency risk
The Company 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 Company operates, of which the principal currencies involved are the Australian Dollar, South African Rand, Hong Kong Dollar, Mexican Peso and the Japanese Yen.

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

Transaction exposure
The Company policy follows the policy of the wider Springer Nature Group which considers all major currency exposures over a medium-term horizon on a worldwide basis and looks to offset as many positions as possible. In the event that the remaining exposure could have a material adverse effect on the Group's liquidity position, foreign exchange hedges are implemented. Hedging activities are only carried out by the holding company Springer Nature Three GmbH (formerly Springer Science+Business Media GmbH). Foreign currency cover is generally arranged through the mechanism of foreign currency contracts, but currency options may be used in some cases.

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

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

Credit risk
The Company is exposed to credit risk due to the increasing concentration of the book retail market becoming concentrated in a small number of major customers. In addition, the Company exports to a variety of overseas customers. Formal credit limits are in place for all major customers. It is not the Company's policy to enter into credit insurance arrangements due mainly to restrictions on countries covered and the cost of arranging insurance cover. The Company has a long history of dealing with most of its major customers and historic bad debt experience has been low. Provisions as at 31 December 2017 of £6.2m has been further analysed in note 14. The directors consider that adequate provision has been made for credit risk.

There are no significant concentrations of credit risk within the Company. Credit risks arising from acting as guarantor are disclosed in note 18.

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

NOTES TO THE FINANCIAL STATEMENTS

20. Financial risk management objectives and policies (continued)

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments.

Year ended 31 December 2017	Within 1 Year £'000	1 to 5 Years £'000	More than 5 Years £'000	Total £'000
Non-derivative financial liabilities				
Guarantees	767	-	-	767
Trade and other payables	276,522	69,830	-	346,352
Total	277,289	69,830	-	347,119

Year ended 31 December 2016	Within 1 Year £'000	1 to 5 Years £'000	More than 5 Years £'000	Total £'000
Non-derivative financial liabilities				
Guarantees	1,482	-	-	1,482
Trade and other payables	240,131	190,595	-	430,726
Total	241,613	190,595	-	432,208

21. Financial instruments

Fair values
In respect of cash and cash equivalents, trade and other receivables, trade and other payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

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.

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

Financial liabilities, except for derivatives disclosed in note 21 are classified as being held at amortised cost and fair value is considered to be materially equivalent to book value.

NOTES TO THE FINANCIAL STATEMENTS

21. Financial Instruments (continued)

Hedging activities – cash flow hedges

Recognised through equity

At 31 December 2017, the Company had not entered into any foreign exchange contracts to hedge future expected cash flows in foreign currencies.

Recognised through income statement

During the year ended 31 December 2017 nil gains/ (losses) were removed from equity and recognised in profit and loss in relation to foreign exchange contracts.