

HM PUBLISHERS HOLDINGS LIMITED

Consolidated Report and Financial Statements

31 December 2000



REPORT AND FINANCIAL STATEMENTS 2000

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OFFICERS AND PROFESSIONAL ADVISERS

PRESIDENT

The Earl of Stockton

DIRECTORS

G D von Holtzbrinck	Chairman
P F Blake-Roberts	Resigned 20 July 2000
N G Byam Shaw	
R D P Charkin	
A G Crompton	Alternate for G R U Todd; appointed 18 September 2000
G R M Elliott	
C E Fleming	Alternate for R D P Charkin; appointed 31 August 2000
Dr P Gerckens	
M Grabner	
Dr R H Grisebach	
M Hamilton	Resigned 20 July 2000
The Hon D M B Macmillan	
Dr A Mahlert	
Dr C J R Partsch	Alternate for Dr A Mahlert
J Sargent	
G R U Todd	
R B Williamson	Resigned 20 July 2000

SECRETARY

C E Fleming

REGISTERED OFFICE

Brunel Road
Houndmills
Basingstoke
Hampshire RG21 6XS

BANKERS

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

SOLICITORS

Taylor Joynson Garrett
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y ODX

AUDITOR

Ernst & Young
Apex Plaza
Reading
RG1 1YE

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited group financial statements for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company and its subsidiaries continued as the publishing of books and periodicals, and the provision of on-line services.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The Company and its subsidiaries have had a successful year and expect to achieve satisfactory sales and profits during 2001.

During 2000, the Group acquired the Macmillan trademark for use in the USA from Macmillan Inc. (a subsidiary of Pearson Education Inc.). The Group's right to use the name Macmillan is not entirely exclusive, as limited rights have been granted to a number of parties, but the purchase of the trademark will allow the Group to establish a stronger identity worldwide.

RESULTS AND DIVIDENDS

The profit before taxation for the financial year to 31 December 2000 was £29.6m (1999: £29.7m). The profit retained for the year was £10.9m (1999: £9.3m) and has been transferred to reserves. A second interim dividend of £3.25m is proposed for the year to 31 December 2000. This, with the interim dividend paid on 25 April 2001, makes a total for the year of £6.5m (1999: £4.7m).

DIRECTORS AND THEIR INTERESTS

The directors holding office at the year-end are shown below together with details of their interests, including any interests of spouses or infant children, in ordinary shares of Group companies disclosable in these accounts.

The Company	Number of shares held	
	31 December 2000	1 January 2000
Fully paid £1 ordinary shares:		
N G Byam Shaw	2,000	2,000
R D P Charkin	-	-
A G Crompton - Alternate for G R U Todd; appointed 18 September 2000	-	-
G R M Elliott	-	-
C E Fleming - Alternate for R D P Charkin; appointed 31 August 2000	-	-
Dr P Gerckens (Germany)	-	-
M Grabner (Austria)	-	-
Dr R H Grisebach (Germany)	-	-
G D von Holtzbrinck (Germany)	-	-
The Hon D M B Macmillan	-	9,013
Dr A Mahlert (Germany)	-	-
Dr C J R Partsch (Germany) - Alternate for Dr A Mahlert	-	-
J Sargent (USA)	-	-
G R U Todd	-	-

The interests, if any, of Dr C J R Partsch, Mr R D P Charkin, Mr G D von Holtzbrinck and Dr A Mahlert in the Company's shares are shown in the directors' report of the Company's parent, Holtzbrinck Publishers Holdings Limited.

During 2000, the owners of 220,651 shares sold their shares to the immediate holding company, a fellow subsidiary of Georg von Holtzbrinck GmbH & Co. The sale was completed on 20 July 2000.

DIRECTORS' REPORT - (Continued)

FIXED ASSETS

Movements of fixed assets are shown in notes 9 to 11 to the accounts.

EMPLOYEE INVOLVEMENT

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

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

DISABLED PERSONS

The 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. The financial position of staff who become disabled is safeguarded by insurance maintained by the Company.

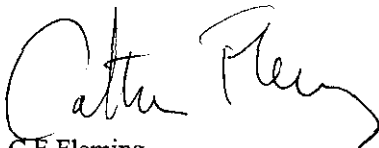
POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year charitable contributions totalled £55,662. No political contributions were made.

AUDITOR

Ernst & Young, which is a partnership under English law, is intending, with effect from 28 June 2001, to transfer its entire business to a limited liability partnership, to be called Ernst & Young LLP. Ernst & Young will then cease to carry on business and will wind up its affairs. If Ernst & Young does transfer its business to a limited liability partnership, it is open to the Company to consent to treating the appointment of Ernst & Young as extending, with effect from 28 June 2001, to Ernst & Young LLP, as permitted by section 26(5) Companies Act 1989. For these purposes, consent can be given by the Company's board of directors. A shareholders' resolution is not necessary. The Directors have indicated that they are willing to give such consent. At the next time for appointing auditors, Ernst & Young LLP will offer itself for reappointment.

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



C E Fleming

Secretary

1st June 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



C E Fleming
Secretary

1st June 2001

**REPORT OF THE AUDITOR TO THE MEMBERS OF
HM PUBLISHERS HOLDINGS LIMITED**

We have audited the financial statements on pages 6 to 30 which have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings and on the basis of the accounting policies set out on pages 12 and 13.

