

McGraw-Hill Education (Denmark) ApS

Njalsgade 76, 4., 2300 København S

CVR no. 29 21 35 50

Annual report 2021/22

Approved at the Company's annual general meeting on 5 October 2022

Chair of the meeting:

DocuSigned by:

Dorthe Christine Hvidkjaer

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Dorthe Christine Hvidkjaer

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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 April 2021 - 31 March 2022.

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 March 2022 and of the results of the Company's operations for the financial year 1 April 2021 - 31 March 2022.

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,
Executive Board:

DocuSigned by:
Brian Richter
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Brian Richter

DocuSigned by:
Nathan Olson
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Nathan James Olson

DocuSigned by:
Christopher Phillip Knight
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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 April 2021 - 31 March 2022, 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 March 2022 and of the results of the Company's operations for the financial year 1 April 2021 - 31 March 2022 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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, 5 October 2022
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Henrik Pedersen
State Authorised Public Accountant
mne35456

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 April 2021 - 31 March 2022 |
| Executive Board | Brian Richter Nathan James Olson Christopher Phillip Knight |
| Auditors | EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36, 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 2021/22 shows a profit of DKK 54,794 thousand against a profit of DKK 43,263 thousand last year, and the balance sheet at 31 March 2022 shows equity of DKK 109,724 thousand.

Dispute with the Danish Tax Authorities

In August 2017, the Danish Tax Authorities initiated an audit of the company's transfer pricing agreements in the period between 2014-2019. The audit relates to two topics; taxation of Royalty-income and Exit taxation.

In September 2021 the Danish Tax Authorities released their ruling regarding the royalty income for period 2014-2016 and the Exit-taxation, which stated that both topics was subject to tax.

The company deposited the full tax claim and accrued interest related to the ruling in respect to 2014-2016 in February 2022, due to high interest charges that apply to the claim during deferral.

In December 2021, the Danish Tax Authorities released their proposal to increase the taxable income regarding the years 2017-2019. The proposed amount is provisioned as pr. 31 March 2022.

The company disagrees with ruling by the Danish Tax Authorities and has in December 2021, appealed the ruling to the Danish Tax Appeals Agency and challenged the positions of the Danish Tax Authorities.

As of 31 March 2022, the tax deposit amounts to DKK 148.7 million relating to Exit-taxation. The outcome of the appeal is in its nature connected with uncertainty. Please refer to note 5.

International pandemic

In FY22, the company has not been significantly impacted by the effects of the Covid-19 Pandemic.

Capital resources

The parent company, McGraw-Hill Education Inc. has submitted a letter of support in which they declare to provide the necessary capital to the company up to and including 31 March 2023. Based hereon, the executive board considers it is appropriate to present the annual report as going concern. Please refer to note 2 regarding the company's capital resources.

Financial statements 1 April 2021 - 31 March 2022**Income statement**

| Note | DKK'000 | 2021/22 | 2020/21 |
|------|---|---------|---------|
| | Gross profit | 80,011 | 79,845 |
| 3 | Staff costs | -6,307 | -7,425 |
| | Amortisation/depreciation and impairment of intangible assets and property, plant and equipment | -30 | -33 |
| | Profit before net financials | 73,674 | 72,387 |
| | Financial income | 6,212 | 0 |
| | Financial expenses | -339 | -9,332 |
| | Profit before tax | 79,547 | 63,055 |
| 4 | Tax for the year | -24,753 | -19,792 |
| | Profit/loss for the period | 54,794 | 43,263 |
| | Recommended appropriation of profit | | |
| | Retained earnings | 54,794 | 43,263 |
| | | 54,794 | 43,263 |

Financial statements 1 April 2021 - 31 March 2022

Balance sheet

| Note | DKK'000 | 2021/22 | 2020/21 |
|------|--|----------------|----------------|
| | ASSETS | | |
| | Fixed assets | | |
| | Property, plant and equipment | | |
| | Other fixtures and fittings, tools and equipment | 150 | 296 |
| | Leasehold improvements | 11 | 23 |
| | | <u>161</u> | <u>319</u> |
| | Total fixed assets | <u>161</u> | <u>319</u> |
| | Non-fixed assets | | |
| | Receivables | | |
| | Receivables from group entities | 504 | 141,847 |
| 5 | Deferred tax assets | 148,734 | 5 |
| | Income taxes receivable | 14,083 | 870 |
| | Other receivables | 73 | 41 |
| | | <u>163,394</u> | <u>142,763</u> |
| | Cash | <u>1,427</u> | <u>1,661</u> |
| | Total non-fixed assets | <u>164,821</u> | <u>144,424</u> |
| | TOTAL ASSETS | <u>164,982</u> | <u>144,743</u> |
| | EQUITY AND LIABILITIES | | |
| | Equity | | |
| | Share capital | 125 | 125 |
| | Retained earnings | 109,599 | 54,805 |
| | Total equity | <u>109,724</u> | <u>54,930</u> |
| | Provisions | | |
| | Tax provision | 0 | 86,400 |
| | Total provisions | <u>0</u> | <u>86,400</u> |
| | Liabilities other than provisions | | |
| | Current liabilities other than provisions | | |
| | Trade payables | 1,010 | 771 |
| | Payables to group entities | 2,666 | 0 |
| 6 | Income taxes payable | 50,438 | 0 |
| | Other payables | 1,144 | 2,642 |
| | | <u>55,258</u> | <u>3,413</u> |
| | Total liabilities other than provisions | <u>55,258</u> | <u>3,413</u> |
| | TOTAL EQUITY AND LIABILITIES | <u>164,982</u> | <u>144,743</u> |

