

McGraw-Hill Global Education UK Holdco Limited

Report and Financial Statements

31 December 2016

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COMPANIES HOUSE

McGraw-Hill Global Education UK Holdco Limited

Registered No. 08414279

Directors

D Kraut
D Stafford
P Milano
I White
C Knight

Secretary

TMF Corporate Administration Services Limited

Auditors

Ernst & Young LLP
Forbury Road
Reading
RG1 1YE

Registered Office

McGraw-Hill Education
Statesman House
Stafferton Way
Maidenhead
United Kingdom
SL6 1AD

Strategic Report

The directors present the Strategic Report for year ended 31 December 2016.

Principal activities

The Company acts as an intermediate holding Company. For details on individual subsidiary undertakings see note 7.

Business review

The loss for the year is £652,707 (2015: loss £21,868,248). No dividends were declared or paid during the year (2015: £nil).

On 23 May 2016 the Board announced the reduction of share capital to £1,000,000 using the solvency statement procedure available under the Companies Act 2006. 133,993,200 ordinary shares of £1 were released to the profit and loss reserve.

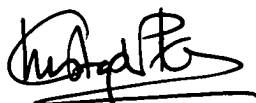
Principal risks and uncertainties

The principal risks and uncertainties facing the Company is the value of the investments in its subsidiaries. The Company considers the investment value regularly and are confident there are no indicators of impairment in addition to the provision charged during the year.

Future developments

The Company will continue to operate as an intermediate holding company.

Approved on behalf of the board



Christopher Knight
Director
31 October 2017

for the year ended 31 December 2016

Directors' report

The directors present the Director's Report for the year ended 31 December 2016.

Results and dividends

The loss for the year after taxation was £652,707 (2015: loss £21,868,248). No dividends were declared or paid during the year (2015: £nil).

Going concern

No material uncertainties that cast doubt about the ability of the Company to continue as a going concern have been identified by the directors. The Company's business activities together with the factors likely to affect its future development and performance have been included in the directors' report. The Company has the financial resources to manage its business risks successfully in the current economic environment and continue in operational existence for the foreseeable future. Thus we continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors who served during the year and thereafter are as listed on page 1. There have not been any changes compared to prior year.

Principal risks and uncertainties and future developments

In accordance with Section 414C (11) of the Companies Act 2006, the principal risks and uncertainties and future developments of the Company are included in the Strategic Report on page 2.

Directors' qualifying third party indemnity provisions

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

McGraw-Hill Education, Inc. has purchased a directors and officers liability insurance policy for the benefit of the Company and its directors and such report was in force during the year and is in force as at the date of approving the directors' report.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

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

for the year ended 31 December 2016

Directors' report (continued)

Auditors

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

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Christopher Knight', with a horizontal line drawn underneath it.

Christopher Knight
Director

31 October 2017

for the year ended 31 December 2016

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explain in the financial statements;
- notify the Company's shareholders in writing about the use of FRS 101 disclosure exemptions, if any; 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 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 McGraw-Hill Global Education UK Holdco Limited

We have audited the financial statements of McGraw-Hill Global Education UK Holdco Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditor's report *(continued)*

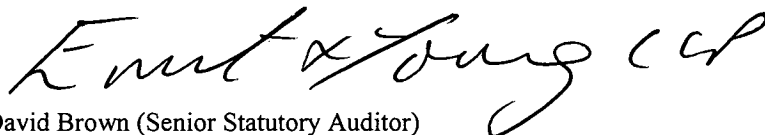
to the members of McGraw-Hill Global Education UK Holdco Limited

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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



David Brown (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Reading

31-10-2011

Income Statement

for the year ended 31 December 2016

	Notes	2016 £	2015 £
Administrative expenses		(1,050)	(1,000)
Impairment loss		-	(21,922,021)
Operating loss		(1,050)	(21,923,021)
Income from shares in group undertakings		7,000,000	7,707,000
Interest payable and other charges	5	(7,651,657)	(7,652,227)
Loss on ordinary activities before taxation		(652,707)	(21,868,248)
Tax on loss on ordinary activities	6	-	-
Loss for the year		(652,707)	(21,868,248)

All activities are continuing operations.