Respective responsibilities of directors and auditors

As described on page 4, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

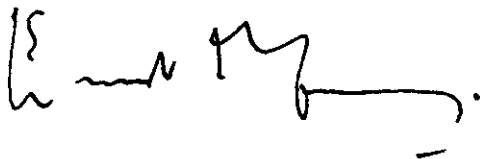
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2000 and of the profit for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG
Registered Auditor
Apex Plaza
Reading
RG1 1YE

June / 2001

HM PUBLISHERS HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2000

	Note	2000 £'000	1999 £'000
TURNOVER	2		
- Continuing operations		510,602	450,236
Cost of sales		222,663	202,624
Gross profit		287,939	247,612
Distribution costs		44,727	44,956
Administrative expenses		208,217	170,770
		252,944	215,726
TOTAL OPERATING PROFIT			
- Continuing operations	3	34,995	31,886
Income from interests in associated undertakings		67	(13)
Other interest receivable and similar income		1,752	2,457
Interest payable and similar charges	4	(7,205)	(4,591)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		29,609	29,739
Tax on profit on ordinary activities	6	6,974	10,403
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		22,635	19,336
Equity minority interests		5,192	5,328
PROFIT FOR THE FINANCIAL YEAR	7	17,443	14,008
Dividends on equity shares	8	6,500	4,700
PROFIT RETAINED FOR THE YEAR TRANSFERRED TO RESERVES	18	10,943	9,308

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2000

	2000 £'000	1999 £'000
Profit for the financial year	17,443	14,008
Currency translation differences on foreign currency net investment arising from the conversion of the opening reserves on the Balance Sheet	4,946	666
Total gains or losses recognised since the last annual report	<u>22,389</u>	<u>14,674</u>

HM PUBLISHERS HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET 31 December 2000

	Note	2000 £'000	1999 £'000
FIXED ASSETS			
Intangible assets	9	13,881	7,692
Tangible assets	10	64,179	55,967
Investments	11	1,462	1,328
		<u>79,522</u>	<u>64,987</u>
CURRENT ASSETS			
Stocks	12	121,463	97,159
Debtors	13	282,856	265,982
Cash at bank and in hand		12,388	22,615
		<u>416,707</u>	<u>385,756</u>
CREDITORS: amounts falling due within one year			
Bank loans, loan notes and overdrafts	14	31,580	37,177
Trade and other creditors	14	202,998	181,570
Dividends	8	6,500	4,700
		<u>241,078</u>	<u>223,447</u>
NET CURRENT ASSETS		<u>175,629</u>	<u>162,309</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>255,151</u>	<u>227,296</u>
CREDITORS: amounts falling due after more than one year	15	49,558	42,764
PROVISIONS FOR LIABILITIES AND CHARGES	16	318	625
EQUITY MINORITY INTERESTS		<u>51,473</u>	<u>45,994</u>
		<u>153,802</u>	<u>137,913</u>
CAPITAL AND RESERVES			
Called up share capital	17	772	772
Share premium account	18	9,158	9,158
Capital redemption reserve	18	48	48
Revaluation reserve	18	1,305	1,363
Other reserve	18	35,490	35,445
Profit and loss account	18	107,029	91,127
EQUITY SHAREHOLDERS' FUNDS	19	<u>153,802</u>	<u>137,913</u>

These financial statements were approved by the Board of Directors on
Signed on behalf of the Board of Directors

1st June 2001



R D P Charkin
Director

HM PUBLISHERS HOLDINGS LIMITED

COMPANY BALANCE SHEET 31 December 2000

	Note	2000 £'000	1999 £'000
FIXED ASSETS			
Tangible assets	10	14,160	12,755
Investments	11	34,472	34,472
		<u>48,632</u>	<u>47,227</u>
CURRENT ASSETS			
Debtors	13	121,940	76,681
Cash at bank and in hand		-	-
		<u>121,940</u>	<u>76,681</u>
CREDITORS: amounts falling due within one year			
Bank loans and overdrafts	14	37,152	2,837
Trade and other creditors	14	846	5,266
Dividends	8	6,500	4,700
		<u>44,498</u>	<u>12,803</u>
NET CURRENT ASSETS		<u>77,442</u>	<u>63,878</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		126,074	111,105
PROVISIONS FOR LIABILITIES AND CHARGES			
	16	508	524
		<u>125,566</u>	<u>110,581</u>
CAPITAL AND RESERVES			
Called up share capital	17	772	772
Share premium account	18	9,158	9,158
Capital redemption reserve	18	48	48
Revaluation reserve	18	1,305	1,363
Profit and loss account	18	114,283	99,240
EQUITY SHAREHOLDERS' FUNDS		<u>125,566</u>	<u>110,581</u>

These financial statements were approved by the Board of Directors on
Signed on behalf of the Board of Directors

