

HODDER & STOUGHTON LIMITED

Annual Report and Financial Statements

Year ended 31st December 2018



HODDER & STOUGHTON LIMITED

REPORT AND FINANCIAL STATEMENTS 2018

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HODDER & STOUGHTON LIMITED

REPORT AND FINANCIAL STATEMENTS 2018

COMPANY INFORMATION

DIRECTORS

P de Cacqueray
J Hodder-Williams
H Murray-Hill
E Tribe
D Shelley

SECRETARY

P de Cacqueray

REGISTERED OFFICE

Carmelite House
50 Victoria Embankment
London
EC4Y 0DZ

COMPANY NUMBER

00651692 (England and Wales)

AUDITOR

Mazars LLP
Chartered Accountants & Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

STRATEGIC REPORT

The Directors present their strategic report for Hodder & Stoughton Limited for the year ended 31st December 2018.

Review and Analysis of the Business During the Current Year

The Company continued to trade as a book publisher throughout the year.

During the year, the Company adopted IFRS 15 and IFRS 9 which became mandatory during the year. The impact of the adoption of these standards are set out in note 2.1 and note 19.

Key performance indicators

Management use a range of performance measures to monitor and manage the business. The performance measures are set out below:

Revenue, gross profit margin, distribution and administrative expenses as a percentage of revenue, profit before tax, profit after tax, and cash.

Development and financial performance during the year

As reported in the Company's statement of comprehensive income, revenue has remained relatively consistent at £130,657,545 in 2017 and £131,269,789 in 2018.

Gross profit margin has increased from 48% in 2017 to 50% in 2018. This increase is mainly due to a decrease in the returns provision for the year.

Distribution costs as a percentage of revenue have remained consistent at 6%.

Administrative expenses as a percentage of revenue have increased from 35% in 2017 to 36% in 2018, this is mainly due to an increase in group management recharges.

There was a profit before taxation of £8,381,522 for the year ended 31st December 2018 compared with a profit before taxation of £8,304,758 for the year ended 31st December 2017.

Profit after tax has decreased from £6,854,476 in 2017 to £6,787,564 in 2018.

Financial position at the reporting date

The statement of financial position shows that the Company's net assets at the year end have decreased from £10,266,305 to £9,803,869.

This is as a result of dividends paid in the year exceeding the profit after tax.

The Company's cash in hand and intercompany balances decreased by £1,692,415 in the year.

Principal Risks and Uncertainties Facing the Business

Hodder & Stoughton Limited is part of the Hachette UK (Holdings) Group.

Treasury Operations and Financial Instruments

The Hachette UK (Holdings) Group operates a centralised treasury function which is responsible for managing the liquidity, interest, credit and foreign currency risks associated with the individual companies' activities.

Liquidity risk

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses.

Interest rate risk

The Group is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest rate risk on floating rate deposits, bank overdrafts and loans. The Group uses interest rate derivatives to manage the mix of fixed and variable rate debt so as to reduce its exposure to changes in interest rates.

Foreign currency risk

The Group's principal foreign currency exposures arise from trading operations in overseas companies. Group policy permits but does not demand that these exposures may be hedged in order to fix the cost in sterling. This hedging activity involves the use of foreign exchange forward contracts.

Credit risk

Investments of cash surpluses, borrowings and derivative instruments are made through banks and companies which must fulfil credit rating criteria approved by the Group Board.

All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

STRATEGIC REPORT (cont.)

Principal Risks and Uncertainties Facing the Business (cont.)

High street bookshop chains

Generalist high street bookshop retail chains across the world are facing strong competition from internet retailers, and particularly in the UK, alternate retail outlets such as supermarkets. The Company is not dependent upon any one sales channel or distributor for trade sales. We also anticipate that sales lost to bookshops will be substituted by sales made through other channels, such as internet physical sales, and also growth in e-book sales; and as such has adapted its sales force.

Change in technology

Worldwide sales of personal electronic e-book readers such as Amazon's Kindle and Apple's iPad have grown rapidly. The rising number of consumers owning these devices has driven a strong surge in the demand for downloadable books. Whilst this trend has plateaued and physical books have stabilised, there is still a risk that e-book downloads could substitute printed book purchases, and that authors might be unwilling to sell both the digital and print publishing rights. In addition, there is a risk of piracy, as e-books may be sold on sites without payment, or without authority. The Company seeks to mitigate these risks by combining e-book rights into all our contracts. The Company also has sales relationships to sell its e-books through robust third party platforms and distributors. The Company was an early adopter of e-book technology and has developed strategic alliances to ensure it continues to develop business in this area.