Statement of Comprehensive Income

for the year ended 31 December 2016

There are no recognised gains or losses attributable to the shareholders of the Company for the year ended 31 December 2016 (2015: none) other than those disclosed in the income statement above.

Statement of Financial Position

at 31 December 2016

	Notes	2016 £	2015 £
Non-current assets			
Investments	7	231,703,068	231,703,068
Current assets			
Debtors	9	100	72,646
Creditors: amounts falling due within one year	10	(592,178)	(12,017)
Net current assets		(592,078)	60,629
Total assets less current liabilities		231,110,990	231,763,697
Creditors: amounts falling due after more than one year	11	(118,631,780)	(118,631,780)
Net assets		112,479,210	113,131,917
Capital and reserves			
Called up share capital	12	1,000,000	134,993,300
Other reserves		9	9
Profit and loss reserve		111,479,201	(21,861,392)
Total equity		112,479,210	113,131,917

The financial statements of McGraw-Hill Global Education UK Holdco Limited, registered number 08414279, were approved by the Board and authorised for issue on 31 October 2017.

They were signed on its behalf by:



Christopher Knight
Director

Statement of Changes in Equity

for the year ended 31 December 2016

	<i>Share capital</i>	<i>Other reserves</i>	<i>Profit and loss reserve</i>	<i>Total shareholder's funds</i>
	£	£	£	£
1 January 2015	100	134,993,209	6,856	135,000,165
Loss for the year	-	-	(21,868,248)	(21,868,248)
Capitalisation of reserves	134,993,200	(134,993,200)	-	-
At 31 December 2015	134,993,300	9	(21,861,392)	113,131,917
Loss for the year	-	-	(652,707)	(652,707)
Reduction of share capital	(133,993,300)	-	133,993,300	-
At 31 December 2016	<u>1,000,000</u>	<u>9</u>	<u>111,479,201</u>	<u>112,479,210</u>

Notes to the financial statements

at 31 December 2016

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of McGraw-Hill Education UK Holdco Limited (the "Company") for the year ended 31 December 2016 were authorised for issue by the board of directors on 31 October 2017 and the Statement of Financial Position was signed on the board's behalf by Christopher Knight. McGraw-Hill Education UK Holdco Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

Basis of preparation

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

(a) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(b) the requirements of the following paragraphs of IAS 1 Presentation of Financial Statements:

10(d) and 111 – a statement of cash flows for the period;

16 – a statement of compliance with IFRS, which is not applicable since we are adopting FRS 101 rather than following IFRS in full;

(c) the requirements of IAS 7 Statement of Cash Flows;

(d) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Notes to the financial statements (continued)

at 31 December 2016

2. Accounting policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement, unless the asset is carried at a revalued amount when it is treated as a revaluation increase.

Investments

Investments in subsidiary undertakings, associates and joint ventures are stated at cost less provision for impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. Losses arising from impairment are recognised in the income statement in other operating expenses.

Income taxes

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

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

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Notes to the financial statements (continued)

at 31 December 2016

3. Accounting policies (continued)

Income taxes (continued)

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

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

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. All foreign exchange differences are taken to the Income Statement in the year in which they arise.

4. Auditor's remuneration

There is no auditor's remuneration in the Company financial statements as it is all borne by McGraw-Hill Education (UK) Limited, a fellow subsidiary undertaking of McGraw-Hill Education, Inc. The amount borne by McGraw-Hill Education (UK) Limited on behalf of the Company was £5,900 (2015: £5,900).