1st June 2001



R D P Charkin

Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2000

	Note	2000 £'000	1999 £'000
Net cash inflow from operating activities	A	36,759	30,864
Returns on investments and servicing of finance			
Interest received		1,752	2,457
Interest paid		(6,966)	(4,323)
Interest element of finance leases		(185)	(132)
Payment from/(to) minority shareholders		224	(2,650)
Net cash outflow from returns on investment and servicing of finance		(5,175)	(4,648)
Taxation - Paid		(12,524)	(12,440)
- Refunded		-	573
Capital expenditure and financial investment			
Purchase of fixed assets		(16,272)	(8,876)
Sale of fixed assets		911	762
Net cash outflow for capital expenditure and financial investment		(15,361)	(8,114)
Acquisitions and disposals			
Purchase of intangibles		(7,150)	(984)
Sale of intangibles		665	-
Acquisition of investments and associated undertakings		(201)	(38)
Disposal of investments and associated undertakings		119	150
Purchase of subsidiaries net of cash acquired		(779)	(7,418)
Net cash inflow from investing activities		(7,346)	(8,290)
Equity dividends paid		(4,700)	(10,000)
Financing			
Purchase/(repayments) of loans		5,808	(287)
Capital element of finance lease rentals		(670)	(725)
Net cash outflow from financing		5,138	(1,012)
Decrease in cash	B	(3,209)	(13,067)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2000

A. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 £'000	1999 £'000
Operating profit	34,995	31,886
Increase in stocks	(19,672)	(24,692)
Increase in debtors	(4,451)	(5,797)
Increase in creditors	20,688	26,216
Decrease in creditors over one year	(2,290)	(5,915)
Profit on sale of fixed assets	(92)	(5)
Depreciation and amortisation charges	12,045	9,165
Foreign exchange movements	(4,464)	6
Net cash inflow from operating activities	36,759	30,864

B. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	At 31 December 2000 £'000
Decrease in cash in period	(3,209)
New loans and finance leases	(5,441)
Change in net debt resulting from cash flows	(8,650)
Net overdraft arising on acquisitions/reorganisation	(23)
New finance leases	(1,546)
Translation difference	(3,677)
Movement in net debt in period	(13,896)
Net debt at 1 January 2000	(44,989)
Net debt at 31 December 2000	(58,885)

ANALYSIS OF NET DEBT

	At 1 January 2000 £'000	Cash Flow £'000	Acquisition /reorganisation (excluding cash and overdrafts) £'000	Other non- cash changes £'000	Exchange movement £'000	At 31 December 2000 £'000
Cash in hand and at bank	22,615	(10,688)	51	-	410	12,388
Overdrafts	(37,177)	7,479	(74)	-	(1,808)	(31,580)
Debt due after 1 year	(29,047)	(5,809)	-	-	(2,379)	(37,235)
Finance leases	(1,380)	368	-	(1,546)	100	(2,458)
Total	(44,989)	(8,650)	(23)	(1,546)	(3,679)	(58,885)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain fixed assets, and comply with applicable Accounting Standards on a basis consistent with the previous year. The Group's profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings, as well as the Group's share of profits or losses and reserves of its associated undertakings.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of HM Publishers Holdings Limited and its subsidiaries and the Group's share of the results of its associated undertakings, from the date of acquisition and up to the date of disposal. A separate profit and loss account dealing with the results of the Company only has not been presented, as permitted by Section 230 of the Companies Act 1985.

Goodwill

Goodwill represents the difference between the cost of acquisition of a subsidiary, unincorporated business or associated undertaking and the fair value of its net assets at the date of purchase. Following the introduction of FRS 10: Goodwill and Intangible Assets, purchased goodwill is amortised to the profit and loss account over its expected useful life. Prior to FRS 10, goodwill was written off directly to reserves.

Intangible Assets

Intangible assets which can be measured reliably are capitalised on acquisition at the fair value of the consideration paid.

Amortisation

Normal Group policy is to amortise intangibles and goodwill over 15 to 20 years.

Depreciation

Depreciation of fixed assets is calculated on cost or valuation at rates considered appropriate for the class and estimated useful life of the assets concerned.

The following rates are used:

Freehold land	Nil
Freehold buildings	2.5% and 5% on book written down value
Freehold improvements	10% on a straight line basis
Leasehold properties	Proportional to the unexpired lease term
Plant, machinery and motor vehicles	10% to 33% on a straight line basis or on book written down value
Fixtures and fittings	10% to 20% on a straight line basis or on book written down value

Stocks

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. The administrative and other overheads of book publishing subsidiaries are not considered to be appropriate for inclusion in the valuation of stocks. Back numbers of journals are not valued.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided at the current tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Associated undertakings

An associated undertaking is a company, other than a subsidiary undertaking, in which the Group's interest is considered to be long-term and is substantial and where the Group is in a position to exercise significant influence over the company in which the investment is made.

Foreign currencies

Monetary assets and liabilities as well as the results of overseas subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings are taken to reserves and are reported in the Group statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised using the actuarial or sum of digits method.

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the periods of the leases.

Where a leasehold property becomes surplus to the Group's foreseeable business requirements, provision is made for the future expected net costs of the property.

Investments

In the financial statements of the Company, investments are shown at cost less provision for impairment.

In the consolidated financial statements, shares in associated undertakings are accounted for using the equity method of accounting. In the consolidated balance sheet, the shares in associated undertakings are shown as the Group's share of the net assets of the associated undertakings.