- 1 Accounting policies
- 2 Capital resources
- 7 Contractual obligations and contingencies, etc.
- 8 Related parties

Financial statements 1 April 2021 - 31 March 2022**Statement of changes in equity**

| DKK'000 | <u>Share capital</u> | <u>Retained earnings</u> | <u>Total</u> |
|--|----------------------|--------------------------|----------------|
| Equity at 1 April 2020 | 125 | 11,542 | 11,667 |
| Transfer through appropriation of profit | 0 | 43,263 | 43,263 |
| Equity at 1 April 2021 | 125 | 54,805 | 54,930 |
| Transfer through appropriation of profit | 0 | 54,794 | 54,794 |
| Equity at 31 March 2022 | 125 | 109,599 | 109,724 |

Financial statements 1 April 2021 - 31 March 2022

Notes to the financial statements

1 Accounting policies

The annual report of McGraw-Hill Education (Denmark) ApS for 2021/22 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'000).

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 profit

The items revenue and external expenses have been aggregated into one item in the income statement called gross profit 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 employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Financial statements 1 April 2021 - 31 March 2022

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 |
|--|-----------|

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

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

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Financial statements 1 April 2021 - 31 March 2022

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.

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 and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

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 April 2021 - 31 March 2022**Notes to the financial statements****2 Capital resources**

The parent company, McGraw-Hill Education Inc. has submitted a letter of support in which they declare to provide the necessary capital to the company up to and including 31 March 2023. Based hereon, the executive board considers it is appropriate to present the annual report as going concern.

| DKK'000 | <u>2021/22</u> | <u>2020/21</u> |
|---------------------------------------|----------------|----------------|
| 3 Staff costs | | |
| Wages/salaries | 5,792 | 6,805 |
| Pensions | 515 | 525 |
| Other staff costs | <u>0</u> | <u>95</u> |
| | <u>6,307</u> | <u>7,425</u> |
| | | |
| Average number of full-time employees | <u>8</u> | <u>9</u> |
| | | |
| 4 Tax for the year | | |
| Estimated tax charge for the year | 17,575 | 19,792 |
| Tax adjustments, prior years | <u>7,178</u> | <u>0</u> |
| | <u>24,753</u> | <u>19,792</u> |

Tax adjustments, prior years comprises tax in respect of Royalty-income for the period 2014-2019.

5 Deferred tax

In August 2017, the Danish Tax Authorities initiated an audit of the Company's transfer pricing agreements in the period between 2014-2019. The audit relates to two topics; taxation of Royalty-income and Exit taxation.

In September 2021 the Danish Tax Authorities released their ruling regarding the royalty income for period 2014-2016 and the Exit-taxation, which stated that both topics was subject to tax.

The company deposited the full tax claim and accrued interest related to the ruling in February 2022, due to high interest charges that apply to the claim during deferral.

The company disagrees with ruling by the Danish Tax Authorities and has in December 2021, appealed the ruling to the Danish Tax Appeals Agency and challenged the positions of the Danish Tax Authorities.

As of 31 March 2022, the tax deposit amounts to DKK 148.7 million relating to Exit-taxation. The outcome of the appeal is in its nature connected with uncertainty.

As of 5 October 2022, the court date for the appeal have not been set. The company does not expect the appeal to be concluded within a year from 31 Marts 2022.

6 Income taxes payable

Income taxes payable comprises payable tax of Royalty-income in 2017-2019.

Financial statements 1 April 2021 - 31 March 2022**Notes to the financial statements****7 Contractual obligations and contingencies, etc.****Other financial obligations**

Other rent and lease liabilities:

| | |
|----------------------------|----------------|
| DKK'000 | <u>2021/22</u> |
| Rent and lease liabilities | <u>79</u> |

8 Related parties**Information about consolidated financial statements**

| <u>Parent</u> | <u>Domicile</u> | <u>Requisitioning of the parent company's consolidated financial statements</u> |
|-----------------------------|-----------------|---|
| McGraw-Hill Education, Inc. | New York | 1325 Avenue of the Americas New York, NY 10019, USA |