Growth of internet retailers

The increasing significance of internet retailers provides opportunities to generate additional revenues by selling a wider range of titles. Marketing must be aligned to the requirements of internet retailers, and the supplier must be able to react quickly to changes in consumer demand. The Company has sales teams who are dedicated to internet outlets. The Company also subcontracts printing of books to world class suppliers who have the capacity to accommodate "on demand" ordering whilst maintaining low costs.

Risk of litigation

The Company ensures all contractual and legal issues are considered fully and employs expert external advisers in this field to ensure that both the interests of the Company and its authors are safeguarded.

Recruitment, development, and retention of a quality team

The Company continues to maintain its positive and vibrant culture and an ethos that helps engender a quality workplace whilst nurturing an entrepreneurial spirit that will enable our staff to meet the challenges ahead. The Company's staff are an integral part of our success story.

Title acquisition

This risk encompasses the payment of advances to authors to acquire new titles that subsequently remain unearned. The risk is mitigated by strong controls when considering the acquisition of rights to new titles which include an initial book contribution evaluation process, carried out and signed off at a senior level. New titles are supported by sales and marketing resources to ensure a successful launch. There is also a system of continuous review, analysis and feedback on title performance to better inform future acquisitions.

Protection of our intellectual property

The advent of e-books increases the existing risk of revenue being undermined by the unauthorised copying and publication of the Company's books by third parties. The protection of intellectual property across all jurisdictions and across different forms of media is a high priority. The Company's management work closely with professional advisors and internet specialists to ensure all intellectual property rights are safeguarded.

Brexit

Due to the uncertainty surrounding Brexit, it is not currently possible to fully evaluate all its potential implications on the Company's trade, customers and suppliers. However, the directors have performed an initial impact assessment and at the moment don't believe it will have a material impact on the company. The directors will continue to monitor this as the situation evolves.

Future Developments

The Company will be looking for margin improvement and increased sales revenues in 2019 to generate higher profits over the 2018 performance.

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



P de Cacqueray
Director

31st May 2019

DIRECTORS' REPORT

The directors present their Annual Report and Financial Statements for the year ended 31st December 2018.

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 2 and 3. These matters relate to the principal activity, business review, principal risks and uncertainties, and future developments.

Dividends

The Company paid a dividend in the year ended 31st December 2018 of £7,250,000 (year ended 31st December 2017: £10,000,000). The directors recommend a final dividend to be paid in 2019 of £7,500,000.

Directors

The names of the present directors of the company are shown on page 1.

Directors' Indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company.

Appropriate directors' and officers' liability insurance cover is in place in respect of all of the Company's directors.

Statement as to Disclosure of Information to Auditor

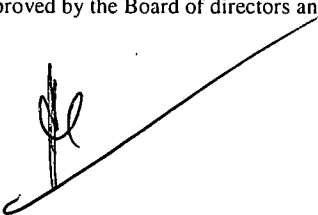
The directors who held office at the date of approval of this report confirm that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of this information.

Reappointment of Auditor

Mazars LLP will continue in office as auditor in accordance with section 487(2) of the Companies Act 2006.

Approved by the Board of directors and signed on behalf of the Board.



P de Cacqueray
Director

31st May 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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.

INDEPENDENT AUDITOR'S REPORT**To the members of Hodder & Stoughton Limited****Opinion**

We have audited the financial statements of Hodder & Stoughton Limited (the 'company') for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; 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. 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.

The impact of uncertainties due to Britain exiting the European Union on our audit

The Directors' view on the impact of Brexit is disclosed on page 3.

The terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

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 directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

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 the 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 not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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 www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit 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.



Claire Larquetoux (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date: 12/6/19

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2018

	Notes	Year ended 31st December 2018	Year ended 31st December 2017
		£	£
REVENUE	3	131,269,789	130,657,545
Cost of sales		(66,163,715)	(68,080,262)
GROSS PROFIT		65,106,074	62,577,283
Distribution costs		(7,967,366)	(8,229,656)
Administrative expenses		(48,286,371)	(45,966,193)
OPERATING PROFIT	6	8,852,337	8,381,434
Finance income	5	72	320,722
Finance costs	5	(470,887)	(397,398)
PROFIT BEFORE TAXATION		8,381,522	8,304,758
Taxation	7	(1,593,958)	(1,450,282)
PROFIT FOR THE YEAR		6,787,564	6,854,476
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,787,564	6,854,476

All results are derived from continuing operations.

The notes on pages 11 to 19 form an integral part of the financial statements.