Pensions

Retirement benefits to a majority of Group employees are provided by defined benefit and defined contribution schemes, which are funded by contributions from Group companies and employees. Contributions are paid to pension trustees or insurance companies. The UK pension trustees include a number of employees. No part of the pension funds has been invested in, or lent to the Company or to its subsidiaries, or to anyone associated with the Group. The expected cost of providing pensions, as calculated periodically by independent actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the schemes in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

2. SEGMENTAL ANALYSIS

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

(a) Analysis of sales:

	2000		1999	
	£'000		£'000	
Total sales	552,564		486,425	
Intergroup sales	41,962		36,189	
	<u>510,602</u>		<u>450,236</u>	
	By origin		By destination	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Continuing operations:				
United Kingdom/Europe	143,813	140,610	121,038	121,595
North America	275,919	222,681	278,051	222,123
Africa	20,246	16,593	27,577	29,315
Asia Pacific	52,721	56,053	54,904	48,905
Rest of the World	17,903	14,299	29,032	28,298
Total	<u>510,602</u>	<u>450,236</u>	<u>510,602</u>	<u>450,236</u>

(b) Analyses of profit before taxation and net assets

In the directors' opinion it would be prejudicial to the Group's interests to disclose sales analyses by class of business and profits and net assets by class of business and by geographical area.

3. OPERATING PROFIT

	2000	1999
	£'000	£'000
The operating profit is stated after charging:		
Depreciation:		
- owned assets	10,423	7,282
- leased assets	762	1,258
Amortisation of goodwill and intangibles	860	625
Auditors' remuneration:		
- parent undertaking auditor for audit of UK companies	161	172
- parent undertaking auditor for audit of overseas companies	276	687
- other audit firms for audit of overseas companies	158	125
- parent undertaking auditor for non-audit services	76	67
Rentals under operating leases:		
- land and buildings	7,571	6,148
- other rentals	1,044	973

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2000

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £'000	1999 £'000
On bank loans, overdrafts and other borrowings	6,826	4,422
Interest payable to immediate holding company	194	37
Finance lease charges	185	132
	<u>7,205</u>	<u>4,591</u>

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2000 £'000	1999 £'000
Directors		
Directors' emoluments	1,796	1,286
	<u>2000</u>	<u>1999</u>
	No.	No.
Members of defined benefit pension schemes	3	3

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

	2000 £'000	1999 £'000
Emoluments	464	371
Annual amount of accrued pension at 31 December 2000	23	3

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Employees

	2000 No.	1999 No.
The average number of persons employed by the Group during the year:		
United Kingdom/Europe	1,539	1,405
North America	1,401	1,441
Africa	396	338
Asia Pacific	414	392
India	1,006	981
Rest of the World	227	172
	<u>4,983</u>	<u>4,729</u>

	2000 £'000	1999 £'000
--	---------------	---------------

Staff costs during the year including directors' emoluments:

Wages and salaries	93,856	79,663
Social security costs	12,773	8,251
Pension costs	3,963	3,515
	<u>110,592</u>	<u>91,429</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000 £'000	1999 £'000
United Kingdom corporation tax		
Charge for the year	1,496	1,358
Double tax relief	(445)	(232)
	<u>1,051</u>	<u>1,126</u>
United Kingdom deferred tax	(53)	281
Overseas current tax	6,782	13,398
Overseas deferred tax	(160)	(4,303)
Tax relating to associated undertakings	32	17
	<u>7,652</u>	<u>10,519</u>
Adjustment in respect of prior years	(678)	(116)
	<u>6,974</u>	<u>10,403</u>

The difference between the effective tax rate on profit on ordinary activities and the UK nominal rate is primarily due to overseas profits taxed at rates differing from those in the UK and the distortion caused by the use of prior-year losses not previously recognised.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2000

7. PROFIT FOR THE FINANCIAL YEAR

	2000	1999
	£'000	£'000
Dealt with in the accounts of the parent Company	4,545	2,073
Retained by subsidiary undertakings	12,863	11,966
Retained/(distributed) by associated undertakings	35	(31)
	<u>17,443</u>	<u>14,008</u>

8. DIVIDENDS

	2000	1999
	£'000	£'000
Interim dividend, first instalment paid	3,250	2,350
Second interim dividend	3,250	-
Final proposed	-	2,350
	<u>6,500</u>	<u>4,700</u>

9. INTANGIBLE FIXED ASSETS

THE GROUP

	Purchased Goodwill £'000	Intangible Assets £'000	Total £'000
Cost			
At 1 January	9,550	2,074	11,624
Exchange adjustment	761	180	941
Additions	104	7,046	7,150
Disposals	(199)	(748)	(947)
At 31 December	<u>10,216</u>	<u>8,552</u>	<u>18,768</u>
Accumulated depreciation			
At 1 January	3,835	97	3,932
Exchange adjustment	317	60	377
Charge for the year	750	110	860
Disposals	(199)	(83)	(282)
At 31 December	<u>4,703</u>	<u>184</u>	<u>4,887</u>
Net Book Value			
At 31 December 2000	<u>5,513</u>	<u>8,368</u>	<u>13,881</u>
At 31 December 1999	<u>5,715</u>	<u>1,977</u>	<u>7,692</u>

Goodwill amounting to £72,776,000 in respect of subsidiaries presently held was written off to reserves in earlier years, prior to the introduction of FRS 10.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2000

