

# McGraw-Hill Education (Denmark) ApS

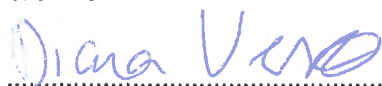
Njalsgade 76, 4., 2300 København S

CVR no. 29 21 35 50

## Annual report 2018

Approved at the Company's annual general meeting on 31 May 2019

Chairman:



Diana Venø





## Contents

Statement by the Executive Board	2
Independent auditor's report	3
Management's review	5
Financial statements 1 January - 31 December	6
Income statement	6
Balance sheet	7
Statement of changes in equity	8
Notes to the financial statements	9



### Statement by the Executive Board

Today, the Executive Board has discussed and approved the annual report of McGraw-Hill Education (Denmark) ApS for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 31 May 2019  
Executive Board:

  
.....  
Nathan James Olson  
.....  
David Jack Kraut  
.....  
Christopher Phillip Knight



## Independent auditor's report

To the shareholders of McGraw-Hill Education (Denmark) ApS

### Opinion

We have audited the financial statements of McGraw-Hill Education (Denmark) ApS for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines 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, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 and the additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit



## Independent auditor's report

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2019  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28

Lars Hansen  
State Authorised Public Accountant  
mne24828



## Management's review

### Company details

Name McGraw-Hill Education (Denmark) ApS  
Address, Postal code, City Njalsgade 76, 4., 2300 København S

CVR no. 29 21 35 50  
Registered office København  
Financial year 1 January - 31 December

Executive Board Nathan James Olson  
David Jack Kraut  
Christopher Phillip Knight

Auditors Ernst & Young Godkendt Revisionspartnerselskab  
Osvold Helmuhs Vej 4, P.O. Box 250, 2000 Frederiksberg,  
Denmark

## Management commentary

### Business review

The Company's primary activity is to carry on production, trade, services and consultancy activities as well as other activities related therewith.

### Financial review

The income statement for 2018 shows a profit of DKK 64,037,383 against a profit of DKK 43,152,438 last year, and the balance sheet at 31 December 2018 shows equity of DKK 109,890,967.

### Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.



## Financial statements 1 January - 31 December

### Income statement

Note	DKK	2018	2017
	Gross margin	65,263,893	63,959,407
2	Staff costs	-5,063,830	-4,154,666
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-21,313	-8,405
	Profit before net financials	60,178,750	59,796,336
	Financial income	4,065,012	3,330
	Financial expenses	-732	-16,402,745
	Profit before tax	64,243,030	43,396,921
	Tax for the year	-205,647	-244,483
	Profit/loss for the period	<u>64,037,383</u>	<u>43,152,438</u>
	Recommended appropriation of profit		
	Proposed dividend recognised under equity	109,000,000	0
	Retained earnings/accumulated loss	<u>-44,962,617</u>	<u>43,152,438</u>
		<u>64,037,383</u>	<u>43,152,438</u>



## Financial statements 1 January - 31 December

### Balance sheet

Note	DKK	2018	2017
	<b>ASSETS</b>		
	Fixed assets		
	Property, plant and equipment		
	Other fixtures and fittings, tools and equipment	15,212	28,020
	Leasehold improvements	48,195	0
		<u>63,407</u>	<u>28,020</u>
	<b>Total fixed assets</b>	<u>63,407</u>	<u>28,020</u>
	Non-fixed assets		
	Receivables		
	Receivables from group entities	115,765,238	37,699,716
	Income taxes receivable	859,860	919,506
	Other receivables	81,743	40,761
	Deferred income	21,675	0
		<u>116,728,516</u>	<u>38,659,983</u>
	Cash	1,330,501	8,107,935
	<b>Total non-fixed assets</b>	<u>118,059,017</u>	<u>46,767,918</u>
	<b>TOTAL ASSETS</b>	<u>118,122,424</u>	<u>46,795,938</u>
	<b>EQUITY AND LIABILITIES</b>		
	Equity		
	Share capital	125,000	125,000
	Retained earnings	765,967	45,728,584
	Dividend proposed for the year	109,000,000	0
	<b>Total equity</b>	<u>109,890,967</u>	<u>45,853,584</u>
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	117,328	142,743
	Payables to group entities	7,429,002	0
	Other payables	685,127	799,611
		<u>8,231,457</u>	<u>942,354</u>
	<b>Total liabilities other than provisions</b>	<u>8,231,457</u>	<u>942,354</u>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<u>118,122,424</u>	<u>46,795,938</u>

- 1 Accounting policies
- 3 Contractual obligations and contingencies, etc.
- 4 Related parties





## Financial statements 1 January - 31 December

### Statement of changes in equity

DKK	Share capital	Retained earnings	Dividend proposed for the year	Total
Equity at 1 January 2018	125,000	45,728,584	0	45,853,584
Transfer through appropriation of profit	0	-44,962,617	109,000,000	64,037,383
Equity at 31 December 2018	125,000	765,967	109,000,000	109,890,967



## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies

The annual report of McGraw-Hill Education (Denmark) ApS for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

#### Reporting currency

The financial statements are presented in Danish kroner (DKK).

#### Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

#### Income statement

##### Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Income from the sale of services is recognised in the income statement as the services are delivered if the income can be measured reliably and is expected to be received.

Licence and royalty income is recognised over the term of the agreement in accordance with the contents of the agreement.

Revenue from time limited software licences is accrued and recognised on a straight line basis over the term of the licence according to the terms of the licence agreement.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

##### Gross margin

The items revenue, cost of sales and external expenses have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

##### Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

##### Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's



## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Depreciation

The item comprises depreciation of property, plant and equipment.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Other fixtures and fittings, tools and equipment                      3-5 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

##### Profit from investments in subsidiaries and associates

The item includes the entity's proportionate share of the profit/loss for the year in subsidiaries after elimination of intra-group income or losses and net of amortisation and impairment of goodwill and other excess values at the time of acquisition.

##### Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

##### Tax

The Company is jointly taxed with other Group companies. The current corporation tax is divided between the jointly taxed companies pro rata to their taxable incomes. The parent company is the management company for the joint taxation, meaning that it handles the tax payments to the Danish tax authorities.

Being made up of the year's current tax and any changes in the deferred tax of the Company, tax for the year is entered in the income statement with the part which is related to the profit/(loss) for the year, and directly on equity for the part which is related to items directly affecting equity.



## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Balance sheet

##### Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

##### Investments in subsidiaries and associates

The relevant proportion of the individual subsidiary's profit/(loss) is recognised in the income statement. Investments in these companies are recognised in the balance sheet at their proportionate share of the companies' equity value.

Subsidiaries with a negative equity value are measured at DKK 0 and any receivables from these companies are written down by the parent company's share of the negative equity value, to the extent they are found to be uncollectible. If the negative equity value exceeds the receivables, the remaining amount is recognised under provisions to the extent that the parent company has a legal or constructive obligation to cover the liabilities of the subsidiary.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deducted from the carrying amount.

Equity investments in subsidiaries and associates measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

##### Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

##### Cash

Cash comprise cash.



## Financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Equity

###### *Proposed dividends*

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

##### Income taxes

Current tax liabilities and tax receivables are entered in the balance sheet as tax calculated on the year's taxable income, based on the current tax rate, and adjusted for tax on taxable income for previous years and for taxes paid on account.

Deferred tax is measured by the liability method concerning temporary differences between the carrying value and tax value of assets and liabilities, calculated based on the planned use of the assets and the payment of the liability.

Deferred tax assets, including the tax value of tax losses allowed for carryforward, are measured at the value at which the asset is expected to be realisable, either through elimination in tax on future earnings or through offsetting in deferred tax liabilities in the same legal tax unit. Any deferred net tax assets are measured at their net realisable values.

Deferred tax is measured based on the tax rules and tax rates applicable in pursuance of the legislation in force on the balance sheet date when the deferred tax is expected to become payable as current tax. Any change in deferred tax as a consequence of changes in tax rates are recognised in the income statement.

##### Liabilities

Liabilities are measured at amortised cost, corresponding to their nominal values.



## Financial statements 1 January - 31 December

### Notes to the financial statements

DKK	2018	2017
2 Staff costs		
Wages/salaries	5,063,830	4,149,166
Pensions	0	5,500
	<u>5,063,830</u>	<u>4,154,666</u>
Average number of full-time employees	<u>9</u>	<u>7</u>

### 3 Contractual obligations and contingencies, etc.

#### Other contingent liabilities

In August 2017, the Danish tax authorities initiated an audit of the Company's transfer pricing agreements. The audit is still in progress and no terms or positions have been challenged. Therefore, the Company has not recognized a liability as of 31 December 2017 regarding the ongoing tax audit of the transfer pricing agreements as it is not able to reliably estimate any amount that may become payable.

#### Other financial obligations

### 4 Related parties

#### Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
McGraw-Hill Education, Inc.	New York	2 Penn Plaza, New York City, New York 10121, USA