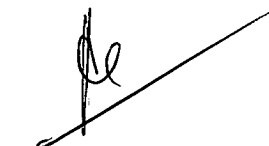
STATEMENT OF FINANCIAL POSITION
31st December 2018

	Notes	As at 31st December 2018	As at 31st December 2017 Restated
		£	£
NON-CURRENT ASSETS			
Intangible assets	9	29,926,722	28,307,788
Investments in subsidiary undertakings	10	763,052	763,052
Deferred tax	7	1,193	1,454
		<u>30,690,967</u>	<u>29,072,294</u>
CURRENT ASSETS			
Inventories	11	13,915,617	13,240,556
Trade and other receivables	12	49,496,657	56,114,661
Cash and cash equivalents		65,420	45,341
		<u>63,477,694</u>	<u>69,400,558</u>
CURRENT LIABILITIES			
Trade and other payables	13	(53,768,422)	(56,646,599)
Current tax liabilities		(1,596,370)	(1,447,949)
		<u>(55,364,792)</u>	<u>(58,094,548)</u>
NET CURRENT ASSETS		<u>8,112,902</u>	<u>11,306,010</u>
NON-CURRENT LIABILITIES			
Trade and other payables	13	(29,000,000)	(30,111,999)
NET ASSETS		<u>9,803,869</u>	<u>10,266,305</u>
CAPITAL AND RESERVES			
Called up equity share capital	15	25,000	25,000
Capital contribution		1,808,299	1,808,299
Retained earnings		7,970,570	8,433,006
EQUITY SHAREHOLDER'S FUNDS		<u>9,803,869</u>	<u>10,266,305</u>

The notes on pages 11 to 19 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 31st May 2019.

Signed on behalf of the Board of Directors.



P de Cacqueray
Director

STATEMENT OF CHANGES IN EQUITY

31st December 2018

	Share capital £	Capital contribution £	Retained earnings £	Total equity £
At 1st January 2017	25,000	1,808,299	11,578,530	13,411,829
Profit for the year	-	-	6,854,476	6,854,476
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	6,854,476	6,854,476
Dividends paid	-	-	(10,000,000)	(10,000,000)
At 31st December 2017	25,000	1,808,299	8,433,006	10,266,305
Profit for the year	-	-	6,787,564	6,787,564
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	6,787,564	6,787,564
Dividends paid	-	-	(7,250,000)	(7,250,000)
At 31st December 2018	25,000	1,808,299	7,970,570	9,803,869

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2018

1 CORPORATE INFORMATION

Hodder & Stoughton Limited is a Company incorporated in the United Kingdom. The registered address of the Company is given on page 1. The principal operations of the Company are included in the strategic report on page 2.

2 ACCOUNTING POLICIES**2.1 Basis of preparation****Statement of compliance**

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and in accordance with the applicable provisions of the Companies Act 2006. Except for certain disclosure exemptions detailed below, the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-adopted IFRSs) have been applied to these financial statements and, where necessary, amendments have been made in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups Regulations 2008/410 ('Regulations').

IFRS 1 permits the Company to take advantage of certain exemptions from applying the requirements on a fully retrospective basis as at the date of transition in certain instances. The Company has chosen to apply the following exemptions which are permitted under IFRS 1.

Disclosure exemptions applied

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS101 paragraph 8:

- a) The requirement of IFRS 7 'Financial Instruments: Disclosures' relating to the disclosure of financial instruments and the nature and extent of risks arising from such instruments;
- b) The requirement of IFRS 13 'Fair Value Measurement' paragraphs 91 to 99 relating to the fair value measurement disclosures of financial assets and financial liabilities that are measured at fair value, such as the available for sale investments and derivative financial instruments;
- c) The applicable requirements of IAS 36 'Impairment of Assets' relating to the disclosures of estimates used to measure recoverable amounts;
- d) The applicable requirements of IAS 1 'Presentation of Financial Statements' relating to the disclosure of comparative information in respect of the number of shares outstanding at the beginning and end of the year (IAS 1.79(a)(iv)), the reconciliation of the carrying amount of property, plant and equipment (IAS 16.73 (e)) and the reconciliation of the carrying amount of intangible assets (IAS 18 (18)(e));
- e) The requirement of IAS 1 'Presentation of Financial Statements' paragraphs 134 to 136 relating to disclosure of capital management policies and objectives;
- f) The requirements of IAS 7 'Statement of Cash Flows' and IAS 1 'Presentation of Financial Statements' paragraph 10(d), 111 relating to the presentation of a Cash Flow Statement;
- g) The requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31 relating to the disclosure of standards, amendments and interpretations in issue but not yet effective; and
- h) The requirement of IAS 24 'Related Party Disclosures' paragraph 17 relating to the disclosure of key management personnel compensation and relating to the disclosure of related party transactions entered into between the Company and other wholly-owned subsidiaries of the group.