10. TANGIBLE FIXED ASSETS AT COST OR VALUATION

THE GROUP	Land and buildings		Plant, machinery and vehicles	Fixtures and Fittings	Total
	Freehold	Short leasehold			
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 January 2000	19,179	22,555	34,771	16,688	93,193
Exchange adjustment	3	1,489	1,459	312	3,263
Additions	2,426	5,015	6,917	3,843	18,201
Disposals	(360)	(176)	(2,132)	(1,015)	(3,683)
At 31 December 2000	21,248	28,883	41,015	19,828	110,974
Cost	19,978	28,883	41,015	19,828	109,704
Valuation 1986	2,137	-	-	-	2,137
Valuation adjustment 1994	(867)	-	-	-	(867)
At 31 December 2000	21,248	28,883	41,015	19,828	110,974
Accumulated depreciation					
At 1 January 2000	1,923	7,748	18,960	8,595	37,226
Exchange adjustment	3	388	629	228	1,248
Charge for the year	1,150	1,462	5,795	2,778	11,185
Disposals	-	(157)	(1,799)	(908)	(2,864)
Closing Balance	3,076	9,441	23,585	10,693	46,795
Net book value					
At 31 December 2000	18,172	19,442	17,430	9,135	64,179
At 31 December 1999	17,256	14,807	15,811	8,093	55,967

The net book value of plant, machinery and vehicles held under finance leases at 31 December 2000 amounted to £2,413,000 (1999 - £1,370,000).

The transitional provisions of FRS 15 are being followed and the valuation has not been updated. The Freehold property was last revalued on 31 December 1994.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2000

10. TANGIBLE FIXED ASSETS (continued)

THE COMPANY	Land and buildings		Total
	Freehold	Short Leasehold	
	£'000	£'000	£'000
Cost or valuation			
At 1 January 2000	12,740	4,323	17,063
Additions	2,359	4	2,363
At 31 December 2000	15,099	4,327	19,426
Cost	13,829	4,327	18,156
Valuation 1986 and 1994	1,270	-	1,270
	15,099	4,327	19,426
Accumulated depreciation			
At 1 January 2000	1,384	2,924	4,308
Charge for the year	346	612	958
At 31 December 2000	1,730	3,536	5,266
Net book value			
At 31 December 2000	13,369	791	14,160
At 31 December 1999	11,356	1,399	12,755

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2000

10. TANGIBLE FIXED ASSETS (continued)

Comparable amounts at historical cost

Land and buildings

	Freehold £'000
THE GROUP	
Cost	19,978
Accumulated depreciation	3,111
Net book value	
At 31 December 2000	16,867
At 31 December 1999	15,893
THE COMPANY	
Cost	13,829
Accumulated depreciation	2,377
Net book value	
At 31 December 2000	11,452
At 31 December 1999	9,993

11. INVESTMENTS HELD AS FIXED ASSETS

	The Group		The Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Shares in subsidiary undertakings	-	-	34,472	34,472
Interests in associated undertakings	209	243	-	-
Other investments	1,253	1,085	-	-
	<u>1,462</u>	<u>1,328</u>	<u>34,472</u>	<u>34,472</u>
(a) Subsidiary undertakings				
Shares at cost at 1 January	-	-	34,964	34,969
Additions	-	-	-	-
Other	-	-	-	(5)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>
Shares at cost at 31 December	-	-	34,964	34,964
Less provision	-	-	(492)	(492)
	<u>-</u>	<u>-</u>	<u>(492)</u>	<u>(492)</u>
Net book value at 31 December	<u>-</u>	<u>-</u>	<u>34,472</u>	<u>34,472</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

11. INVESTMENTS HELD AS FIXED ASSETS (continued)

At 31 December 2000 the following companies were the principal subsidiaries:

	Note	Country of incorporation /registration	Class of Share	Proportion of shares held by the Group	
				2000	1999
Macmillan Limited	1	England and Wales	Ordinary	100.00%	100.00%
Macmillan Publishers Limited		England and Wales	Ordinary	100.00%	100.00%
Stockton Press Limited		England and Wales	Ordinary	100.00%	100.00%
Macmillan Publishers Holdings Limited		England and Wales	Ordinary	100.00%	100.00%
Nautical Data Limited		England and Wales	Ordinary	50.01%	50.01%
Gill and Macmillan Limited	2	Ireland	Ordinary	49.98%	49.98%
Magyar Macmillan Tankonyvkiado Kft		Hungary	Ordinary	100.00%	100.00%
Heinemann Iberia S.A.		Spain	Ordinary	100.00%	100.00%
Heinemann International Publishers (Hellas) L.L.C.		Greece	Ordinary	100.00%	100.00%
Zenith ELT Publishing SA		Greece	Ordinary	100.00%	100.00%
Macmillan Armenia J.V. C.J.S.C.		Armenia	Ordinary	70.00%	70.00%
Macmillan Georgia LLC		Georgia	Ordinary	100.00%	100.00%
Macmillan Polska Sp. Z.O.O.		Poland	Ordinary	100.00%	100.00%
Macmillan Romania Srl		Romania	Ordinary	100.00%	-
Stockton Press Netherlands B.V.		Netherlands	Ordinary	100.00%	100.00%
Stockton Press Netherlands (Holdings) B.V.		Netherlands	Ordinary	100.00%	100.00%
Stockton Press (USA) Holdings B.V.		Netherlands	Ordinary	100.00%	100.00%
Stockton Press Germany GmbH		Germany	Ordinary	100.00%	100.00%
St Martin's Enterprises, Inc.		USA	Ordinary	100.00%	100.00%
SMP (1952), Inc.		USA	Ordinary	100.00%	100.00%
Holtzbrinck Publishers Holdings LLC		USA	Ordinary	66.00%	66.00%
Nature America, Inc.		USA	Ordinary	100.00%	100.00%
Grove's Dictionaries, Inc.		USA	Ordinary	100.00%	100.00%
Gamsberg Macmillan Publishers (Pty) Limited		Namibia	Ordinary	95.00%	95.00%
Macmillan Boleswa Publishers (Pty) Limited		Swaziland	Ordinary	100.00%	100.00%
Hodder & Stoughton Educational Southern Africa (Pty) Limited		South Africa	Ordinary	100.00%	-
Macmillan Publishers Services (Pty) Limited		South Africa	Ordinary	100.00%	100.00%
Pan Macmillan South Africa (Pty) Limited		South Africa	Ordinary	100.00%	100.00%
College Press Publishers (Pvt) Limited		Zimbabwe	Ordinary	50.00%	50.00%
Macmillan Kenya (Publishers) Limited		Kenya	Ordinary	100.00%	100.00%
Macmillan Uganda Limited		Uganda	Ordinary	80.00%	80.00%
Macmillan Malawi Limited		Malawi	Ordinary	85.70%	85.70%
Macmillan Aidan Limited		Tanzania	Ordinary	80.00%	80.00%
Macmillan Publishers Cameroon Limited		Cameroon	Ordinary	60.00%	60.00%
Macmillan Publishers (Zambia) Limited		Zambia	Ordinary	85.00%	85.00%
Unimax Macmillan Limited		Ghana	Ordinary	70.00%	-
Macmillan Publishers Australia Pty Limited		Australia	Ordinary	100.00%	100.00%
Pan Macmillan Australia Pty Limited		Australia	Ordinary	100.00%	100.00%
Macmillan Publishers New Zealand Limited		New Zealand	Ordinary	100.00%	100.00%
Macmillan India Limited	1	India	Ordinary	61.71%	61.08%
Macmillan Publishers (China) Limited		Hong Kong	Ordinary	100.00%	100.00%
Macmillan Shuppan K.K.		Japan	Ordinary	100.00%	100.00%
Macmillan Language House Limited		Japan	Ordinary	60.00%	60.00%
Nature Japan K.K.		Japan	Ordinary	100.00%	100.00%
Editorial Macmillan de Mexico, S.A. de C.V.		Mexico	Ordinary	95.00%	95.00%
Heinemann Mexico S.A. de C.V.		Mexico	Ordinary	100.00%	100.00%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

11. INVESTMENTS HELD AS FIXED ASSETS (continued)

Principal subsidiaries (continued):

	Note	Country of incorporation /registration	Class of Share	Proportion of shares held by the Group	
				2000	1999
Macmillan do Brasil		Brazil	Ordinary	100.00%	100.00%
Macmillan Publishers, S.A.		Peru	Ordinary	95.00%	95.00%
Macmillan Publishers S.A.		Argentina	Ordinary	100.00%	100.00%

During 2000 the Group acquired the Hodder & Stoughton Educational Southern Africa Group from Hodder Headline plc. This was acquired by the Group on 2 March 2000 and the shares are held by Macmillan Boleswa Publishers (Pty) Limited. This has been accounted for using the acquisition method.

Notes

- 1 Shares held directly by the Company. All other shares are held wholly or partly by subsidiary undertakings.
- 2 Subsidiary undertaking by virtue of control of the board of directors.

In the opinion of the directors the aggregate value of the assets of the Company consisting of shares in, or amounts owing (whether on loan or otherwise) from, the Company's subsidiaries is not less than the aggregate of the amounts at which those assets are stated in the balance sheet.

The principal activity of the above subsidiaries is the publishing and distribution of books and periodicals.

(b) Associated undertakings

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Net book value at 1 January	243	418	-	-
Exchange adjustment	11	6	-	-
Additions	26	31	-	-
Disposals	(106)	-	-	-
Controlling interest acquired in associated undertakings	-	(181)	-	-
Profit/(loss) retained for the year	35	(31)	-	-
Net book value at 31 December	209	243	-	-
Cost of shares	79	158	-	-
Share of post acquisition reserves	130	85	-	-
Net book value at 31 December	209	243	-	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

11. INVESTMENTS HELD AS FIXED ASSETS (continued)

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

	Country of Incorporation/ Registration	Class of share	Proportion of shares held by the Group as at 31 December	
			2000	1999
Pansing Distribution Sdn Bhd	Singapore	Ordinary	20.00%	20.00%
Stockton Press Educational Publishers B.V.	Netherland	Ordinary	40.00%	47.50%
Heinemann-Le Monnier S.r.l.	Italy	Ordinary	-	50.00%

All shares are held by subsidiary undertakings.