5. Directors' remuneration

The directors' remuneration for 2016 was borne by McGraw-Hill Education (UK) Limited, McGraw-Hill Interamericana De Espana SL and McGraw-Hill Global Education, LLC, which make no recharge to the Company as the directors' services to the Company do not occupy a significant amount of their time, their services may be classed as 'incidental services' to the Company, for which the directors do not consider that they have received any remuneration.

6. Interest payable and similar charges

	2016 £	2015 £
On loan notes	7,651,657	7,652,227

7. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2016 £	2015 £
Current tax:		
UK corporation tax on the loss for the year	-	-
Tax charge on loss on ordinary activities	-	-

Notes to the financial statements (continued)

at 31 December 2016

6. Tax (continued)

(b) Factors affecting the tax charge for the year:

	2016 £	2015 £
Loss on ordinary activities before taxation	(652,707)	(21,868,248)
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.25% (2015: 20.25%)	(125,637)	(4,427,571)
<i>Effects of:</i>		
Non-taxable income	(1,347,404)	(1,560,403)
Non-deductible interest expense	168,664	267,184
Non-deductible Impairment	-	4,438,458
Group relief	771,922	1,282,332
Tax losses carried forward	532,455	-
Total tax charge for the year	-	-

8. Investments

	2016 £	2015 £
Cost		
At 1 January	253,625,089	253,625,089
At 31 December	253,625,089	253,625,089
Provision for impairment	(21,922,021)	(21,922,021)
Net book value		
At 31 December	231,703,068	231,703,068

An impairment loss of £21,922,022 was recognised in 2015 on the Spanish subsidiary.

Notes to the financial statements (continued)

at 31 December 2016

7. Investments (continued)

The Company subsidiary at 31 December 2016 is as follows:

	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Class and percentage of shares held</i>
Subsidiary undertakings			
McGraw-Hill Global Education UK Holdco II Limited	United Kingdom	Holding company	Ordinary 100%

9. Deferred Taxation

The Company has an unrecognised deferred tax asset of £559,867 which relates to losses carried forward. The deferred tax asset on the tax losses has not been recognised due to uncertainty over future utilisation.

10. Debtors

	<i>2016 £</i>	<i>2015 £</i>
Amounts owed by group undertakings	100	72,646

11. Creditors: amounts falling due within one year

	<i>2016 £</i>	<i>2015 £</i>
Amounts due to group undertakings	592,178	12,017

12. Creditors: amounts falling due after one year

	<i>2016 £</i>	<i>2015 £</i>
Loan note	118,631,780	118,631,780

The loan note is repayable on 22 March 2020 in full. Interest is payable on the loan note at 6.3% per annum. The loan note is unsecured.

Notes to the financial statements (continued)

at 31 December 2016

13. Issued share capital

	2016	2015
<i>Allotted, called up and fully paid</i>	<i>£</i>	<i>£</i>
Ordinary shares of £1 each (2016: 1,000,000 shares; 2015: 134,993,300 shares)	1,000,000	134,993,300

On 23 May 2016 the Board announced the reduction of share capital to £1,000,000 using the solvency statement procedure available under the Companies Act 2006. 133,993,200 ordinary shares of £1 were released to the profit and loss reserve.

14. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned group undertakings as it is a wholly owned subsidiary and is consolidated into the group financial statements of its ultimate parent undertaking.

15. Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Company is McGraw-Hill Education Holdings, LLC, a Company incorporated in the United States of America.

The Company considers its ultimate parent undertaking and controlling party to be McGraw-Hill Education, Inc., a Company incorporated in the United States of America. The parent undertaking of the smallest and largest group of undertakings for which group financial statements were drawn up and of which the Company was a member was McGraw-Hill Global Education Holdings, LLC, a Company incorporated in the United States of America. Copies of the group financial statements of McGraw-Hill Global Education Holdings, LLC can be obtained from:

McGraw-Hill Education
Statesman House,
Stafferton Way
Maidenhead
United Kingdom
SL6 1AD