For the disclosure exemptions listed in points a) and c), the equivalent disclosures are included in the consolidated financial statements of the group, Lagadere SCA which the Company is consolidated into.

Basis of measurement

The financial statements have been prepared on the historical cost basis.

Consolidated financial statements

The Company is exempt from the requirement to prepare consolidated financial statements under Section 400 of the Companies Act 2006. Consolidated financial statements are prepared by Lagadere SCA, the ultimate parent undertaking, incorporated in France and are available from the address set out in Note 18. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

Going concern

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

Functional and presentational currency

The Company's functional currency is GBP Sterling, as this is the currency of the primary economic environment of that in which the Company operates. The financial statements are presented in GBP Sterling.

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, as per accounting policy 2.13. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2018

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

First time adoption of IFRS 15 and IFRS 9

IFRS 15 - Revenue from contracts with customers

The Company adopted IFRS 15 using the full retrospective transition method and has thus restated its financial statements for the year ended 31 December 2017, in accordance with IAS 8. The restatements related to the first application of IFRS 15 are presented in Note 19.

IFRS 15 introduces a prescriptive approach in which revenue is recognised when control of an asset and/or service is passed to the customer and no longer on the basis of transfer of risks and rewards. The adoption of IFRS 15 had the following impact:

- There was no impact on revenue recognition for physical and eBooks because the Company already recognised revenue at the point of sale, which is the point at which the performance obligation is satisfied.
- There was no impact on revenue recognition for sub-rights because the existing policy was to recognise revenue at the earliest of the date of the invoice or the receipt of cash by the company.
- As part of its business of selling books, the Company grants a right of return to distributors for unsold products. Previously the net impact of the return of unsold goods was classified as a returns provision within other creditors, however under IFRS 15 the right to return unsold goods are recognised as a refund liability within other creditors for the portion relating to revenue, and as a refund asset within inventories and other current assets, respectively, for the portions relating to inventories and advances paid to authors. See note 19 for the impact of first-time application of IFRS 15.

IFRS 9 - Financial instruments

The Company is applying IFRS 9 retrospectively and in full, using the simplified approach with effect from 1 January 2018. As allowed by the standard, the comparative period in 2017 has not been restated.

IFRS 9 supersedes IAS 39 on financial instruments and has three main phases: (i) classification and measurement; (ii) impairment; (iii) hedge accounting.

Classification and measurement and hedge accounting

The application of IFRS 9 does not have a significant impact on either the classification and measurement of financial instruments or hedge accounting requirements in view of the type of derivative instruments used by the Company.

Impairment

The impairment model introduced by IFRS 9 is based on the premise of providing for expected losses, whereas under the IAS 39 model, impairment is based on certain losses (impairment recognised only once a credit event such as a late payment or significant deterioration in credit quality has occurred). Application of the IFRS 9 impairment model requires entities to bring forward the timing of impairment to be recognised against financial assets carried on the balance sheet at amortised cost.

For non-current financial assets, impairment is assessed on a case-by-case basis taking into account the counterparty's risk profile and any existing collateral. For trade receivables, the Company has adopted the simplified approach whereby expected losses are provisioned over the remaining term of the receivables. Impairment amounts are determined differently for each business:

- Individual impairment assessed on a case-by-case basis taking into account (i) the counterparty's risk profile; (ii) historical probabilities of default; (iii) probabilities of default supplied by rating agencies; (iv) any credit insurance; and (v) estimated losses for receivables in respect of which a credit event has been identified.
- Collective impairment assessed on a statistical basis using an impairment matrix based on an aged receivables analysis and expected losses. This estimate is adjusted based on changes in the operating environment for the year in progress.

2.2 Foreign currency

Transactions denominated in foreign currencies are recorded at the spot exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at each reporting date are translated into the functional currency at the spot exchange rates at that date. Foreign currency translation differences arising on translation are recognised in the statement of comprehensive income.

2.3 Revenue

Revenue includes sales of products and services resulting from contracts with customers and is recognised whenever control of the promised goods or services is transferred to the customer at an amount that reflects the consideration that the entity expects to be entitled to for those goods or services.

Revenue corresponds mainly to sales of goods and is recognised at the point of sale to the customer. Revenue from sub-rights is recognised at the date of the invoice or the date of receipt of cash from the customer. Revenue is shown net of rebates, distribution commissions and the right of return, where applicable.