(c) Other investments

	The Group		The Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Unlisted shares at cost or valuation				
At 1 January	1,534	1,677	-	-
Exchange adjustment	7	7	-	-
Additions in year	175	-	-	-
Disposals in year	(14)	(150)	-	-
At 31 December	1,702	1,534	-	-
Provision				
At 1 January	(449)	(449)	-	-
Additions in year	-	-	-	-
At 31 December	(449)	(449)	-	-
Net book value at 31 December	1,253	1,085	-	-
Cost less provision	1,253	1,085	-	-
Directors' valuation	1,253	1,085	-	-

In addition to the associated undertakings (note 11b), the interest of the Group at 31 December 2000 exceeded 20% of the equity share capital of the following company:

	Country of Incorporation/ Registration	Class of share	Proportion of shares held by the Group	
			2000	1999
Northern Nigerian Publishing Company Limited	Nigeria	Ordinary	40.00%	40.00%

The shares in the above company were held by a subsidiary undertaking. The directors consider it prudent not to treat Northern Nigerian Publishing Company Limited as an associated undertaking but to classify it as an investment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

12. STOCKS

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Raw materials	5,942	3,734	-	-
Work in progress	35,393	27,395	-	-
Finished goods	80,128	66,030	-	-
	<u>121,463</u>	<u>97,159</u>	<u>-</u>	<u>-</u>

In the directors' opinion the replacement cost of stocks was not significantly different from the value above.

13. DEBTORS

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Due within one year				
Trade debtors	178,637	168,832	-	-
Amounts owed by Group companies:				
- subsidiary undertakings	-	-	121,683	76,681
- associated undertakings	32	85	-	-
- fellow undertaking	14,751	18,952	-	-
Other debtors	69,500	63,810	257	-
Prepayments and accrued income	7,740	5,263	-	-
	<u>270,660</u>	<u>256,942</u>	<u>121,940</u>	<u>76,681</u>
Due after more than one year				
Other debtors	12,196	9,040	-	-
	<u>282,856</u>	<u>265,982</u>	<u>121,940</u>	<u>76,681</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Bank loans, loan notes and overdrafts	31,580	37,177	37,152	2,837
Trade and other creditors				
Trade creditors	47,339	42,493	-	-
Obligations under finance leases	759	483	-	-
Amounts owed to Group companies:				
- subsidiary undertakings	-	-	16	4,641
- associated undertakings	250	-	-	-
Other creditors	88,900	73,356	423	29
Taxation	7,069	11,511	407	596
Social security	175	396	-	-
Accruals and deferred income	58,506	53,331	-	-
	202,998	181,570	846	5,266

£2,213,000 (1999 - £1,426,000) of the group bank loans, loan notes and overdrafts are secured on properties, book debts or other assets. Loan Notes include £2,800,000 due to the immediate parent undertaking (1999 - £2,837,000).

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Loan notes				
Repayable by instalments:				
- between one and two years	3,597	1,820	-	-
- between two and five years	13,681	10,465	-	-
- over five years	19,957	16,761	-	-
	37,235	29,046	-	-
Other creditors				
Trade creditors	467	-	-	-
Obligations under finance leases	1,699	897	-	-
Other creditors	1,224	821	-	-
Deferred liability	8,933	12,000	-	-
	12,323	13,718	-	-
	49,558	42,764	-	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

A subsidiary undertaking issued a Guaranteed Senior Loan Note of US\$25,000,000, which is due by 1 November 2007 and is bearing interest of 7.17%.

The principal and interest accruing on this note have been guaranteed by the Company. The loan note is repayable between 2003 and 2007.

Another subsidiary undertaking had bank loans secured on properties, repayable in instalments until 2010. The amounts falling due after more than one year are £18,746,000 (1999 - £13,150,000).

The deferred liability relates to amounts payable to Stockton Press Educational Publishers B.V., a fellow subsidiary of Georg von Holtzbrinck GmbH & Co., arising from the acquisition by that company of certain intellectual property rights during 1998. The Group continues to enjoy the use of these assets under licence and the acquisition of the rights by Stockton Press Educational Publishers B.V. was not treated as a disposal. The liability will be paid down over the life of the licence. During 2000, royalties totalling £3,850,000 (1999 - £3,150,000) were paid to Stockton Press Educational Publishers B.V.

Obligations under finance leases and hire purchase contracts are secured by related leased assets and bear finance charges at rates ranging from 6.8% to 9.9% per annum.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Deferred taxation				
Balance at 1 January	625	4,747	524	616
Exchange adjustment and transfer	(94)	94	-	-
Current year movement	(213)	(4,216)	(16)	(92)
	<u>318</u>	<u>625</u>	<u>508</u>	<u>524</u>
Balance at 31 December	<u>318</u>	<u>625</u>	<u>508</u>	<u>524</u>
Deferred tax has been provided as follows:				
Capital allowances in excess of depreciation	495	323	508	524
Other timing differences	(177)	302	-	-
	<u>318</u>	<u>625</u>	<u>508</u>	<u>524</u>

Provision for deferred taxation has been made in accordance with the policy stated in note 1.