When a right of return is granted to distributors for unsold items, estimates of the amount of returns are recognised as a refund liability within other current liabilities for the portion relating to the decrease in revenue, and as a refund asset within inventories and other current assets, respectively for the portions relating to inventories and advances paid to authors. The refund liability recognised as a deduction from revenue is estimated using the actual sales during the year and historical data regarding returns, adjusted for changes in the operating environment during the current year.

2.4 Investment in subsidiary undertakings

At initial recognition investments in subsidiary undertakings are measured as a financial asset at fair value. Transaction costs of financial assets carried at fair value through profit and loss are expensed in the profit or loss. The company subsequently measures all equity investments at cost, with this being the best estimate of fair value, unless a better estimate of fair value becomes available.

Any changes in fair value are provided for as an impairment through the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31st December 2018

2 ACCOUNTING POLICIES (continued)

2.5 Financial instruments

Financial assets carried at amortised cost

Financial assets are recognised on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus directly attributable transaction costs.

Financial assets carried at amortised cost are classified as loans and receivables and comprise trade and other receivables and cash and cash equivalents. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Non-current loans and receivables are measured at amortised cost, calculated using the effective interest method. Upon initial recognition, impairment is systematically recognised to the extent of any credit losses expected to result from events that could occur in the next 12 months. If there has been a significant deterioration in the counterparty's credit quality, the initial impairment loss is increased to cover the full amount of expected losses over the remaining term of the receivable.

Trade receivables and operating receivables are carried at amortised cost and are impaired based on the IFRS 9 simplified model. Impairment amounts are determined differently for each business:

- Individual impairment assessed on a case-by-case basis taking into account (i) the counterparty's risk profile; (ii) historical probabilities of default; (iii) probabilities of default supplied by rating agencies; (iv) any credit insurance; and (v) estimated losses for receivables in respect of which a credit event has been identified.
- Collective impairment assessed on a statistical basis using an impairment matrix based on an aged receivables analysis and expected losses.

For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities carried at amortised cost

These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Financial liabilities are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

2.6 Goodwill

Goodwill represents the future economic benefits arising from other assets acquired that are not individually identifiable and separately recognised. Goodwill is initially measured at cost, being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less accumulated impairment losses.

2.7 Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are recognised at cost less any accumulated amortisation and any accumulated impairment losses, which are charged to administrative expenses.

The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The amortisation period and the amortisation method for intangible assets with a finite useful life is reviewed at least each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period is changed accordingly.

Amortisation is provided at rates calculated to write down the costs of assets, less estimated residual value, over their expected useful lives.

Intellectual property purchased from other publishers for previously published titles are amortised on a straight-line basis from the month of the first company publication over the expected revenue-earning period of each licence.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31st December 2018

2 ACCOUNTING POLICIES (continued)

2.8 Income tax

Current income tax assets and/or liabilities comprise obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid/due at the reporting date. Current tax is payable on taxable profits; which may differ from profit or loss in the financial statements. Calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). However, for deductible temporary differences associated with investments in subsidiaries a deferred tax asset is recognised when the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

2.9 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventories comprises all costs incurred in bringing each product to its present location and condition, as follows:

- | | |
|---------------------------------------|----------------------------|
| - Goods for resale | - purchase cost |
| - Work in progress and finished goods | - cost of direct materials |

Cost is determined on a first-in, first-out ("FIFO") basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.10 Pension costs

The Company participates in a defined benefit scheme operated by Hachette UK Limited and a number of defined contribution schemes for certain of its employees.

As the defined benefit scheme is accounted for in other group companies, the costs in respect of the defined benefit scheme are charged to the statement of comprehensive income on a contribution basis as contributions become payable.

2.11 Leased assets

Operating leases

Where the Company is a lessee, payments on operating lease arrangements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

2.13 Significant management judgments in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on the recognition of assets, liabilities, income and expenses is provided below.

Impairment of goodwill and other non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and where applicable, using an interest rate to discount them. Estimation uncertainty relates to the assumptions about future operating results and the determination of a suitable discount rate.

Returns provision

The company sells books on a sale or return basis. Other creditors includes an estimate for returns expected to be received after the year end.

Royalty advances provision

Unearned royalty advances are written down to the extent that they are not expected to be covered by estimated future earnings.

Stock provision

Old and obsolete stock is written down to the extent that it is not expected to be sold, in line with group policy.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31st December 2018

2 ACCOUNTING POLICIES (continued)

2.14 Adoption of new and revised standards

The impact of the adoption of IFRS 15 and IFRS 9 are set out in note 2.1. The following standards and interpretations have been adopted in the financial statements as they are mandatory for the year ended 31 December 2018:

	EU effective date Periods beginning on or after
Annual Improvements to IFRSs (2014 - 2016)	1st January 2018

The adoption of the following standard in future years is not expected to have a material impact on the Company's financial statements:

IFRS 16 Leases	1st January 2019
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3 REVENUE

Analysis by geographical area:

	Year ended 31st December 2018 £	Year ended 31st December 2017 £
Total revenue from the sale of goods - continuing operations		
United Kingdom	81,847,623	85,549,642
Australia and New Zealand	6,080,944	6,062,957
Continental Europe	11,044,985	12,910,678
North America	13,327,577	8,810,284
Asia	5,897,276	5,271,650
Rest of World	13,071,382	12,052,334
Total revenue from sale of goods	131,269,789	130,657,545

The Directors consider the Company to have one class of business, book publishing, and thus no analysis of revenue by class of business is provided.

4 INFORMATION REGARDING EMPLOYEES AND DIRECTORS

The average monthly number of persons (including Directors) employed by the Company during the year was:

	Year ended 31st December 2018 Number	Year ended 31st December 2017 Number
Book Publishing		
Consumer Publishing	228	223
Educational, Academic & Professional Publishing	175	194
	403	417
Staff costs (for the above persons)	£	£
Wages and salaries	20,048,213	18,983,991
Social security costs	2,116,892	2,075,410
Other pension costs	3,184,335	3,163,321
	25,349,440	24,222,722

The directors are also directors of either Hachette UK Limited or Hachette UK (Holdings) Limited. Their emoluments cannot be allocated between the companies and have therefore been disclosed in the financial statements of Hachette UK Limited or Hachette UK (Holdings) Limited as appropriate.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31st December 2018

5 FINANCE INCOME AND COSTS

Finance income:

Bank interest receivable
Interest receivable from group undertakings

Year ended 31st December 2018 £	Year ended 31st December 2017 £
72	-
-	320,722
<u>72</u>	<u>320,722</u>

Finance costs:

Bank interest payable
Interest payable to group undertakings

Year ended 31st December 2018 £	Year ended 31st December 2017 £
596	-
470,291	397,398
<u>470,887</u>	<u>397,398</u>

6 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

Amortisation:

Intellectual property
Rentals under operating leases:
Other operating leases
Foreign exchange gain

Year ended 31st December 2018 £	Year ended 31st December 2017 £
1,085,037	1,257,982
230,606	257,397
<u>(28,450)</u>	<u>(1,289)</u>

The audit fee of £61,888 (2017: £61,353) was borne by the Company's parent, Hachette UK Limited, and has been incorporated into group recharges.
Fees for other non-audit services of £7,714 (2017: £5,967) were also borne by Hachette UK Limited.

7 INCOME TAX AND DEFERRED TAX

Current income tax:

Tax for the current year
Prior year adjustment

Year ended 31st December 2018 £	Year ended 31st December 2017 £
1,596,370	1,603,955
<u>(2,673)</u>	<u>(156,006)</u>
1,593,697	1,447,949

Deferred tax:

Origination and reversal of temporary differences
Total tax expense

Year ended 31st December 2018 £	Year ended 31st December 2017 £
261	2,333
<u>1,593,958</u>	<u>1,450,282</u>

Reconciliation of tax charge:

Tax on profits at UK standard rate of corporation tax - 19% (2017: 19.25%)
Expenses not deductible for taxation purposes
Share scheme
Non-taxable income
Prior year adjustment
Origination and reversal of temporary differences
Total tax expense

Year ended 31st December 2018 £	Year ended 31st December 2017 £
1,592,489	1,598,666
31,710	37,288
<u>(17,949)</u>	<u>(31,999)</u>
(9,880)	-
<u>(2,673)</u>	<u>(156,006)</u>
261	2,333
<u>1,593,958</u>	<u>1,450,282</u>

The deferred tax included in the statement of financial position is as follows

Accelerated depreciation

31st December 2018 £	31st December 2017 £
1,193	1,454
<u>1,193</u>	<u>1,454</u>

Deferred tax asset at the start of the year

Deferred tax charge in the statement of comprehensive income for the year
Deferred tax asset at the end of the year

31st December 2018 £	31st December 2017 £
1,454	3,787
<u>(261)</u>	<u>(2,333)</u>
1,193	1,454

Deferred tax has been provided at 19% (2017: 19%) which is the rate enacted to apply from 1 April 2017.