No benefit has been taken for tax losses of approximately £4,932,000 (1999 - £5,107,000) carried forward in UK companies which are available to set against future taxable profits of the relevant trade.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

17. CALLED UP SHARE CAPITAL

	Number	£'000
Equity share capital		
Authorised:		
Ordinary shares of £1 each	10,000,000	10,000
Allotted and fully paid:		
Ordinary shares of £1 each at 1 January 2000 and at 31 December 2000	772,376	772

18. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Re- valuation Reserve £'000	Other Reserve* £'000	Profit and loss account £'000
THE GROUP					
Balance at 1 January	9,158	48	1,363	35,445	91,127
Transfer from profit and loss account for the year:					
Group	-	-	-	-	10,943
Associates	-	-	-	35	(35)
Foreign exchange investment differences	-	-	-	10	4,936
Transfer of additional depreciation on revalued asset	-	-	(58)	-	58
Balance at 31 December	9,158	48	1,305	35,490	107,029
THE COMPANY					
Balance at 1 January	9,158	48	1,363	-	99,240
Transfer from profit and loss account for the year	-	-	-	-	14,985
Transfer of additional depreciation on revalued asset	-	-	(58)	-	58
Balance at 31 December	9,158	48	1,305	-	114,283

*Other Reserve comprises the retained reserves arising on consolidation in respect of associated undertakings of £130,000 and £35,360,000 arising on Group reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

19. EQUITY SHAREHOLDERS' FUNDS

	2000 £'000	1999 £'000
Reconciliation of movement in equity shareholders' funds		
Profit for the financial year	17,443	14,008
Dividends	(6,500)	(4,700)
	<u>10,943</u>	<u>9,308</u>
Reserves arising on Group reorganisation	-	35,360
Other recognised gains and losses relating to the year	4,946	666
	<u>15,889</u>	<u>45,334</u>
Equity shareholders' funds at 1 January	137,913	92,579
	<u>153,802</u>	<u>137,913</u>
Equity shareholders' funds at 31 December		

20. CAPITAL COMMITMENTS

	The Group		The Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Contracted for but not provided in the financial statements	<u>4,182</u>	<u>1,452</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

21. LEASE COMMITMENTS

	2000 £'000	1999 £'000
(a) Obligations under finance leases and hire purchase contracts		
Minimum lease payments payable:		
Within one year	915	542
Within two to five years	1,938	982
	<u>2,853</u>	<u>1,524</u>
Finance charges allocated to future periods	(395)	(144)
	<u>2,458</u>	<u>1,380</u>
Amounts falling due:		
Within one year	759	483
After more than one year	1,699	897
	<u>2,458</u>	<u>1,380</u>
(b) Operating lease commitments		

At 31 December 2000 the Group was committed to make the following payments during the next year in respect of operating leases:

	Land and Buildings		Other	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Leases which expire:				
Within one year	589	692	174	152
Within two to five years	4,056	3,156	696	742
After five years	3,218	2,806	-	-
	<u>7,863</u>	<u>6,654</u>	<u>870</u>	<u>894</u>

22. CONTINGENT LIABILITIES

	The Group		The Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
There were the following contingent liabilities at 31 December:				
Bank facilities guaranteed	-	-	6,907	8,504
Undrawn facilities	-	-	(3,671)	(2,771)
	<u>-</u>	<u>-</u>	<u>3,236</u>	<u>5,733</u>
Other guarantees	668	1,092	16,842	15,552
	<u>668</u>	<u>1,092</u>	<u>20,078</u>	<u>21,285</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2000

23. PENSIONS

The Company operates four main pension schemes, the assets of which are held separately from those of the Company.

The main part of The Pension and Life Assurance Plan of Macmillan Limited consists of a closed defined benefit scheme and was last valued for accounting purposes at 1 March 1999, using the projected unit method of funding. Employer's contributions are reflected in the pension costs shown in note 5 to these accounts. The contributions to the plan are approved by an independent qualified actuary and are charged to the profit and loss account. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and rates of increase in salaries and dividends. It was assumed that investment returns would be 7.0% p.a. in respect of active and deferred members and that staff salary increases would average 4.5%. The results of the actuarial valuation showed that the market value of the plan's assets was £67,154,000 and the minimum-funding solvency was 102%. There is also a defined contribution scheme for staff employed after 1 March 1996.

The smaller Macmillan Limited Pension Scheme is a closed defined benefit scheme and was last valued for accounting purposes at 1 March 1999 with the most significant assumptions being investment returns of 7.0% p.a. and salary increases of 6% p.a.. The results of the actuarial valuation showed that the market value of the scheme's assets was £3,354,000 and the actuarial value of those assets shows an excess over past service liabilities of £1,337,000 and a funding level of 166%.

The Group's US subsidiary operates a number of defined benefit schemes which were valued on 31 December 2000 by US FASB rules. The valuations were completed assuming an investment rate of return between 7% and 8%, a discount rate of 7% and assumed compensation increases of between 0% and 5%. The 31 December 2000 scheme financial statements showed total fair value of the plan assets at US\$13.1 million being 8.3% in excess of the accumulated benefit obligation.

The Macmillan Publishers Australia Pty Limited scheme is a defined contribution scheme and the pension charge during the year was £240,000.

24. CLOSE COMPANY STATUS

The Company is a close company under the provisions of Section 414 of the Income and Corporation Taxes Act 1988.

25. RELATED PARTY TRANSACTIONS

Other than the transactions disclosed in the financial statements, neither the company nor any subsidiary undertaking has undertaken any transaction with its parent or fellow subsidiary undertaking that requires disclosure under FRS 8, Related Party Disclosures.

26. ULTIMATE HOLDING ENTITY

The ultimate holding entity is Georg von Holtzbrinck GmbH & Co., a German partnership.