8 DIVIDENDS

Amounts recognised as distributions to equity holders in the year:
Dividends paid in the year

Year ended 31st December 2018 £	Year ended 31st December 2017 £
7,250,000	10,000,000

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31st December 2018

9 INTANGIBLE ASSETS

	Goodwill £	Intellectual property £	Total £
Cost :			
At 1st January 2018	16,930,183	15,671,787	32,601,970
Additions	2,703,971	-	2,703,971
At 31st December 2018	<u>19,634,154</u>	<u>15,671,787</u>	<u>35,305,941</u>
Accumulated amortisation :			
At 1st January 2018	-	4,294,182	4,294,182
Charge for the year	-	1,085,037	1,085,037
At 31st December 2018	<u>-</u>	<u>5,379,219</u>	<u>5,379,219</u>
Net book value :			
At 31st December 2018	<u>19,634,154</u>	<u>10,292,568</u>	<u>29,926,722</u>
At 31st December 2017	<u>16,930,183</u>	<u>11,377,605</u>	<u>28,307,788</u>

Included within intellectual property are; the rights to the Caribbean backlist with a net book value at 31st December 2018 of £4,296,648 and a remaining amortisation period of 6 years, the rights to the Enid Blyton Estate with a net book value of £5,848,338 at 31st December 2018 and a remaining amortisation period of 18 years, the rights to the New Scientist backlist with a net book value of £77,500 at 31st December 2018 and a remaining amortisation period of 3 years, and the rights to the Elizabeth George backlist with a net book value of £70,245 at 31st December 2018 and a remaining amortisation period of 5 years.

Intangible assets are reviewed annually to assess whether or not they reflect fair value using a cashflow forecast, with a growth rate of 1.6% and a discount rate of 9.64%.

On 1st January 2018, the Company acquired the trade and assets of Galore Park Publishing Limited, a sister company, at fair value, generating goodwill of £2,703,971.

10 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£
Cost :	
At 1st January 2018 and 31st December 2018	<u>17,953,784</u>
Provision for impairment :	
At 1st January 2018 and 31st December 2018	<u>17,190,732</u>
Net book value :	
At 31st December 2018	<u>763,052</u>
At 31st December 2017	<u>763,052</u>

	Country of incorporation and operation	Proportion of nominal value of issued shares held	Registered in	Principal activity
Chambers Publishing Limited	Great Britain	100%	Scotland	Book publishing
New English Library Limited	Great Britain	100%	England and Wales	Dormant
Edward Arnold (Publishers) Limited	Great Britain	100%	England and Wales	Dormant
Quercus Publishing Limited	Great Britain	100%	England and Wales	Dormant
Quercus Books Limited	Great Britain	100%	England and Wales	Dormant
Hodder & Stoughton Educational Limited	Great Britain	100%	England and Wales	Dormant

Investments are reviewed annually to assess whether or not they reflect fair value using a cashflow forecast, with a growth rate of 1.6% and a discount rate of 9.64%.

The registered office for all subsidiaries based in England and Wales is Carmelite House, 50 Victoria Embankment, London, EC4Y 0DZ.

The registered office for all subsidiaries based in Scotland is 211 St. Vincent Street, Glasgow, Scotland, G2 5QY.

11 INVENTORIES

	31st December 2018 £	31st December 2017 Restated £
Work in progress	2,440,907	2,683,087
Finished goods and goods for sale	<u>11,474,710</u>	<u>10,557,469</u>
	<u>13,915,617</u>	<u>13,240,556</u>

There is no material difference between the carrying value of inventories and replacement costs.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31st December 2018

12 TRADE AND OTHER RECEIVABLES

	31st December 2018	31st December 2017 Restated
	£	£
Trade debtors	32,459,242	30,155,897
Amounts owed by group undertakings	3,273,401	10,450,938
Other debtors	10,690,809	12,939,768
Prepayments and accrued income	3,073,205	2,568,058
	<u>49,496,657</u>	<u>56,114,661</u>

Intercompany loans are repayable on demand. Any trading balances are repaid within 12 months and do not incur an interest charge. Any balances exceeding 12 months are classed as non-current. Interest is chargeable on these non-current loans at LIBOR plus 0.2 percentage points.

Other debtors include royalty advances paid to authors.

13 TRADE AND OTHER PAYABLES

	31st December 2018	31st December 2017 Restated
	£	£
CURRENT TRADE AND OTHER PAYABLES:		
Trade creditors	8,749,144	6,445,515
Amounts owed to group undertakings	20,092,519	24,445,563
Other taxation and social security	30,950	633,682
Other creditors	14,351,423	15,090,058
Accruals and deferred income	10,544,386	10,031,781
	<u>53,768,422</u>	<u>56,646,599</u>
NON-CURRENT TRADE AND OTHER PAYABLES:		
Amounts owed to group undertakings	29,000,000	30,111,999

Intercompany loans are repayable on demand but, in practice, these non-current balances will tend to remain in place over a longer period than one year. Interest is chargeable on the loan at LIBOR plus 0.2 percentage points.

14 RETIREMENT BENEFIT OBLIGATIONS

Pension Obligations

The Company participates in a defined benefit pension scheme for the Hachette UK Limited Group and a number of defined contribution schemes for certain of its employees and, for others, makes contributions to their personal pension schemes.

a) Net defined benefit asset

The Company participates in the Hodder Headline Staff Retirement Benefits Plan providing benefits based on final pensionable earnings for UK employees who are members. The assets and liabilities of the Scheme are recognised in fellow subsidiary companies, Hachette UK Limited and Bookpoint Limited. The risks, actuarial assumptions and reconciliations for the plan assets and obligations are disclosed in the financial statements of these companies. During the year, the Company has contributed £1,968,862 (2017: £1,968,862) to the scheme.

b) Other schemes

The pension contributions payable by the Company in respect of defined contribution schemes and personal pension schemes amounted to £1,215,473 (year ended 31st December 2017: £1,207,559).

15 CALLED UP SHARE CAPITAL

	31st December 2018 and 31st December 2017
	Number £
Allotted, called up and fully paid	
£1 ordinary shares	<u>25,000</u> <u>25,000</u>

16 FINANCIAL COMMITMENTS

At 31st December 2018, the Company was committed to making the following payments during the next year in respect of non-cancellable operating leases (all non property related):

	31st December 2018	31st December 2017
	£	£
Leases which expire:		
Within one year	205,896	236,909
Within two to five years	204,056	254,905
	<u>409,952</u>	<u>491,814</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2018

17 RELATED PARTIES

The Company has taken advantage of the exemption offered by FRS 101 from the requirements of paragraph 17 of IAS 24 'Related Party Disclosures' not to disclose key management personnel compensation and from the requirements in IAS 24 'Related Party Disclosures' not to disclose related party transactions entered into between two or more members of a group.

18 ULTIMATE AND IMMEDIATE PARENT COMPANIES

The Company's immediate parent company is Hachette UK Limited, a company registered in England and Wales.

The ultimate parent company is Lagardere SCA, a company incorporated in France. This is also both the largest and smallest group which includes the company and for which consolidated accounts are prepared. Copies of the group accounts of Lagardere SCA are available from 4 Rue de Presbourg, 75116, Paris 16, France.

19 IMPACT OF FIRST-TIME ADOPTION OF IFRS 9 AND IFRS 15

The following tables present the impact of the application of IFRS 9 and IFRS 15 on the Company's financial statements at 31st December 2017:

	As previously reported 2017 £	Impact of IFRS 15 (a) £	Restated 2017 £
Inventories	11,343,968	1,896,588	13,240,556
Trade and other receivables:			
Trade debtors	30,155,897	-	30,155,897
Amounts owed by group undertakings	10,450,938	-	10,450,938
Other debtors (refund asset)	12,765,153	174,615	12,939,768
Prepayments and accrued income	2,568,058	-	2,568,058
	<u>55,940,046</u>	<u>174,615</u>	<u>56,114,661</u>
Trade and other payables:			
Trade creditors	(6,445,515)	-	(6,445,515)
Amounts owed to group undertakings	(24,445,563)	-	(24,445,563)
Other taxation and social security	(633,682)	-	(633,682)
Other creditors	(13,018,855)	(2,071,203)	(15,090,058)
Accruals and deferred income	(10,031,781)	-	(10,031,781)
	<u>(54,575,396)</u>	<u>(2,071,203)</u>	<u>(56,646,599)</u>
Shareholders equity	<u>10,266,305</u>	<u>-</u>	<u>10,266,305</u>

a) Right to return to distributors for unsold goods

As the main part of the Group's business is selling books, the Group grants a right of return to distributors for unsold products. Previously the net impact of the return of unsold goods was classified as a returns provision within other creditors, however under IFRS 15 the right to return unsold goods are recognised as a refund liability within other creditors for the portion relating to revenue, and as a refund asset within inventories and other current assets, respectively, for the portions relating to inventories and advances paid to authors.

The impact on the balance sheet at 31 December 2017 is an increase of refund assets relating to inventories of £1,896,588, while the impact on refund assets relating to authors is an increase of £174,615. There is an offsetting entry to refund liability (Other creditors) of £2,071,203. There is no impact on shareholder's equity as at 31 December 2017 or 31 December 2016.